ANNUAL REPORT 2011

YEARS OF EXPERIENCE & TRUST. 1961

الشركة الكويتية للاستثمار
KUWAIT INVESTMENT Co.
50 عاماً من الخبرة والثقة . 1961

WORLD FINANCE
GCC INVESTMENT
& DEVELOPMENT
AWARDS
2011

بسم الله الرحمن الرحيم

HIS HIGHNESS
SHEIKH SABAH AL-AHMED AL-JABER AL-SABAH
The Amir of The State of Kuwait

HIS HIGHNESS
SHEIKH NAWAF AL-AHMED AL-JABER AL-SABAH
The Crown Prince of The State of Kuwait

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Board of Directors

Bader Naser Al Subaiee
Chairman & CEO

Mishari Zaid Al-Khaled
Deputy Chairman

Mohammed Iqab Al-Khatib
Director

Barrak Ali Al-Sheetan
Director

Baarak Abdulmohsen Al-Sabeeh
Director

Jamal Abdulla Al-Saleem
Director

Mohammed Abdulrida Saleem
Director

Nouri Al-Salem
Director

General Management

Fawaz Sulaiman Al-Ahmad
General Manager

Imad Ahmed Tifouni
Assistant General Manager
Asset management sector

Faisal Yousef Al-Mishari
Assistant General Manager
Direct investment and corporate finance sector

Radhey Shyam Vaishnav
Chief Financial Officer

Bader Abdulhadi Al-Dousari
Secretary of the Board of Directors

Chairman & CEO Speech

Dear KIC shareholders

Our meeting in this General Assembly may be different this year as our company is going through an articulated stage after half a century since inception. It was a period through which KIC could stand against lots of economic and financial crises on both scales nationally and internationally.

We saw that this occasion, the Golden Jubilee of KIC, can't pass without re-reading our work pattern looking for ways of developing it. We decided to do so depending on what we have achieved throughout KIC glorious history and also on the experiences we have acquired in refining investment work. That's why we decided to develop a future comprehensive corporate and investment strategy in collaboration with a relevant renowned international entity; Bain & Co, in an effort to cope up with local and economic developments. This strategy is expected to be done by early third quarter of 2012. We hope this will be a fresh start for your Company; KIC.

Thinking of the Future

The current financial crisis which started since 2008 urged us to think seriously of having a strategy for the next five years, especially that the crisis seems to have varied complex paths since it started to an extent of fearing a blurring future. This strategy is made to hopefully enable us cope up with the economic developments, avoiding negative impacts, setting sound corporate investment and credit bases, and most important of all, preserving the right of the shareholders with the persistent economic fluctuations.

During the crisis years, KIC policy was featured by a risk-deliberate policy of investment and financing, with the aim of preserving both the Company's money and the shareholders' rights. That was our first objective instead of achieving high revenues with high risks. It is a governance based policy which involved the Company's strict attention to use necessary allocations to achieve results incurred by the assets value decline during the last three years. In addition, the corporate decision not to expand in the American and European countries helped mitigate losses during the economic crisis that hit all major world economies. KIC stood out with stability and distinction, and that was exactly the reason why KIC was awarded the best GCC investment company to manage clients' funds for 2011 by World Finance Magazine.

A Strategy for Higher revenues

It is worth noting that the new strategy (being studied) will focus on how to have higher revenues for the shareholders through investing in recommended sectors, as we see that the future growth will affect positively on some vital sectors. Meanwhile, we will restructure our investment map in accordance with our new vision, in parallel with maintaining all measures necessary to take part in the development plans in Kuwait once commenced.

Although some international markets and economies have started to recover since the beginning of 2012 due to European last minute bailouts and other main factors, still that hard experience taught the world not to clutch to a temporary rise here or market bubbles there. The world has learnt to think out of the box further than the short bets; we hope our new strategy will go in this line away from the traditional market approach.

On KIC Golden Jubilee, we are deeply concerned in utilizing the past into the future, not just reading it!

After reviewing KIC future horizon in its 50th anniversary before you, we confirm again that we don't intend to mark this occasion on a history-reading basis, but we look at it as a past-future approach. On this occasion too, I'd like to thank you all for your trust, hoping that we could keep our promises and stand up to our commitments towards you.

As for the financial performance, bearing in mind the natural consequences of the global financial crisis that is still plaguing financial markets for four years now, we say that KIC did well as the total profit amounted to KD 3.55 million, with earning per share of 6.46 fils for the year 2011, compared to a loss of KD 3.05 million in 2010 with loss of 5.56 fils per share. The total assets of KIC have come to KD 243 million as on 31/12/2011 compared to KD 257 million for the same period in 2010. The total financial obligations are of KD 122 million as on 31/12/2011 compared to the total obligations of KD 138 million for the same period in 2010. The total equity came to KD 121 million; which confirms the solidity of the financial base and status of the company.

Efficient Administrations

Thanks to the efficient management of the Company's Administrations by staff in charge, KIC could achieve good results through bearing responsibility for choosing high-revenue, investments with accepted risk levels. Examples of these are investments in financial brokerage, hotels, Expos and many more.

The performance of the Company was stable compared with the markets in which it operates, while KIC portfolios surpassed the KSE performance which closed retreating at 16% at the end of the year 2011. Some portfolios surpassed KSE at 8%.

Although KIC global Funds suffered harsh market conditions along with the persistent market troubles starting with credit rating downgrades in the USA up to Europe, these funds could face the markets turmoil showing the power of their hedge funds.
The Company could also play a vital role in the financing process at balanced prices under hard circumstances imposed by the global crisis. We succeeded in attracting deposits in the Kuwaiti Dinar and other foreign currencies from both government and private entities.

The Company was so concerned as to fulfill all financial transactions and bank transfers in local, regional and global markets through settling transactions of the Company, transactions on the clients' behalf, in addition to monitoring bank accounts, and activating and implementing buy and sell process in different local, regional and global equity markets.

Early warning

Amongst the important steps taken by the Company's Departments, stands out that of developing the Early Warning Indicator (EWI) system to monitor the investments. It was a must to activate this precaution side as an early alert for any potential future risks. The Company conducted periodic stress testing of the Company's Investments and the finance portfolio, along with updating the Risk Control Matrix (RCM) with its main indicators.

Financing according to Requirements

KIC has been concerned to apply all the credit criteria identified by the supervisory entities. It continued to study market conditions and prepare the necessary researches according to the new requirements set by both the Central Bank of Kuwait (CBK) and the Capital Market Authority (CMA). The Management has set financing rules plans that ensure profit margins with acceptable risk levels, in addition to following the Company's clients indebtedness.
That was done in addition to following all supervisory measures and ensuring the commitment of the company and its domestic policies to all supervisory institutions such as CBK, CMA, and KSE, in addition to developing policies and procedures accordingly and ensuring that all the corporate transactions are free from money laundering & terrorist fighting.

The Company's Image

Undoubtedly, one of the most important objectives of the Company is to improve staff performance throughout offering them training opportunities and conducting conferences to help them develop skills, personal and technical capabilities, in addition to providing and enabling national cadres to take over; this is the real profit and the supreme interest.

It is worth mentioning here the impressive Company's Golden Jubilee ceremony which was honored by the presence of H.H. Crown Prince and other elite audience including ministers and many other Ambassadors in the State of Kuwait.
Last but not the least, we can't forget the important role of KIC Board Members through the Board Committees which represented the main basis to supervise all the Company's activities.

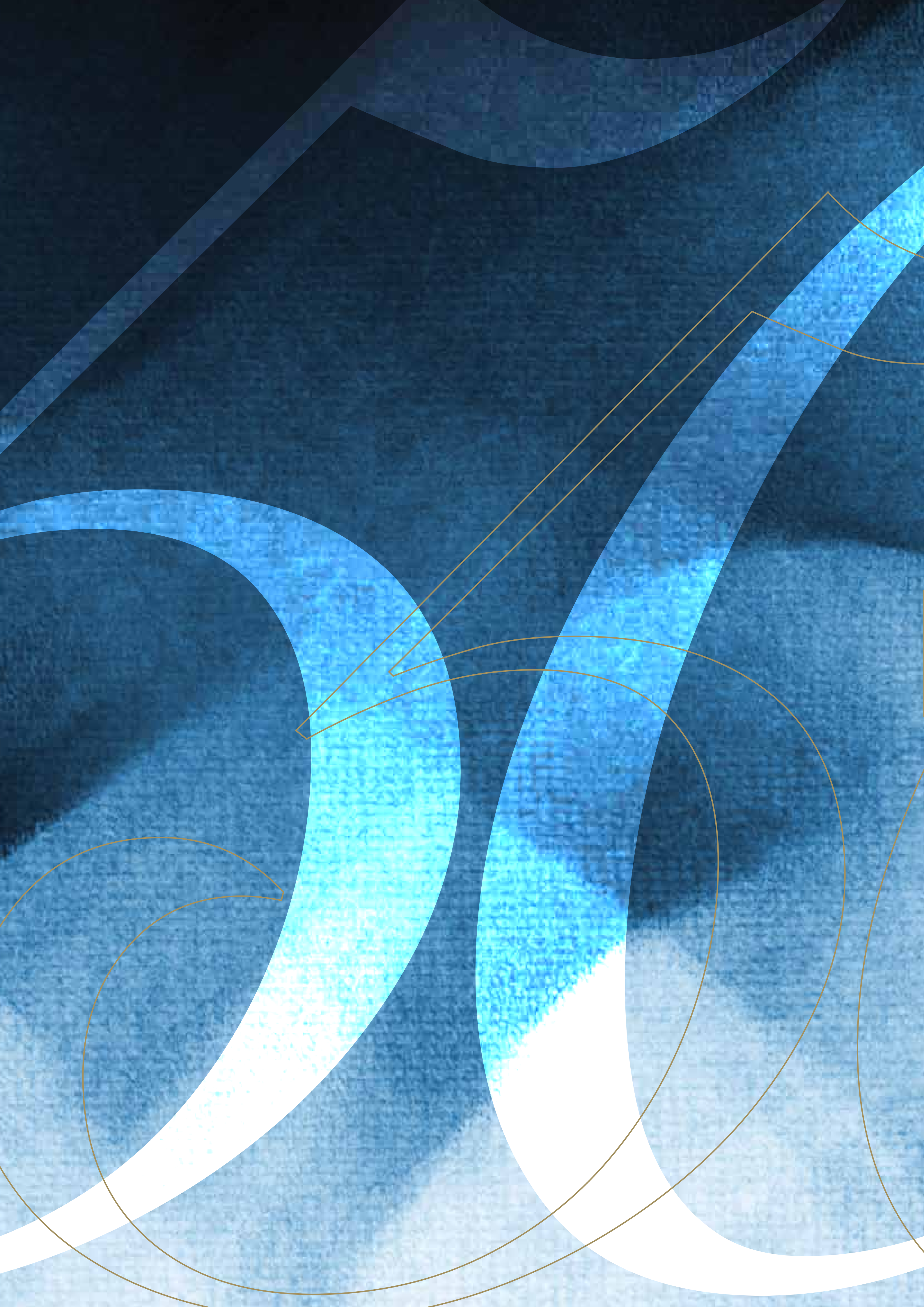
Thank you

Finally, we extend thanks and gratitude to H.H. The Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah who honored us by sponsoring the Golden Jubilee of KIC, to H.H. Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and H.H. Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, May Allah Almighty Bless them all.
Thanks are also extended to His Excellency Deputy Prime Minister, Minister of Finance, H.E. CBK Governor, and the Managing Director of Kuwait Investment Authority for their continuous support.

And again, we thank our staff for their limitless loyalty and sincerity and KIC shareholders and clients, and here we promise them to keep on to stand up to their trust and keep the distinct place and history of KIC..

Thank you all

Kuwait Investment Company (KIC)
Chairman & CEO
Bader Naser AlSubaiee



KUWAIT INVESTMENT COMPANY S.A.K.
AND SUBSIDIARIES

Consolidated Financial Statements and Independent Auditors' Report for the Year ended 31 december 2011

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Independent Auditors' Report

To the shareholders of
Kuwait Investment Company S.A.K.
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Investment Company S.A.K. ("the Parent Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Parent Company's articles and memorandum of association, as amended. In our opinion, proper books of account have been kept by the Parent Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account.

We have not become aware of any contravention, during the year ended 31 December 2011, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Parent Company's articles and memorandum of association, or of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business and its related regulations, that would materially affect the Group's activities or its consolidated financial position.

Qais M. Al-Nisf
License No. 38-A
BDO Al Nisf & Partners

Safi A. Al Mutawa
License No. 138 "A"
KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 29 March 2012

KUWAIT INVESTMENT COMPANY S.A.K. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Notes	2011 KD	2010 KD
ASSETS			
Cash - current and call accounts		**11,595,579**	5,458,657
Placements		**14,012,872**	17,560,000
Investments at fair value through statement of income		**52,500**	-
Loans and advances	5	**8,850,650**	10,314,973
Available for sale investments	6	**164,835,156**	200,664,633
Investments in associates	7	**13,613,414**	6,344,691
Investment properties	8	**4,133,194**	3,161,790
Intangible assets	9	**15,000,000**	-
Other assets	10	**11,119,433**	13,294,440
Total assets		**243,212,798**	256,799,184
LIABILITIES AND EQUITY			
Liabilities			
Call and notice accounts		**2,930,827**	1,258,839
Deposits from banks		**54,185,738**	66,627,961
Customers' deposits		**55,827,440**	62,509,595
Accrued interest payable		**306,082**	359,865
Dividend payable		**513,242**	513,242
Accruals and other liabilities	11	**8,520,590**	6,667,682
Total liabilities		**122,283,919**	137,937,184
Equity			
Share capital	12	**55,125,000**	55,125,000
Treasury shares	13	**(587,845)**	(587,845)
Statutory reserve	14	**24,930,185**	24,930,185
Voluntary reserve	15	**24,930,185**	24,930,185
Revaluation reserve		**4,200,067**	-
Fair value reserve		**6,173,357**	21,644,442
Foreign currency translation reserve		**(73,111)**	(87,711)
Accumulated deficit		**(12,906,010)**	(16,454,147)
Equity attributable to Owners of the Parent Company		**101,791,828**	109,500,109
Non-controlling interest		**19,137,051**	9,361,891
Total equity		**120,928,879**	118,862,000
Total liabilities and equity		**243,212,798**	256,799,184

Bader Nasser Al-Subaiee
Chairman and Chief Executive Officer

Meshari Zaid Al Khaled
Deputy Chairman

Fawaz Sulaiman Al Ahmad
General Manager

The notes on pages 23 to 53 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY S.A.K. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 KD	2010 KD
Income			
Interest income		1,218,021	1,811,470
Dividend and other investment income		3,563,544	3,040,248
Commissions		6,944,749	7,193,535
Income from property rental and exhibitions (net)	16	5,238,523	4,388,500
(Loss) / gain from investments at fair value through statement of income (net)		(3,292)	78,507
Gain on sale of available for sale investments		3,838,069	759,681
Impairment loss on available for sale investments	6	(9,507,310)	(11,534,575)
Foreign exchange gain /(loss)		406,813	(874,717)
Allowance charged for credit losses	17	(2,356,183)	(112,287)
Share of results of associates	7	(63,384)	5,720
Other gains and losses	7	5,236,043	-
Total Income		14,515,593	4,756,082
Expenses and charges			
Interest expense		(2,331,852)	(2,596,007)
General and administrative expenses	18	(7,037,698)	(7,580,781)
Depreciation and amortisation		(520,643)	(501,150)
Total expenses and charges		(9,890,193)	(10,677,938)
Operating profit / (loss)		4,625,400	(5,921,856)
Other income		253,338	6,303,412
Profit for the year before National Labour Support Tax ("NLST") , Zakat and Board of Directors remuneration		4,878,738	381,556
NLST		(23,768)	-
Zakat		(4,113)	-
Board of Directors remuneration		(30,000)	(8,000)
Profit for the year		4,820,857	373,556
Attributable to:			
Owners of the Parent Company		3,548,137	(3,052,528)
Non-controlling interest		1,272,720	3,426,084
		4,820,857	373,556
Earnings / (loss) per share attributable to Owners of the Parent Company (Basic and diluted) (fils)	19	6.46	(5.56)

The notes on pages 23 to 53 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY S.A.K. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Note	2011 KD	2010 KD
Profit for the year		**4,820,857**	373,556
Other comprehensive (loss) / income			
Foreign currency translation differences		**14,600**	(124,807)
Fair value reserve on available for sale investments reclassified to associate transferred to consolidated statement of income	7	**(4,768,101)**	-
Unrealized loss on available for sale investments		**(20,348,463)**	(6,348,132)
Impairment on available for sale investments transferred to consolidated statement of income		**9,507,310**	11,534,575
Other comprehensive (loss) / income		**(15,594,654)**	5,061,636
Total comprehensive (loss) / income for the year		**(10,773,797)**	5,435,192
Total comprehensive (loss) / income attributable to:			
Owners of the Parent Company		**(11,908,348)**	1,874,432
Non-controlling interests		**1,134,551**	3,560,760
		(10,773,797)	5,435,192

The notes on pages 23 to 53 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY S.A.K. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	Share capital	Treasury shares	Statutory reserve	Voluntary reserve	Revaluation reserve	Fair value reserve	Foreign currency translation reserve	(Accumulated deficit)	Total equity attributable to Owners of the Parent Company	Non-controlling interest	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 31 December 2009	55,125,000	(587,845)	24,930,185	24,930,185	-	16,592,675	37,096	(13,401,619)	107,625,677	6,095,131	113,720,808
(Loss) / profit for the year	-	-	-	-	-	-	-	(3,052,528)	(3,052,528)	3,426,084	373,556
Other comprehensive income / (loss)	-	-	-	-	-	5,051,767	(124,807)	-	4,926,960	134,676	5,061,636
Total comprehensive (loss) / income for the year	-	-	-	-	-	5,051,767	(124,807)	(3,052,528)	1,874,432	3,560,760	5,435,192
Dividend paid	-	-	-	-	-	-	-	-	-	(294,000)	(294,000)
Balance at 31 December 2010	55,125,000	(587,845)	24,930,185	24,930,185	-	21,644,442	(87,711)	(16,454,147)	109,500,109	9,361,891	118,862,000
Profit for the year	-	-	-	-	-	-	-	3,548,137	3,548,137	1,272,720	4,820,857
Other comprehensive (loss) / income	-	-	-	-	-	(15,471,085)	14,600	-	(15,456,485)	(138,169)	(15,594,654)
Total comprehensive income /(loss) for the year	-	-	-	-	-	(15,471,085)	14,600	3,548,137	(11,908,348)	1,134,551	(10,773,797)
Arising on significant influence of an associate (Note 7)	-	-	-	-	4,200,067	-	-	-	4,200,067	-	4,200,067
Arising on obtaining control of subsidiary (Note 7)	-	-	-	-	-	-	-	-	-	9,081,609	9,081,609
Dividend paid	-	-	-	-	-	-	-	-	-	(441,000)	(441,000)
Balance at 31 December 2011	55,125,000	(587,845)	24,930,185	24,930,185	4,200,067	6,173,357	(73,111)	(12,906,010)	101,791,828	19,137,051	120,928,879

The notes on pages 23 to 53 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY S.A.K. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

		2011	2010
		KD	KD
OPERATING ACTIVITIES			
Profit for the year before NLST, Zakat and Board of Directors remuneration		4,878,738	381,556
Adjustments for:			
Interest expense		2,331,852	2,596,007
Depreciation and amortization		520,643	501,150
Allowance charged for credit losses		2,356,183	112,287
Loss/ (gain) from sale of investments at fair value through statement of income (net)		3,292	(78,507)
Gain on sale of available for sale investments		(3,838,069)	(759,681)
Other income		-	6,292,894
Impairment loss on available for sale investments		9,507,310	11,534,575
Share of results of associates		63,384	(5,720)
Foreign exchange (gain) / losses		(406,813)	874,717
Other gains and losses		(5,236,043)	-
Interest income		(1,218,021)	(1,811,470)
Dividend and other investment income		(3,563,544)	(3,040,248)
		5,398,912	16,597,560
Decrease / (increase) in placements		737,128	(3,977,876)
(Increase)/ decrease in investments at fair value through income statement		(55,792)	78,507
Decrease in loans and advances		566,323	6,107,275
Decrease/ (increase) in other assets		709,138	(4,939,389)
Increase/(decrease) in call accounts		1,671,988	(1,220,632)
Increase/ (decrease) in accruals and other liabilities		725,401	(19,041,101)
Net cash from (used in) operating activities		9,753,098	(6,395,656)
INVESTING ACTIVITIES			
Additions to investment properties		(1,218,482)	(1,046,487)
Purchase of investment in associates		-	(1,346,506)
Purchase of available for sale investments		(5,839,223)	(5,667,014)
Proceeds from sale of available for sale investments		17,705,453	12,448,370
Dividends received		3,563,544	3,499,958
Interest received		1,298,946	1,882,956
Interest paid		(2,385,636)	(2,933,760)
Net cash from investing activities		13,124,602	6,837,517
Financing activites			
Net repayment of loans		(19,124,378)	(9,042,398)
Dividends paid		-	(16,264)
Dividend paid to non-controlling interests		(441,000)	(294,000)
Net cash used in financing activities		(19,565,378)	(9,352,662)
Effect of foreign currency translation adjustments		14,600	(124,807)
Net increase (decrease) in cash and cash equivalents		3,326,922	(9,035,608)
Cash and cash equivalents at beginning of the year		8,268,657	17,304,265
Cash and cash equivalents at end of the year	20	11,595,579	8,268,657
NON-CASH TRANSACTIONS			
INVESTING ACTIVITIES			
Obtaining a significant influence of associates	7	(7,188,267)	-
Obtaining control of a subsidiary	7	16,654,336	-

The notes on pages 23 to 53 form an integral part of these consolidated financial statements.

KUWAIT INVESTMENT COMPANY S.A.K. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2011

1. GENERAL INFORMATION

Kuwait Investment Company S.A.K. ("the Parent Company") is a public shareholding investment company incorporated under the laws of the State of Kuwait by virtue of memorandum of association No. 29 on 25 November, 1961 and registered in the commercial registry under No. 4340 on 22 May 1962. Its registered office is at Souk Al Manakh, Mubarak Al Kabeer Street, Kuwait and its mailing address is P.O. Box 1005, Safat-13011, State of Kuwait. The Parent Company's major shareholder is Kuwait Investment Authority.

The Parent Company's objectives as per the Articles of Association are as follows:

- Investment and increase of its shareholders and clients' savings and the loans concluded through employing them in financial securities, rights, royalties, properties, equipment, assets and other movables and immovables of all types at its own discretion.
- Participating in incorporation of other companies to realize profit in accordance with law and assisting in incorporation of these companies.
- Sale of shares and bonds of companies and governmental and semi-governmental institutions.
- To conduct research and surveys related to the employment of capital and provide all the services related to investment operations and third party investment.

These consolidated financial statements of the Group for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the Board of Directors of the Parent Company on 29 January 2012. The shareholders' general assembly has the power to amend these consolidated financial statements after issuance.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and revised IFRSs adopted by the group

The following new and revised IFRSs have been adopted by the Group for the annual period beginning 1 January 2011:

IAS 1 Presentation of Financial Statements (Amendment)

The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 24 Related Party Disclosures (Revised)

The amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted by the group

• Amendments to IFRS 7, Disclosures Transfers of Financial Assets	Effective for annual periods beginning on or after 1 July 2011
• IFRS 9 Financial Instruments	Effective for annual periods beginning on or after 1 January 2015
• IFRS 10 Consolidated Financial Statements	Effective for annual periods beginning on or after 1 January 2013
• IFRS 11 Joint Arrangements	Effective for annual periods beginning on or after 1 January 2013
• IFRS 12 Disclosure of Interests in Other Entities	Effective for annual periods beginning on or after 1 January 2013
• IFRS 13 Fair Value Measurement	Effective for annual periods beginning on or after 1 January 2013
• Amendments to IAS 1, Presentation of Items of Other Comprehensive Income	Effective for annual periods beginning on or after 1 July 2012
• IAS 19 (as revised in 2011) Employee Benefits	Effective for annual periods beginning on or after 1 January 2013
• IAS 27 (as revised in 2011) Separate Financial Statements	Effective for annual periods beginning on or after 1 January 2013
• IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures	Effective for annual periods beginning on or after 1 January 2013

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted by the group (continued)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

Management anticipates that the adoption of these new and revised Standards once they become effective in future periods except IFRS 9 and IFRS 13 will not have a material financial impact on these consolidated financial statements of the Group in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirement for a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD") and are prepared under the historical cost convention, except for available for sale investments and investments carried at fair value through statement of income that are stated at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of consolidation

The consolidated financial statements comprise the Parent Company and its subsidiaries drawn up to 31 December 2011 (see below). All subsidiaries have a reporting date of 31 December except for Kuwait Maritime Transport Company which has a reporting date of 30 September.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Subsidiaries are all entities over which the parent company has the power to control the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated in full on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of amount of those interests at the date of original business combination and the non-controlling entity's share of changes in equity since the date of the combination. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in consolidated statement of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities (i.e. reclassified to consolidated statement of income or transferred directly to retained earnings as specified by applicable IFRSs).

Details of Subsidiaries are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership interest	
			2011	2010
KIC Financial Brokerage K.S.C (Closed)	Brokerage	Kuwait	45.47	45.47
Kuwait International Fair Company K.S.C. (Closed)	Property rental services	Kuwait	51	51
Kuwait Foreign Investment Company Inc.	Property rental and management services	USA	100	100
KIC Fund Managers Company	Investment management services	Cayman Islands	100	100
Kuwait Maritime Transport Company	Maritime transport	Kuwait	76	76
Arab Financial Services Co.	Investment management	Kuwait	100	100
Al Joan International Holding Company K.S.C.C	Investment	Kuwait	100	100
Pearl Company For Economic Consultancy Company W.L.L	Consulting services	Kuwait	100	100

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

In the fourth quarter of 2011, the parent Company obtained control over the operating and financial decisions and then reclassified its investment in KIC Financial Brokerage KSC (Closed) interest from Associate to Subsidiary (see note 7).

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred or assumed by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair vale of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)
about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated statement of income where such treatment would be appropriate if that interest were disposed of.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Financial assets
Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through statement of income, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'cash and cash equivalents', 'investments at fair value through statement of income', 'available for sale investments' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest rate method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Cash and cash equivalents
Cash and cash equivalents as per the statement of cash flows consist of cash on hand, bank current and call accounts and placements with an original maturity of three months or less.

Investments at fair value through statement of income ("FVTSI")
Investments are classified as at FVTSI where the financial asset is either held for trading or it is designated as at FVTSI.

A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; or (ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTSI upon initial recognition if: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTSI.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Investments at fair value through statement of income ("FVTSI") (continued)
Financial assets at FVTSI are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of income. The net gain or loss recognised in the consolidated statement of income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 24.

Available for sale investments (AFS)
The Group's investments classified as available for sale investments are stated at fair value. Fair value is determined in the manner described in note 24. Gains and losses arising from changes in fair value are recognised in other comprehensive income and reported within fair value reserve in equity with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated statement of income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from the equity reserve to consolidated statement of income and presented as a reclassification adjustment within other comprehensive income.

Placements
Placements are stated at amortized cost less any provision for impairment.

Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than the one classified as 'held for trading' or 'available for sale'. Loans and advances are carried at amortized cost less any provision for impairment. Third party expenses such as legal fees, incurred in granting a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.
Loans and advances are written off when there is no realistic prospect of recovery.

Impairment of financial assets
Financial assets, other than those at FVTSI, are assessed for indicators of impairment at each consolidated financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For receivables and loans and advances, objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as loans and advances and accounts receivable that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables and loans and advances, where the carrying amount is reduced through the use of an allowance account.

When a loan or receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

When an AFS investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to consolidated statement of income in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through the consolidated statement of income are not reversed through the consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the Group
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Call and notice accounts and customers' deposits
Call and notice accounts and customers' deposits are stated at amortized cost.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Investment in associates

An associate is an entity over which the Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is

recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The associate's financial statements are prepared either to the Parent company's reporting date or to a date not earlier than three months of the Parent company's reporting date. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the Parent Company's reporting date.

Investment properties

Investment properties comprises undeveloped land and buildings erected on leased land. Undeveloped land and buildings erected on leased land are initially stated at cost and buildings erected on leased land are depreciated using the straight-line method over the lease period. Undeveloped land is not depreciated. The carrying amounts are reviewed at each reporting date to assess whether they are stated in excess of their recoverable amounts, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortized but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount. The excess of carrying value over recoverable amount is recognized in profit or loss.

Impairment of tangible and intangible assets

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for employees' end of service indemnity

Provision is made for amounts payable to employees under the Kuwait Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to all employees as a result of involuntary termination on the consolidated financial position date, and approximates the present value of the final obligation.

Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Revenue recognition

Interest income is recognized on accrual basis by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immediate. Dividends are recognized in the consolidated statement of income when the shareholders' right to receive payment has been established. Management fees relating to portfolios and fund management are recognized on accrual basis. Revenue from property rental and management services are recognized on accrual basis. Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of sale. Brokerage income is recognised once the transaction is complete.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Foreign currencies

The functional currency of the Group is KD. Transactions denominated in foreign currencies are translated into KD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated into KD at rates of exchange prevailing at the consolidated statement of financial position date. The resultant exchange differences are included in the consolidated statement of income.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each consolidated statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences are recognised in the consolidated statement of income in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the consolidated statement of income on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the reporting date, income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are charged / credited to other comprehensive income and recognised in the Group's foreign currency translation reserve in equity. On disposal of a foreign operation the exchange differences recognised in equity are reclassified to consolidated statement of income and recognised as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into KD at the closing rate.

Borrowing costs

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and are recognised in the consolidated statement of income in the period in which they are incurred.

Contribution to Kuwait Foundation for the Advancement of Sciences

The Group is legally required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS are recognized as an expense in the period during which the Group's contribution is legally required.

National Labour Support Tax

The Group calculates National Labour Support Tax ("NLST") in accordance with the ministry of finance resolution No.19 of 2000.

Zakat

The Group has provided for Zakat in accordance with the requirements of Law No. 46 of 2006.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment of investments

The Group treats the available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant impact causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- price to book value model
- other valuation models.

Impairment losses on loans and advances and investments in debt instruments

The Group reviews loans and advances and investments in debt instruments on a quarterly basis to assess any indications of impairment and if a provision for impairment should be recorded in the consolidated statement of income. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty, and actual results may differ resulting in future changes to such provisions.

5. LOANS AND ADVANCES

Loans and advances are stated net of provision for impairment. The composition of the loans and advances portfolio is as follows:

	2011	2010
	KD	KD
International	12,019,684	12,206,725
Domestic	19,043,101	19,486,237
	31,062,785	31,692,962
Less : Provision for impairment	(22,212,135)	(21,377,989)
	8,850,650	10,314,973

Movement in provision for impairment during the year:

	2011	2010
	KD	KD
Balance at beginning of the year	21,377,989	33,003,764
Write off	-	(11,067,462)
Transfer to other assets	-	(362,316)
Allowance charged for the year (note 17)	1,000,000	-
Reversal of provision (note 17)	(102,000)	(292,713)
Foreign exchange differences	(63,854)	96,716
Balance at end of the year	22,212,135	21,377,989

The Group's policy for calculation of the provision for impairment for loans and advances complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait (‹CBK›). All loans are term loans granted to companies, financial institutions and individuals.

	2011	2010
	KD	KD
General provision	458,440	461,499
Specific provision – post liberation	15,954,037	15,069,516
Specific provision – pre-invasion	5,799,658	5,846,974
	22,212,135	21,377,989

	Pre-invasion	Post-liberation	Total
2011	KD	KD	KD
Loans and advances	5,799,658	25,263,127	31,062,785
Provisions	5,799,658	16,412,477	22,212,135
2010			
Loans and advances	5,846,974	25,845,988	31,692,962
Provisions	5,846,974	15,531,015	21,377,989

The carrying amount of loans and advances which are past due but not impaired is KD 4,835,763 (2010: KD 3,823,272) as there is sufficient collateral against these loans.

6. AVAILABLE FOR SALE INVESTMENTS

	2011	2010
	KD	KD
Quoted securities	12,863,238	21,253,550
Unquoted funds	79,732,712	90,129,678
Unquoted Bonds	1,744	1,300,909
Unquoted securities	72,237,462	87,980,496
	164,835,156	200,664,633

Due to the adoption of the IAS 39 amendments issued by the IASB on 13 October 2008, the Group reclassified all of its held for trading investments amounting to KD 134,420,435 from investments at fair value through statement of income category to available for sale investments category effective 1 July 2008.

The Group has recorded unrealised loss of KD 7,437,873 (2010: unrealized gain of KD 3,809,582) in respect of the reclassified investments in other comprehensive income for the year included in fair value reserve account in equity. Had the Group not adopted the amendments of IAS 39, the unrealized (loss) / gain would have been recorded in the consolidated statement of income for the year.

The Group has recognised an impairment loss of KD 9,507,310 (2010: KD 11,534,575) in respect of its available for sale investments in the consolidated statement of income.

It was not possible to determine the fair value of certain unquoted securities amounting to KD 8,588,095 (2010: KD 11,513,465) and hence these investments are stated at cost less impairment losses, if any.

During the fourth quarter of 2011, the equity interest of 20.73% in National Hotels Company B.S.C., Bahrain was reclassified from available for sale investments to investment in associates (see note 7).

During the fourth quarter of 2011, the equity interest of 23% in Ithraa Capital; Saudi Arabia and 20% in Instrata Capital B.S.C; Bahrain were reclassified from available for sale investments to investment in associates (see note 7).

7. INVESTMENT IN ASSOCIATES

Name	Principal activity	Place of incorporation	Ownership interest	
			2011	2010
National Hotels Company B.S.C	Hotel operations	Bahrain	20.73%	20.73%
Ithraa Capital Company	Investment	Saudi Arabia	23%	23%
Instrata Capital B.S.C	Investment Management Services	Bahrain	20%	20%
Silsal Maritime Company W.L.L.	Renting boats	Kuwait	% 40	% 40
Laurel Investment & Development L.P	Warehousing	U.S.A.	% 50	% 50
Economic Group for Brokerage E.S.C.	Brokerage	Egypt	30%	30%

7. INVESTMENT IN ASSOCIATES (Continued)

The aggregate amounts of the associates are summarised as follows

	2011	2010
	KD	KD
Assets	70,897,844	26,078,788
Liabilities	13,105,269	1,270,248
Net assets	57,792,575	24,808,540
Group's share of net assets of associates	13,613,414	6,344,691
Revenue	1,211,445	1,585,158
(Loss) profit	(216,564)	30,408
Group's share of results of associates	(63,384)	5,720

During the fourth quarter of 2011, the Parent Company based on a board resolution and by virtue of its understanding with the Board of Directors, who represents the major shareholders, has obtained significant influence over National Hotels Company. As a result of obtaining influence, the Group has the power to participate in the financial and operating policy decisions of National Hotels Company. Accordingly, the Group has equity accounted its interest of 20.73% in National Hotels Company with effect from 30 November 2011 and has reclassified this investment from 'available for sale investment' to 'investment in associate'. This has resulted in a net gain of KD 2,740,343 which is recognised in the consolidated statement of income for the year under other gains and losses.

The market value of investment in National Hotels Company, which is listed on a stock exchange, is KD 6,895,954 (31 December 2010: KD 6,909,767) and the carrying value of this investment is KD 10,389,740. In the opinion of the management, this investment is not considered to be impaired as the decline in fair value is neither significant nor prolonged.

The Parent Company also obtained significant influence over Instrata Capital B.S.C; (Bahrain) and Ithraa Capital Company; Saudi Arabia on 29 December 2011 and has reclassified these investments from 'available for sale investment' to 'investment in associate'. This has resulted in a net loss of KD 598,157 which is recognised in the consolidated statement of income for the year under other gains and losses.

During the fourth quarter of 2011, the Parent Company by an arrangement with other shareholders of KIC Financial Brokerage K.S.C (Closed)., has obtained control to govern the financial and operating policies of this entity so as obtain benefits from its activities. This change has resulted in the Group accounting for its investment in KIC Financial Brokerage KSC (Closed) of 45.47% interest from Associate to Subsidiary with effect from 29 December 2011. This has resulted in a gain of KD 3,093,857 which is recognised in the consolidated statement of income for the year under other gains and losses.

8. INVESTMENT PROPERTIES

	Buildings on leased land
	KD
Cost	
At 1 January 2010	13,579,442
Additions	1,046,487
At 31 December 2010	14,625,929
Additions	1,218,482
At 31 December 2011	15,844,411
Accumulated depreciation	
At 1 January 2010	11,172,304
Charge for the year	291,835
At 31 December 2010	11,464,139
Charge for the year	247,078
At 31 December 2011	11,711,217
Carrying amount	
At 31 December 2011	4,133,194
At 31 December 2010	3,161,790

One of the Group›s buildings is erected on land leased from the Ministry of Finance, Department of State Properties, Government of Kuwait and the lease contract expires on 10 November 2012.

The fair value of the investment properties approximates its carrying value as per the Group's management.

9. INTANGIBLE ASSETS

Intangible assets represent brokerage license paid by a subsidiary which has an indefinite life and is stated at cost less losses of decline in value.

10. OTHER ASSETS

	2011	2010
	KD	KD
Accounts receivable	10,909,548	12,166,593
Less : provision on receivables	(4,992,105)	(3,455,214)
	5,917,443	8,711,379
Management fees receivable	1,883,698	2,441,276
Accrued interest	411,243	324,414
Accrued income	132,927	129,098
Property and equipment	2,199,973	1,268,595
Deferred charges	78,884	86,691
Inventories	40,087	40,196
Prepaid expenses	417,557	170,985
Others	37,621	121,806
	11,119,433	13,294,440

Accounts receivable are expected to be realised within a period of one year. As at financial position date, accounts receivables which are past due but not impaired was KD 3,080,024 (2010: KD 443,907) of which KD 1,220,472 is past due for more than three months.

10. OTHER ASSETS (continued)

Movement in provision for impairment during the year:

	2011	2010
	KD	KD
Balance at beginning of the year	3,455,214	4,660,258
Written off	-	(1,458,913)
Allowance charged for the year (note 17)	1,458,183	405,000
Exchange differences	78,708	(151,131)
Balance at end of the year	4,992,105	3,455,214

11. ACCRUALS AND OTHER LIABILITIES

	2011	2010
	KD	KD
Sundry creditors and accrued expenses	4,575,172	3,246,542
Provision for employees' end of service indemnity	3,253,214	2,887,035
Provision for employees' leave	494,723	384,689
Board of Directors remuneration	30,000	8,000
Others	167,481	141,416
	8,520,590	6,667,682

In 2010, the Group reversed excess accrued rent relating to a subsidiary amounting to KD 6,292,894. This is pursuant to an agreement by a subsidiary company and the Ministry of Finance to settle the outstanding rent due for the period from 11 November 2002 to 31 December 2009, in respect of a land leased from the Ministry of Finance, Department of State Properties, Government of Kuwait (see note 8).

12. SHARE CAPITAL

	2011	2010
	KD	KD
Authorized, issued and fully paid- up share capital of 551,250,000 shares at a nominal value of 100 Kuwaiti Fils, each paid in cash	55,125,000	55,125,000

The Parent Company has one class of ordinary shares which carries no right to fixed income.

13. TREASURY SHARES

	2011	2010
	KD	KD
Number of shares	2,106,372	2,106,372
Percentage of issued shares	0.3821%	0.3821%
Cost (KD)	587,845	587,845
Market value (KD)	223,275	286,467

14. STATUTORY RESERVE

In accordance with the Commercial Companies' Law of 1960, as amended, 10% of profit for the year is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve reaches 50% of the paid-up share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when retained earnings are not sufficient for the payment of dividend of that amount.

No transfer has been made in current year due to accumulated deficit.

15. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of profit for the year is required to be transferred to the voluntary reserve. This transfer may be discontinued by a resolution adopted by the ordinary assembly of the shareholders' as recommended by the Board of Directors. There are no restrictions on distributions from the voluntary reserve.

No transfer has been made in current year due to accumulated deficit.

16. INCOME FROM PROPERTY RENTAL AND EXHIBITIONS (NET)

	2011	2010
	KD	KD
Rental income	565,371	961,910
Exhibition income	6,152,176	4,733,130
	6,717,547	5,695,040
Rental expenses	(517,634)	(468,621)
Exhibition expenses	(961,390)	(837,919)
	5,238,523	4,388,500

17. ALLOWANCE CHARGED FOR CREDIT LOSSES

	2011	2010
	KD	KD
Loans and advances (note 5)	(898,000)	292,713
Accounts receivables (note 10)	(1,458,183)	(405,000)
	(2,356,183)	(112,287)

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December 2011 includes staff cost of KD 3,993,294 (2010: KD 4,238,889).

19. EARNINGS / (LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY (BASIC AND DILUTED)

Basic and diluted earnings (loss) per share is computed by dividing the profit (loss) for the year attributable to Owners of the Parent Company by the weighted average number of shares outstanding during the year.

	2011	2010
	KD	KD
Profit /(loss) for the year attributable to Owners of the Parent Company	3,548,137	(3,052,528)
	Shares	Shares
Weighted average number of shares outstanding:		
Number of share capital	551,250,000	551,250,000
Less : Weighted average number of treasury shares	(2,106,372)	(2,106,372)
Weighted average number of shares outstanding	549,143,628	549,143,628
Earnings / (loss) per share attributable to Owners of the Parent Company (Basic and diluted) (fils)	6.46	(5.56)

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20. CASH AND CASH EQUIVALENTS

	2011	2010
	KD	KD
Cash- current and call accounts	11,595,579	5,458,657
Placements maturing within ninety days	-	2,810,000
	11,595,579	8,268,657

21.DIVIDENDS

On 25 May 2011, the annual general meeting for the year ended 31 December 2010 approved the consolidated financial statements of the Group for the year ended 31 December 2010, and approved the Board of Directors proposal not to distribute dividends for the year ended 31 December 2010 (2009: Nil).

On 29 January 2012, the Parent Company's Board of Directors proposed not to distribute dividends for the year ended 31 December 2011.

22.FIDUCIARY ASSETS

The Group manages investment portfolios on behalf of the principal shareholder, government agencies and financial institutions. The total value of these portfolios at 31 December 2011 amounted to KD 2.27 billion (2010: KD 2.3 billion) which are not reflected in the consolidated financial statements.

The portfolios have no recourse to the general assets of the Group. Further the Group has no recourse to the assets of the portfolios.There are no guarantees covering the investment portfolios managed by the Group on behalf of principal shareholder, government agencies and financial institutions. In addition, the Group did not cover the investment portfolios managed on behalf of the principal shareholder.

Income earned from fiduciary assets amounted to KD 6,808,909 for the year ended 31 December 2011 (2010: KD 7,089,104).

23. RELATED PARTY TRANSACTIONS

Related parties are the Group's shareholders who have representation on the Board of Directors, members of the board of directors, senior management their close family members, associates and subsidiaries. In the normal course of business subject to the Group's management approval, there have been transactions with related parties during the year ended 31 December 2011. Related party balances and transactions are as follows:

	2011	2010
	KD	KD
Consolidated statement of financial position:		
Group's shareholders		
Call and notice accounts	22,608	22,608
Customers' deposits	41,827,440	35,705,000

Transactions carried out with related parties during the year ended 31 December were as follows:

	2011	2010
	KD	KD
Consolidated statement of income:		
Group's shareholders		
Commission income	3,082,888	3,275,942
Interest expense	(616,430)	(671,934)

23.RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The compensation of key management personnel and directors during the year was as follows:

	2011	2010
	KD	KD
Salaries and other short-term benefits	365,211	519,813
Executive committees fees	40,000	35,000
Post-employment benefits	89,915	49,317
	495,126	604,130

24.FINANCIAL INSTRUMENTS

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include credit risk, market risk (including currency risk, interest rate risk and equity price risk) and liquidity risk.

In the ordinary course of business, the Group uses financial instruments. The use of financial instruments also brings with it associated inherent risks. The Group recognizes the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the Group's strategic objectives.

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across the Group's major risk-based lines of business.

The following sections describe the several risks inherent in the business, their nature and how they are managed.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of issued capital less treasury shares, reserves and accumulated deficit.

Gearing ratio

The gearing ratio at year end was as follows:

	2011	2010
	KD	KD
Debt (i)	112,944,005	130,396,395
Less: Cash current and call accounts and placements	(25,608,451)	(23,018,657)
Net debt	87,335,554	107,377,738
Equity attributable to Owners of the Parent Company	101,791,828	109,500,109
Net debt to equity ratio	85.80%	98.06%

24.FINANCIAL INSTRUMENTS (continued)

(i) Debt is defined as call and notice accounts and deposits from banks and others.

	Measured at fair value	Carried at cost	Amortised cost	Total
2011	KD'000	KD'000	KD'000	KD'000
Financial assets				
Cash - current and call accounts	-	-	11,596	11,596
Placements	-	-	14,013	14,013
Investments carried at fair value through statement of income	53	-	-	53
Loans and advances	-	-	8,851	8,851
Available for sale investme investments investments	156,247	8,588	-	164,835
Other assets	-	-	11,119	11,119
Financial liabilities				
Call and notice accounts	-	-	2,931	2,931
Deposits from banks	-	-	54,186	54,186
Customers` deposits	-	-	55,827	55,827
Accrued interest payable	-	306	-	306
Dividend payable	-	513	-	513
Accruals and other liabilities	-	5,100	-	5,100

	Measured at fair value	Carried at cost	Amortised cost	Total
2010	KD'000	KD'000	KD'000	KD'000
Financial assets				
Cash - current and call accounts	-	-	5,459	5,459
Placements	-	-	17,560	17,560
Loans and advances	-	-	10,315	10,315
Available for sale investments	189,152	11,513	-	200,665
Other assets		-	13,294	13,294
Financial liabilities				
Call and notice accounts	-	-	1,259	1,259
Deposits from banks	-	-	66,628	66,628
Customers` deposits	-	-	62,509	62,509
Accrued interest payable	-	360	-	360
Dividend payable	-	513	-	513
Accruals and other liabilities	-	3,639	-	3,639

24.FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business. The Group mitigates the credit risk by obtaining securities where appropriate.

Maximum exposure to credit risk

An analysis of the Group's financial assets before and after taking account of collateral held or other credit enhancements, is as follows:

	Gross exposure		Net exposure	
	2011	2010	2011	2010
	KD'000	KD'000	KD'000	KD'000
Cash - current and call accounts	11,596	5,459	11,596	5,459
Placements	14,013	17,560	14,013	17,560
Loans and advances	8,851	10,315	-	10,315
Available for sale investments (bonds)	2	1,301	2	1,301
Other assets	8,383	11,728	8,383	11,728

Geographic concentration of maximum exposure to credit risk

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	GCC	Other Middle East & Africa	Europe	America	Asia	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
2011						
Cash - current and call accounts	7,837	43	418	2,898	400	11,596
Placements	14,013	-	-	-	-	14,013
Loans and advances	6,865	-	-	-	1,986	8,851
Available for sale investments (bonds)	-	-	2	-	-	2
Other assets	6,466	-	-	1,917	-	8,383

24.FINANCIAL INSTRUMENTS (Continued)

Geographic concentration of maximum exposure to credit risk (Continued)

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	GCC	Other Middle East and Africa	Europe	North America	Asia	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
2010						
Cash - current and call accounts	4,129	1	379	604	346	5,459
Placements	17,560	-	-	-	-	17,560
Loans and advances	7,864	-	-	-	2,451	10,315
Available for sale investments (bonds)	1,301	-	-	-	-	1,301
Other assets	11,062	-	101	172	393	11,728

Credit concentration

The credit limit and balances of the 5 major counter parties at the reporting date are:-

2011		2010	
Limit	Carrying Amount	Limit	Carrying Amount
KD'000	KD'000	KD'000	KD'000
12,440	12,440	13,084	13,084

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The Group uses its own internal rating for financial assets.

	Standard	High Standard	Total
	KD'000	KD'000	KD'000
2011			
Cash - current and call accounts	-	11,596	11,596
Placements	-	14,013	14,013
Loans and advances	4,015	-	4,015
Available for sale investments (bonds)	2	-	2
Other assets	5,303	-	5,303
	9,320	25,609	34,929
2010			
Cash - current and call accounts	-	5,459	5,459
Placements	-	17,560	17,560
Loans and advances	10,315	-	10,315
Available for sale investments (bonds)	1,301	-	1,301
Other assets	11,728	-	11,728
	23,344	23,019	46,363

The loans and advances and accounts receivable which are past due but not impaired are disclosed in notes 5 and 10 respectively.

24.FINANCIAL INSTRUMENTS (Continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2011	2010	2011	2010
	KD'000	KD'000	KD'000	KD'000
US Dollar	46,320	56,444	66,275	66,355
Euro	2,714	2,667	5,710	5,442
Bahraini Dinar	2,812	3,606	14,721	10,865
Qatari Riyal	-	-	4,944	120
Other	109	52	2,471	2,334

Foreign exchange rate sensitivity

	2011	2010
	KD'000	KD'000
US Dollar	±144	±496
Euro	±12	±139
Qatari Riyal	±25	±
Bahraini Dinar	±6	±363
	±187	±998

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

Interest rate risk

Interest rate risk is the sensitivity of the Group's financial condition to future movements in interest rates. The Group is exposed to interest rate risk as a result of mismatches or 'gaps' in the amounts of assets and liabilities that mature or reprice in a given period. The Group can reduce this risk by matching the repricing of assets and liabilities through a number of ways.

The Group's effective interest rates on financial instruments and the maturity analysis based on contractual repricing or maturity dates, whichever dates are earlier is as follows:

24.FINANCIAL INSTRUMENTS (Continued)

Interest rate risk (Continued)

At 31 December 2011

	Up to month 1	3 – 1 months	12 - 3 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
Assets						
Cash - current and call accounts	-	-	-	11,596	11,596	-
Placements	-	-	14,013	-	14,013	1.5-3.1
Loans and advances	3,341	-	5,510	-	8,851	4.3-8.5
Investments carried at fair value through statement of income	-	-	-	53	53	-
Available for sale investments	-	-	-	164,835	164,835	-
Other assets	-	-	-	11,119	11,119	-
	3,341	-	19,523	187,603	210,467	

	Up to 1 month	1 – 3 months	3 - 12 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
Liabilities						
Call and notice accounts	2,931	-	-	-	2,931	0.25-0.50
Deposits from banks	38,686	15,500	-	-	54,186	0.90-3
Deposits from others	6,556	31,042	18,229	-	55,827	1.13-3.5
Accrued interest payable	-	-	-	306	306	-
Dividend payable	-	-	-	513	513	-
Accruals and other liabilities	-	-	-	5,100	5,100	-
	48,173	46,542	18,229	5,919	118,863	

At 31 December 2010

	Up to 1 month	1 – 3 months	3 - 12 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
Assets						
Cash - current and call accounts	-	-	-	5,459	5,459	-
Placements	2,810	-	14,750	-	17,560	0.27-3
Loans and advances	4,001	-	6,314	-	10,315	4.345-8
Available for sale investments	-	275	1,026	199,364	200,665	3.75-7
Other assets	-	-	-	13,294	13,294	-
	6,811	275	22,090	218,117	247,293	

24.FINANCIAL INSTRUMENTS (Continued)

Interest rate risk (Continued)

	Up to 1 month	1 – 3 months	3 - 12 months	Non interest sensitive	Total	Effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
Liabilities						
Call and notice accounts	1,259	-	-	-	1,259	0.25 – 0.50
Deposits from banks	66,628	-	-	-	66,628	0.48-3.25
Deposits from others	52,259	-	10,250		62,509	1.125-3.5
Accrued interest payable	-	-	-	360	360	-
Dividend payable	-	-	-	513	513	-
Accruals and other liabilities	-	-	-	3,639	3,639	-
	120,146	-	10,250	4,512	134,908	

The effective interest rates for major currencies for the year ended 31 December are as follows:

	2011			2010		
	Bahraini Dinars	Kuwaiti Dinars	US Dollars	Bahraini Dinars	Kuwaiti Dinars	US Dollars
Assets	%	%	%	%	%	%
Placements	-	2.25	0.27	-	2.25	0.27
Loans and advances	8.5	5	4.345	8.5	6.16	4.345
Available for sale investments	-	-	-	-	6.80	3.75
Liabilities						
Call and notice accounts	-	0.25	0.25	-	0.25	0.25
Deposits from banks	0.90	2.47	1.83	1.40	2.86	0.54
Customers' deposits	-	2.22	1.41	-	2.05	1.22

Based on the Group's financial assets and liabilities held at the year end, an assumed 50 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit as follows.

A positive sign indicates increase in profit and a negative sign indicates decrease in profit.

	Movement in basis points	2011	2010
Currency		KD'000	KD'000
US Dollars	±50	±889	±206
Euro	±50	-	±13

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

24.FINANCIAL INSTRUMENTS (Continued)

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Group is exposed to equity risk with respect to its investments.

The Group limits equity price risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the Group actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees. The following table shows the impact on the Group's financial assets sensitive to equity prices considering a 5% change with other factors constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

2011

Market indices	% change in equity price	Effect on profit	Effect on equity	Total
		KD'000	KD'000	KD'000
Kuwait stock exchange	±5	-	±1,125	±1,125
S & P	±5	±3	±76	±76

2010

Market indices	% change in equity price	Effect on profit	Effect on equity	Total
		KD'000	KD'000	KD'000
Kuwait stock exchange	±5	-	±1,582	±1582
S & P	±5	-	±118	±118

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

24.FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

	2011					2010				
	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Call and notice accounts	2,931	-	-	-	2,931	1,259	-	-	-	1,259
Deposits from banks	54,186	-	-	-	54,186	66,628	-	-	-	66,628
Customers› deposits	37,598	18,229	-	-	55,827	52,259	10,250	-	-	62,509
Accrued interest payable	306	-	-	-	306	360	-	-	-	360
Dividend payable	513	-	-	-	513	513	-	-	-	513
Accruals and other liabilities	5,100	-	-	-	5,100	3,639	-	-	-	3,639
	100,634	18,229	-	-	118,863	124,658	10,250	-	-	134,908

Fair value of financial instruments

a) Valuation techniques and assumptions applied for the purposes of measuring fair values

The fair values of financial assets are determined as follows.

- The fair values of financial assets (quoted equity securities) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- The fair value of financial assets (unquoted funds and bonds) are determined based on prices from observation of current market transactions.

- The fair values of other financial assets (unquoted equity securities) are determined in accordance with generally accepted valuation models.

b) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

24.FINANCIAL INSTRUMENTS (Continued)

31 December 2011	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Investments carried at fair value through statement of income	53	-	-	53
Available-for-sale investments				
Quoted securities	12,863	-	-	12,863
Unquoted funds and bonds	-	79,734	-	79,734
Unquoted securities	-	535	63,115	63,650
Total	12,863	80,269	63,115	156,247

31 December 2010	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Investments carried at fair value through statement of income	-	-	-	-
Available-for-sale investments				
Quoted securities	21,254	-	-	21,254
Unquoted funds and bonds	-	91,431	-	91,431
Unquoted securities	-	-	76,466	76,466
Total	21,254	91,431	76,466	189,151

Reconciliation of Level 3 fair value measurements of available for sale investments

	Available-for-sale investments
	KD'000
2011	76,466
1 January 2011	
Total gains or losses	
- in profit or loss	(2,683)
- in other comprehensive income	(7,248)
Purchases / sales (net)	(2,885)
31 December 2011	63,650
2010	
1 January 2010	88,694
Total gains or losses	
- in profit or loss	(7,723)
- in other comprehensive income	(3,393)
Purchases / sales (net)	(1,112)
31 December 2010	76,466

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

25.CONTINGENT LIABILITIES AND COMMITMENTS

	2011	2010
	KD'000	KD'000
Guarantees	127	127
Investment commitments	279	789

26.SEGMENTAL INFORMATION

The Group identifies its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to assess its performance. The management has grouped the Group's products and services into the following operating segments:

Investment trading: Consists of securities trading and investment activities.
Treasury: Consists of foreign exchange contracts and money market activities.
Assets management: Consists of investment portfolio activities.
Other operations: Consists of lending, real estate, property rental, brokerage and other management activities.

	2011					2010				
	Investment trading	Treasury	Asset management	Other Operations	Total	Investment trading	Treasury	Asset management	Other operations	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Income	4,393	217	3,919	5,987	14,516	(7,569)	490	7,165	4,670	4,756
Expenses	(3,501)	1,045	(763)	(3,398)	(6,617)	(3,961)	462	(356)	(3,941)	(7,796)
Segment results	892	1,262	3,156	2,589	7,899	(11,530)	952	6,809	729	(3,040)
Other income					253					6,303
Unallocated expenses	-	-	-	-	(3,331)	-	-	-	-	(2,889)
Profit /(loss) for the year	-	-	-	-	4,821	-	-	-	-	374
Other information										
Segment assets	178,449	29,568	-	31,947	239,964	213,040	26,979	-	12,122	252,141
Unallocated assets	-	-	-	-	3,249	-	-	-	-	4,658
Total assets					243,213					256,799
Segment liabilities	-	112,944		3,406	116,350	-	130,396	-	2,940	133,336
Unallocated liabilities	-	-	-	-	5,934	-	-	-	-	4,601
Total liabilities					122,284					137,937
Capital expenditure	-	-	-	-	1,218	-	-	-	-	1,047
Depreciation and amortization	-	-	-	-	521	-	-	-		501

26. SEGMENTAL INFORMATION (CONTINUED)

The following is the detail of the geographical segments :

	Income		Assets		Capital expenditure	
	2011	2010	2011	2010	2011	2010
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
G.C.C.	13,378	4,220	203,488	214,334	1,218	1,047
Other Middle East and Africa	(2,230)	308	4,079	6,293	-	-
Europe	114	134	5,076	5,711	-	-
America	3,032	645	17,922	18,119	-	-
Asia	222	(551)	12,648	12,342	-	-
	14,516	4,756	243,213	256,799	1,218	1,047

27. COMPARATIVE INFORMATION

Certain comparative information have been reclassified to conform to the current year's presentation. Such reclassification did not affect previously reported profit or loss, equity or opening balances of the earliest comparative period presented; accordingly a third statement of financial position is not presented.