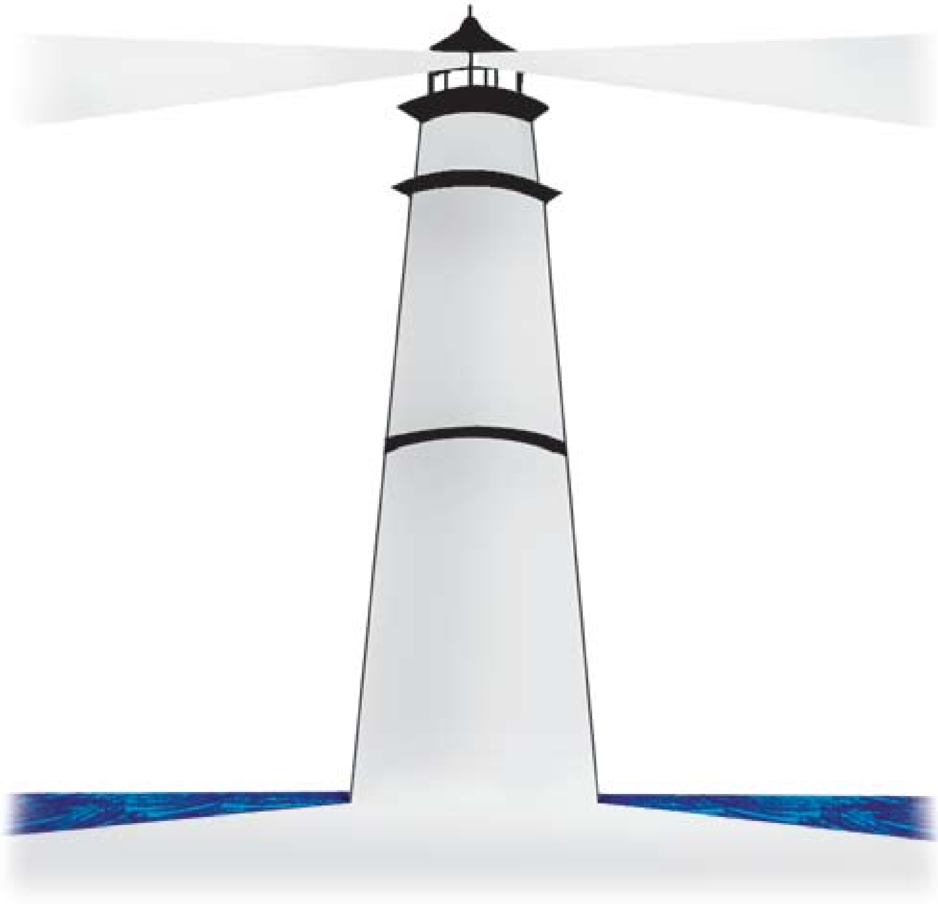
Annual Report 2009



Since 1974

Kuwait Financial Centre

المركز
MARKAZ

H.H. SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH

The Amir of The State of Kuwait

H.H. SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH

The Crown Prince

H.H. SHEIKH NASSER AL-MOHAMMED AL-AHMAD AL-SABAH

The Prime Minister

TABLE OF CONTENTS

BOARD OF DIRECTORS

Diraar Yusuf Alghanim	Chairman & Managing Director
Sheikh Humoud Sabah Al-Sabah	Vice Chairman
Faisal AbdulAziz Al-Jallal	Director
Ayman Abdulatif Alshaya	Director
Fahad Yaqoub Al-Jouan	Director
Fouzi Ebrahim Al-Mukaimi	Director
Muad Saud AlOsaimi	Director

BOARD STEERING COMMITTEE

Diraar Yusuf Alghanim	Chairman
Ayman Abdulatif Al-Shaya	Director
Fahad Yaqoub Al-Jouan	Director
Manaf AbdulAziz Alhajeri	Secretary

AUDIT COMMITTEE

Fahad Yaqoub Al-Jouan	Chairman
Faisal AbdulAziz Al-Jallal	Director
Fouzi Ebrahim Al-Mukaimi	Director
Manaf AbdulAziz Alhajeri	Secretary

MANAGEMENT TEAM

Manaf A. Alhajeri	General Manager
Ali H. Khalil	Executive Vice President
Gopal Menon	Executive Vice President – International Investments
Khaled A. Chowdhury	Senior Vice President – Financial Management
Bassam N. Al-Othman	Senior Vice President – Real Estate (MENA)
M.R. Raghu	Senior Vice President – Research
Rasha A. Al-Hamad	Senior Vice President – Human Resources & Administration
Amani Al-Omani	Senior Vice President – Local & GCC Investments
Maha A. Imad	Vice President – Private Equity & Fund Administration
Carole Six	Vice President – Institutional Sales
Leila Badine	Vice President – Markaz Lebanon Branch
Nawaf H. Marafi	Vice President – Oil & Gas
Fahad G. Al-Abdul Jaleel	Vice President – Private Banking
Pradeep Rajagopalan	Assistant Vice President – Risk Management & Compliance
Farah S. Al-Essa	Assistant Vice President – Media & Communications
Johnny Al-Khoury	Assistant Vice President – Information Technology

DIRECTORS' REPORT 2009

Dear Stakeholders,

Economies and equity markets rebounded owing to stimulus plans

In 2009, governments laboured aggressively to reverse the after effects of the subprime crisis and the fall of Lehman brothers from the previous year. Expansionary policies and fiscal stimulus plans injected by central banks paid off as economies and equity markets showed signs of improvement later this year. With major global economies seeing a gain from their bottom, crude oil prices reached USD 70 – 75 by the end of the year. Emerging Markets achieved strong growth accompanied by rising commodities and precious metals prices.

Standard & Poor's index achieved a CAGR of -2.9% for the last decade

Despite strong returns, the crisis caused significant losses when looking at the last decade as a whole, where the Standard & Poor's index achieved a compounded annual growth rate of -2.9%. Some observers also see that the strong comeback of the capital markets are not fully justified on the macroeconomic level, as improvement in the economy is only minor, while unemployment figures remain high.

GCC markets performance was mixed

GCC markets had a mixed performance during the year, in Kuwait, the KIC index recorded a negative performance of 9.3% mainly due to a challenged financial sector. On the other hand, KSA markets rose 27% stemming from expansionary fiscal policies, diversification of listed companies and higher oil prices.

Financial and real estate institutions failed to meet their obligations

The banking sector suffered significant challenges during the year. A number of financial and real estate institutions failed to meet their financial obligations to creditors, which include regional and international banks, and other borrowing instruments such as Islamic Murabaha, bonds and sukuk, money market funds, in addition to a large number of institutions and individuals.

Banks withdrew credit lines to most private sector companies operating in the country

Gulf banks and in particular, the Kuwaiti Banks, suffered from a tarnished image as they failed to maintain acceptable levels of collateral for their clients' loans. New funding channels were stopped which led to a sharp decline in the non-oil sectors and deterioration to customers' secured loans. Banks also withdrew credit lines to most private sector companies operating in the country, mainly due to risk management policies rather than the inadequate financial position of companies. The banks that did offer loans did so at prohibitively expensive prices regardless of companies in a solid position, and contrary to the Central Bank's directions during the year 2009. We believe that banks and authorities generalized their actions on all, the defaulted companies as well as those that were able to meet their obligations. While we understand that banks had to be conservative in this uncertain environment to protect their shareholders and depositors, we also think that imposing unnecessary controls for solvent companies, increases the complexity of the problem.

Markaz enjoys a healthy balance sheet, quality assets and achieved attractive profits for its shareholders.

In 2009, the stamina of financial institutions was tested. Besides their ability to survive, preserving shareholders' and investors' capital became a key concern in addition to implementing transparency. In spite of these circumstances, Markaz fared well during the crisis on the following accounts: The Company's healthy balance sheet in terms of quality of assets and low debt-to-equity ratio kept it afloat in these difficult waters. Additionally, Markaz strengthened its market positioning in the region and achieved attractive profits for its shareholders.

Markaz market share of the fund management industry improved to fourth place in the GCC and maintained its leadership in Kuwait

Markaz market share of the regional fund management industry improved as the assets under management of some regional players declined. According to in-house research[1], Markaz manages a significant market share in the GCC fund management industry; the company moved up a spot to fourth place in the GCC in terms of size of assets managed with a market share of 6.6%, and maintained its market leadership in Kuwait with a market share of 20.0%.

1 Source: Markaz Research Department compiled information on approximately 130 GCC mutual funds using Lipperweb and Zawya (as of December 2009).

Financial Results for the year 2009

The Company registered a net profit of KD 2.54 million

For the year 2009, Kuwait Financial Centre S.A.K. "Markaz" reported a net profit of KD 2.54 million, or 6 fils per share, compared to a net loss of KD18.77 in 2008, primarily due to management fees and income and gains in GCC and international equity investments.

Implementing of conservative investment policy and management of liquidity

Markaz conservative investment policy, particularly with regards to its management of liquidity to avoid short-term obligations are clearly affirmed in our financial statements, and testified by the auditors. Markaz solvency and quality of assets show its commitment to adhering to the strictest rules of the profession. Markaz enjoys a low debt to equities ratio, its short-term debt totalled KD 4 million and total debt reached KD 32.68 million which represents 4.87% and 39.75% of shareholders' equity, respectively.

The Board of Directors proposed no dividend distributions for the year 2009.

Our Activities - Asset Management

Local and GCC Investments

Asset Managers faced significant challenges

Several stock markets in the MENA region generated good returns in the year 2009 and we expect further rebounding activity into the year 2010 as well, but alongside extreme volatility in equity prices which has for long been the characteristic of the region's equity markets. The financial crisis posed significant challenges for the Asset Management industry due to lack of liquidity, decline in trade volume and the lack of transparency concerning the defaulting of several companies in the financial and real estate sectors.

"Mumtaz" remained ahead of its peers beating its benchmark by 12.4%

Markaz Gulf Fund posted a YTD 14.3% return, underperforming its benchmark by 8.1% due to a conservative strategy employed to avoid risks of bear market rallies. Our flagship Kuwaiti Fund "Mumtaz" remained ahead of its peers posting a YTD 3.1% return beating its benchmark by 12.4%. Markaz Islamic Fund posted a negative return of 8.4% YTD, compared to its benchmark which was down by 7.3%. Markaz Forsa Fund posted a negative return of 7.3% YTD. The Portfolio managers' bias towards large-mid cap companies with sustainable business revenues allowed the accounts to post 9.7% composite return for the year.

Markaz was selected by leading European group. Standard & Poor's assigned "A" Ratings for "Mumtaz" and "Gulf" Funds

Markaz emerged as a MENA investment partner of choice targeted by international institutions. Markaz has been selected by a leading European investment provider to act as the Investment Advisor based on its experience in the field and its performance track record. Additionally, Standard & Poor's assigned "A" Ratings for "Mumtaz" and "Gulf" Funds which is a testimonial to the high standards followed in our investment processes and consistent track record. It also highlights our ability to adapt to changing market conditions.

International Investments

Markets got into a swift turnaround mode

After dramatic falls seen during 2H08 for Emerging Markets and 1Q09 for the United States, 2009 will enter the history books as a year where markets got into a swift turnaround mode. While MSCI World posted a growth of 26.98%, BRICs gained 86.94%.

ETF's Program generated alpha of more than 11%

As per our performance numbers for the year 2009, our Atlas funds, Atlas Diversified Class and Emerging Markets Thematic Class, have improved 11.02% and 24.46%, respectively. While the ETF's Program generated alpha of more than 11%, the IPO and Pre-IPO program was a disappointment with a negative return of 18.54% due to poor IPO market conditions. Also, our proprietary and client portfolios had a good year in terms of returns, generating sizeable alphas.

Reasonable gains in equity markets for most of 2010

We expect to see reasonable gains in equity markets for most of 2010 on the back of earnings growth and liquidity. Economies reliant on natural resources along with BRICs have emerged as firm favourites amongst asset managers.

Our Activities (Cont'd)

Private Equity

Private Equity Investments were down 3.43%

The Private Equity industry is no exception to the damage that was incurred in 2009 as a result of the global recession. M&A activity was down 8% in the US, which is one of Private Equity's main drivers. Markaz Private Equity Investments were down 3.43% for the same period. We expect this sector to undergo a gradual recovery following the steps of equity markets.

Treasury

Ensuring equitable and fair treatment to all unit holders

Due to the defaulting of large financial institutions, and like all other money market funds in Kuwait, our Money Market Funds managed by the Treasury Department also bore the impact of the financial crisis. Therefore, acting in the best interest of investors, Markaz has swiftly taken the necessary measures to ensure equitable and fair treatment to all Unit holders equally by ceasing further subscriptions/redemptions and redeeming the units on a pro rata basis to all Unitholders without exception as and when cash is available. All additional income earned from that period including any profit credited to the Fund's account shall accrue to the unit holders.

Investment Banking

Corporate Finance

Companies need to de-leverage

The region's business landscape has undergone a significant transformation in 2008 and 2009 and local corporations are facing several challenges. On one hand, the most important issue for a large majority of companies is the imminent need to de-leverage and to replace short-term debt with longer-term financing. On the other hand, financially stable operating companies are seeking to grow their operations and to capture market share in an environment characterized by weakened competition but, also, limited availability of growth capital.

Focusing on providing advisory services to distressed companies

The Corporate Finance Department is increasingly focused on providing capital restructuring advisory services to distressed companies and continues on sourcing growth capital for financially healthy enterprises.

Executed three capital restructuring mandates

Over the year, the Department successfully executed three capital restructuring mandates for clients, including advising companies active in the construction and investment sectors. Sourcing of new capital for clients, however, slowed down to its lowest levels amidst tightening of credit and poor investment sentiment.

Increased need for non-conventional financing

In 2010, we expect to see the market develop in three important ways. First, a greater number of companies will seek advisory services to re-focus on core operations, to dispose non-core assets and to restructure their capital bases. Second, liquidity appears to be slowly returning and, companies in need of financing will re-enter the public and private markets to raise equity and debt capital. Third, we expect an increased need for non-conventional financing, such as mezzanine financing, convertible and exchangeable debt, and preferred stock offerings.

An active pipeline of clients seeking advisory services

Consistent with this outlook, we have already secured mandates to lead manage the capital increase of two companies in 2010. Furthermore, we have an active pipeline of clients seeking advisory services and we are confident that we will convert these into mandates.

Fixed Income

Fixed Income Program established to invest in GCC debt securities and achieved 17%

At the outset of 2009, Markaz acted swiftly to capitalize on an investment opportunity in the GCC fixed income market which emerged as a result of the credit crises. Markaz Fixed Income Program was established in February to acquire high quality GCC debt securities from distressed sellers. The program also invested in primary bond/sukuk issues that were offered throughout the year by GCC government and corporate entities. In the 10 month period, the program invested over USD100 million and achieved an aggregate return of 17%. Combined with the high returns, the Program displayed remarkable resilience in the face of market shocks throughout the year reflecting the high quality of its assets.

Going forward, we expect the GCC fixed income market to continue to achieve attractive return on the back of benign interest rate environment, combined with declining spreads driven by demand from regional and international investors for GCC credit and a positive outlook for the region.

Structured finance

Markaz remains the sole options market maker in the Middle East since 2005

Markaz remains the sole options market maker in the Middle East since 2005. The number of stocks covered in the Options Market at the Kuwait Stock Exchange was decreased from 60 in 2008 to 56 in 2009 as companies were delisted due to defaults, illiquidity or high risk levels. A total of 9,000 contracts were traded in 2009 with an underlying value of KD 117 million as compared to 14,000 contracts with an underlying value of 334 million in 2008. The decline is due to correlation with the stock market which declined 35% for the same period.

Submitted several proposals to the Kuwait Stock Exchange to increase depth and diversity

Markaz in 2009 submitted several proposals to the Kuwait Stock Exchange to allow investors to issue options contracts covered by their portfolio and to allow new market-makers in the options market to stimulate competition and liquidity. Work is underway on submitting a proposal to the KSE that will allow options trading during the official hours of the market.

Markaz upgraded its trading infrastructure with industry standard analytics that are fast, accurate, robust, and scalable and was in the final stages of launching a dedicated page on options on markaz.com, which provides information on the options market, pricing mechanisms and spot prices.

Markaz Real Estate Investments

Investing in low risk countries and sectors

Investments on track to achieve original targeted returns

In 2009, the MENA real estate market suffered sharp declines in prices, with financing options and transactions almost nonexistent. “Markaz” invested in low risk countries and sectors which limited the impact of the financial crisis. In addition, all underlying investments within our MENA funds and portfolios are above cost and most of these investments are on track to achieve the original targeted returns.

Real Estate Fund continued to pay monthly dividends

Although, the real estate market in Kuwait declined on average by around 20%, Markaz Real Estate Fund (MREF) finished the year with a decline of 5.2%. The Fund continued to pay dividends on a monthly basis.

“Markaz Real Estate Opportunities Fund” which invests in developmental real estate in KSA, Lebanon, Syria, Jordan and Qatar, initiated exits from underlying investments after achieving its targets. The fund has exited completely from its investments in Clemenceau, Beirut and is in the process of exiting from “Aradi” in KSA by the end of 2010, and from Lusail, Qatar, partially in H2 2010 and completely by H1 2011.

We expect positive performance for the Saudi real estate market in 2010, in addition to Syrian and Egyptian offices and retail sectors. We also expect the Abu Dhabi market to remain strong despite Dubai’s financial crisis and oversupply. Markaz is currently working on launching an investment portfolio aimed at the development of residential units in Saudi Arabia, and will launch its portfolio initially in the eastern region and will expand to include Riyadh and Jeddah. Additionally, Markaz is studying a number of investment opportunities in Egypt and Syria.

Conditions in the U.S. commercial real estate market continued to worsen

Reducing U.S. real estate assets by 50%

Conditions in the U.S. commercial real estate market have continued to worsen, both with respect to real estate fundamentals and capital markets. The outlook for net operating income for commercial real estate remains weak for the next two years. Consistent with this outlook, we have reduced our U.S. real estate assets under management by 50% from the peak in 2006 through asset dispositions. For our remaining holdings, we are focusing our efforts on the preservation of capital values. Towards this objective, we have taken a number of actions, maintaining occupancy, proactively working with lenders to extend the maturity of underlying loans, attempting to maximize cash reserves and taking adequate provisions and write-downs in 2009.

Investment Banking (Cont'd)

Exciting investment opportunities in distressed real estate

Furthermore, we believe that the prevalent distress in the real estate market is creating special situations and exciting investment opportunities, especially in sub-performing and non-performing commercial real estate debt. We are developing our execution platform and will be offering our investors new products to capitalize on such opportunities in the near future.

Oil and Gas

Tactical exits from investments to mitigate losses

The Oil and Gas department applied a cautious approach in 2009. As the petrochemical segment continued to decline, "Markaz Energy Fund" engaged in tactical exits from investments at a loss. Much of these losses have been recouped to a large extent due to acquiring existing energy related debt issues at large discounts to face value. Similarly, MEF was able to acquire public equities of fundamentally strong companies in the region when prices bottomed out. Additionally, value improvement in existing MEF investments have helped in mitigating losses incurred.

Energy Fund is qualified for the Kuwait Offset Program, and received an enhancement in multiplier from 3.5 to 4

Kuwait First Transport Company, of which both MEF and Markaz are major shareholders, withstood pressures on the equipment leasing business and continues to perform well. The Fund is qualified for the Kuwait Offset Program, and received an enhancement in multiplier from 3.5 to 4 during 2009.

In 2010, the department intends to focus on private equity segments of energy sector, in addition to acquiring stakes in listed regional oil services companies and creating new sub-products.

Regional Branches

Opening an office in Beirut to support Markaz activities in the Republic and neighbouring countries

"Markaz" closed its branch in Qatar Financial Centre after establishing a sales and marketing distribution channel through alkhaliji Bank, a leading institution in the State of Qatar, and its network of branches.

Markaz opened its office in Beirut to support Markaz activities in the Republic and neighbouring countries.

Support Departments

Research

Bridging the gap and allowing companies to capitalize effectively on the investment opportunities presented in the region in a transparent and unbiased way

We believe that Markaz has an institutional responsibility to disseminate transparent and unbiased research and allow companies to capitalize effectively on the investment opportunities presented in the region.

The research initiative of Markaz was further strengthened during 2009, a year full of challenges and surprises. The research continued to focus on regional issues that had direct implications for our clients and stakeholders. Strategic reports predominantly focus on themes relating to capital markets, while periodic reports cover various other issues.

We aim to bridge the gap in regional research specially in corporate research, economic reports, and the financial, real estate and infrastructure sectors. Markaz research continues to achieve good resonance in highlighting and promoting transparency in the markets of the region, through a wide distribution network which includes Bloomberg and Thomson Reuters.

Institutional Sales

Engaging in building strong partnerships with banks and other service providers in the Gulf area and Europe

2009 has been with no doubt a very difficult year which has obviously hurt our capacity to raise funds. Yet, some institutions were ready to take advantage of the presented opportunities in asset classes like fixed income and equities.

ISD has also been engaged in building strong partnerships with banks and other service providers in the Gulf area and Europe to distribute our funds with their clients. We feel that 2010 will also be a challenging year as investors remain risk-averse.

Private Banking

Improved investment appetite in second half of the year

Private Banking Industry was negatively impacted in 2009 due to decline in both the value of assets and investor confidence. Deposits in local banks grew as investors avoided the financial markets which in turn suffered from lack of liquidity.

The biggest challenge was client retention thus the department strengthened its client communications, and market updates were delivered frequently. Markaz also dynamically proposed new investment opportunities, and towards the second half of the year, improvements in the investment appetite lead to asset flow in once again.

Media and Communications

Promoting messages on best practices, prudent investment practices and protecting the interests of stakeholders

The M&C Department is set on strengthening Markaz' presence in markets that meet its strategic objectives and promoting the Middle East region's investment opportunities to regional and global institutions. The department also promoted key Markaz messages, on best practices, prudent investment practices and protecting the interests of shareholders and customers.

Intensified corporate social responsibility efforts

Following the latest social media trends, Markaz launched Facebook and Twitter pages to provide updates on funds, researches and corporate news. Markaz' website went social too with the launch of the fully interactive blog and videocasts.

As part of Markaz Corporate Social Responsibility efforts, Markaz focused its endorsements towards youth and health. Organizations supported include Al Amiri Hospital, Children Cancer Center of Lebanon, Lothan Youth Achievement, Kuwait Association for the Care of Children in Hospitals and Kuwait University.

In 2010, the mobile advertising space and the social web will be amongst the most exciting trends, so we will focus on having a stronger presence in those areas while updating our website with innovative features such as e-brokerage.

Corporate Governance and Risk Management

A comprehensive Risk Management, Compliance & Control Framework in place

Markaz has a comprehensive Risk Management, Compliance & Control Framework in place to ensure that the company and its related entities are appropriately governed. The Board directs the policy and process framework and is responsible for risk management and for all risk control systems that are implemented in Markaz, as well as related entities.

The primary responsibility of the department is to identify, measure, evaluate and report on all credit risks, liquidity and market risk to which Markaz is exposed. Management Committees are in place to evaluate & monitor different areas of risks. The department carries out periodic risk control and monitoring activities, and also prepares and implements new review and control policies.

The Department also follows up and documents governance activities in the company including the Board's Executive Committee, which reviews and approves investment performance and investment decisions and the Audit Committee which oversees the decision-making in the company and checks the effectiveness of internal controls.

It also supervises the other committees such as the Management Budget Committee which contributes to the formulation of lines of action regarding the distribution of responsibilities; the Investment Advisory Committee which establishes guidelines for the investment policy and approves the allocation of assets, in addition to the implementation of investments in accordance with the Board; the IT and Compliance Committee which ensures that information systems comply with applicable regulations; in addition to the Assets and Liabilities Committee which specializes in liquidity and credit issues.

Support Departments (Cont'd)

Information Technology

Implementing the latest technologies

The IT department continues to implement the latest technologies in a cost effective manner and as seamlessly as possible. Unified systems, advanced networking and security measures improve communication and collaboration amongst staff, regardless of their location or method of communication.

The department took part in restructuring efforts to establish a dedicated operations department, based on best industry practices. Shared human resources were encouraged to unlock synergies, and the implementation of new IT programs will enhance reporting and efficiency. Additionally, the department connected analysts to business related news services such as Bloomberg.

Financial Management Department

Presenting a true and fair financial position and achieving responsible growth

The FMD department aims to achieve growth while presenting a true and fair financial position in accordance with the latest developments and timely compliance with the State's regulatory authorities including the Central Bank of Kuwait. This enabled the company to prevail in both challenging and prosperous times, building on experience that extends to 35 years.

The department additionally works towards ensuring that all initiatives are aligned with the company's strategy and budget in addition to valuating Markaz Funds and Assets under Management in a transparent manner and without delay.

Human Resources and Administration

Restructuring Markaz's back office functions

HRAD played a very active role in restructuring Markaz's back office functions and under the umbrella of operations to ensure efficiency and better governance.

There is an ever increasing need to update our employees with the latest developments and technology and to enable our young and talented employees to benefit from international know-how. In-order to fulfil this requirement and help in the career development of Markaz employees, HRAD facilitated the appropriate training through on-the-job training and specialized programs offered by the Global Centre at the College of Business Administration - Kuwait which is also sponsored by Markaz.

Markaz Strategic Outlook for the Year 2010

Last year was filled with uncertainty. Expectations were centred around weak economies and markets and lack of liquidity. We think the markets for the current year could pull together as the US undergoes a slow and tenuous "jobless" recovery with consumer spending expected to be weak. We also expect a continuing capital market recovery with a stable dollar. For the international markets our focus will be on equities and commodities. All being equal, we favor BRIC.

Markets for the current year could pull together

Economic growth is expected to resume during 2010 at 4.2% backed by strong oil price, increased fiscal spending and revival of non-oil growth. Even though oil prices increased by 85% during 2009, it is expected to remain strong according to consensus. Governments mostly do not have external debt pressure and hence may not constrain their investment program including infrastructure. The benign economic environment will enable positive corporate earnings growth.

Leverage will continue to haunt institutions

However, leverage as an issue will continue to haunt corporate institutions. While there is better visibility for companies, asset price recovery is still not happening and hampering de-leveraging through sale of assets. Regional banks are extending maturities hoping to prevent a severe decline in asset prices and capital and debt markets remain weak.

GCC equities investments opportunistic in nature with fundamental valuation

In asset management, the economic strength outlined earlier for GCC provides strong support for the equity markets where we expect attractive returns in KSA and Qatar. Hence our focus would be opportunistic in nature for GCC equities with fundamental valuation playing a strong role in stock selection. The regional real estate scene is characterized by oversupply in Dubai, Qatar and Kuwait with attractive opportunities in Saudi Arabia, Abu Dhabi, Syria and Lebanon. We remain concerned about the state of the international real estate space, but we will pursue opportunities in distressed real estate debt. We are neutral on fixed income.

We expect advisory services to pick up in 2010 backed by restructuring and consolidation opportunities. Numerous companies will need advisory services focusing on strategy, liquidation of non-core assets, and raising capital.

We would like to take this opportunity to thank our Shareholders and Clients alike for their highly appreciated support and to our staff for their dedication and relentless efforts to overcome this difficult test. We also extend our gratitude to the regulatory authorities, specifically, the Central Bank of Kuwait, for their continued support and guidance in light of current conditions.

The Board of Directors

10 March 2010

INDEPENDENT AUDITORS' REPORT

The Shareholders

Kuwait Financial Centre S.A.K. (Closed)

Kuwait

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kuwait Financial Centre S.A.K. (Closed) ("the Parent Company") and subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error: selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of these consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of these 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 Group'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 these 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 financial position of the Group as at 31 December 2009, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in 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. In our opinion, proper books of account have been kept by the Parent Company, and the accounting information given in the board of directors' report relating to these consolidated financial statements agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2009, 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 organisation of banking business and its related regulations, that would materially affect the Group's activities or its financial position.

Jassim Ahmad Al-Fahad	Abdullatif M. Al-Aiban (CPA)
License No. 53-A	License No 94-A
Al-Fahad & Co. Deloitte & Touche	Grant Thornton – Al-Qatami, Al-Aiban & Partners

26 January 2010

CONSOLIDATED STATEMENT OF INCOME

For the year ended
31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
Income			
Interest income	6	1,716	2,393
Dividend income	7	172	813
Management fees and commission	8	8,338	10,854
Realised gain / (loss) on sale of investments at fair value through statement of income		280	(1,687)
Unrealised loss on investments at fair value through statement of income	9	(1,184)	(22,147)
Gain on sale of available for sale investments		753	4,098
Impairment in value of available for sale investments		(2,483)	(4,956)
Gain on sale of investment properties		-	609
Reversal of provision / (provision) for credit losses		653	(131)
Foreign exchange gain / (loss)		735	(302)
Other income		17	205
		8,997	(10,251)
Expenses and other charges			
General and administrative expenses	10	(5,140)	(5,436)
Impairment in value of investment properties	20	-	(181)
Impairment in value of property under development	21	-	(144)
Finance costs	11	(1,194)	(2,758)
		(6,334)	(8,519)
Profit / (loss) before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat		2,663	(18,770)
Provision for contribution to KFAS		(25)	-
Provision for NLST		(70)	-
Provision for Zakat		(28)	-
Profit / (loss) for the year		2,540	(18,770)
Attributable to:			
Owners of the Parent Company		2,573	(18,784)
Non-controlling interests		(33)	14
		2,540	(18,770)
Basic and diluted earnings / (loss) per share attributable to Owners of the Parent Company (Fils)	13	6	(41)

The accompanying notes set out on pages 21 to 50 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 KD 000's	2008 KD 000's
Profit / (loss) for the year	2,540	(18,770)
Other comprehensive income		
Available for sale investments:		
- Net change in fair value	1,781	(21,779)
-Net gain transferred to consolidated statement of income on sale	(753)	(4,098)
- Transferred to consolidated statement of income on impairment	2,483	4,956
	3,511	(20,921)
Cash flow hedges:		
- Net change in fair value	(560)	-
	(560)	-
Total other comprehensive income for the year	2,951	(20,921)
Total comprehensive income for the year	5,491	(39,691)
Attributable to:		
Owners of the Parent Company	5,524	(39,705)
Non-controlling interests	(33)	14
	5,491	(39,691)

The accompanying notes set out on pages 21 to 50 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
Assets			
Cash and bank balances	14	3,348	1,415
Time deposits	14	8,713	10,001
Investments at fair value through statement of income	15	41,165	37,153
Accounts receivable and other assets	16	4,690	9,206
Short term financing	17	54	3,972
Loans to customers	18	11,873	17,472
Available for sale investments	19	47,187	50,954
Investment properties	20	1,931	747
Property under development	21	-	574
Property and equipment		573	738
Total assets		119,534	132,232
Liabilities and equity			
Liabilities			
Due to banks and other financial institutions	14	3	2,774
Accounts payable and other liabilities		4,253	3,900
Dividends payable		368	416
Short term borrowings	22	4,012	20,820
Bonds	23	28,680	27,595
Total liabilities		37,316	55,505
Equity			
Share capital	24	50,600	50,600
Share premium	25	7,902	7,902
Legal reserve	26	12,140	11,870
Voluntary reserve	27	12,086	11,816
Treasury shares	28	(16,342)	(16,342)
Treasury shares reserve		7,973	7,973
Fair value reserve		5,247	1,736
Cash flow hedging reserve	35	(560)	-
Retained earnings		3,125	1,092
Equity attributable to Owners of the Parent Company		82,171	76,647
Non-controlling interests		47	80
Total equity		82,218	76,727
Total liabilities and equity		119,534	132,232

Diraar Yusuf Alghanim
Chairman & Managing Director

Manaf AbdulAziz Alhajeri
General Manager

The accompanying notes set out on pages 21 to 50 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Cash flow hedging reserve	Retained earnings	Attributable to Owners of the Parent Company	Non-controlling interests	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance as at 1 January 2009	50,600	7,902	11,870	11,816	(16,342)	7,973	1,736	-	1,092	76,647	80	76,727
Profit / (loss) for the year	-	-	-	-	-	-	-	-	2,573	2,573	(33)	2,540
Total other comprehensive income for the year	-	-	-	-	-	-	3,511	(560)	-	2,951	-	2,951
Transfer to reserves	-	-	270	270	-	-	-	-	(540)	-	-	-
Balance as at 31 December 2009	50,600	7,902	12,140	12,086	(16,342)	7,973	5,247	(560)	3,125	82,171	47	82,218

The accompanying notes set out on pages 21 to 50 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2009

	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Retained earnings	Attributable to Owners of the Parent Company	Non-controlling interests	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance as at 1 January 2008	44,000	7,902	11,870	11,647	(11,479)	7,973	22,657	36,600	131,170	66	131,236
(Loss) / profit for the year	-	-	-	-	-	-	-	(18,784)	(18,784)	14	(18,770)
Total other comprehensive income for the year	-	-	-	-	-	-	(20,921)	-	(20,921)	-	(20,921)
Issue of bonus shares	6,600	-	-	-	-	-	-	(6,600)	-	-	-
Dividends paid	-	-	-	-	-	-	-	(9,955)	(9,955)	-	(9,955)
Transfer to voluntary reserve (See Note 27)	-	-	-	169	-	-	-	(169)	-	-	-
Purchase of treasury shares	-	-	-	-	(4,863)	-	-	-	(4,863)	-	(4,863)
Balance as at 31 December 2008	50,600	7,902	11,870	11,816	(16,342)	7,973	1,736	1,092	76,647	80	76,727

The accompanying notes set out on pages 21 to 50 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 KD 000's	2008 KD 000's
OPERATING ACTIVITIES			
Profit / (loss) for the year		2,540	(18,770)
Adjustments for:			
Interest income		(1,716)	(2,393)
Dividend income		(172)	(813)
Gain on sale of available for sale investments		(753)	(4,098)
Impairment in value of available for sale investments		2,483	4,956
(Reversal of provision) / provision for credit losses		(653)	131
Foreign exchange loss on bonds		1,085	295
Depreciation		193	172
Impairment in value of investment properties		-	181
Impairment in value of property under development		-	144
Finance costs		1,194	2,758
		4,201	(17,437)
(Increase) / decrease in investments at fair value through statement of income		(4,012)	29,825
Decrease in accounts receivable and other assets		4,417	3,435
Decrease in loans to customers		6,252	2,785
Decrease in short term financing		3,918	1,235
Increase / (decrease) in accounts payable and other liabilities		334	(1,348)
Net cash from operating activities		15,110	18,495
INVESTING ACTIVITIES			
Purchase of property and equipment		(28)	(336)
Purchase of available for sale investments		(7,102)	(10,147)
Proceeds from sale of available for sale investments		12,650	14,243
Reimbursement received on account of property under development		-	2,347
Additions to investment properties		(610)	(907)
Proceeds from disposal of investment properties		-	15
Dividend received		172	813
Interest received		1,815	1,963
Net cash from investing activities		6,897	7,991

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

For the year ended 31 December 2009

	Note	2009 KD 000's	2008 KD 000's
FINANCING ACTIVITIES			
Purchase of treasury shares		-	(4,863)
Dividends paid		(48)	(9,963)
Decrease in short term borrowings		(16,808)	(2,170)
Finance costs paid		(1,735)	(2,846)
Net cash used in financing activities		(18,591)	(19,842)
Net increase in cash and cash equivalents		3,416	6,644
Cash and cash equivalents at beginning of the year		8,642	1,998
Cash and cash equivalents at end of the year	14	12,058	8,642

The accompanying notes set out on pages 21 to 50 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2009

1. INCORPORATION AND ACTIVITIES

Kuwait Financial Centre – S.A.K. (Closed) ("the Parent Company") is a closed shareholding company incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The shares of the Parent Company are listed on the Kuwait Stock Exchange and it is governed under the directives of the Central Bank of Kuwait.

The Group comprises the Parent Company and its subsidiaries ("the Group"). Details of the subsidiaries are set out in Note 5.

The principal activities of the Group are investment management, corporate financing, investment and financial advisory services, private equity funds, mutual funds and real estate funds management, money market and foreign exchange.

The address of the Parent Company's registered office is P.O. Box 23444, Safat 13095, State of Kuwait.

These consolidated financial statements of the Group for the year ended 31 December 2009 were authorised for issue by the Parent Company's board of directors on 26 January 2010 and are subject to the approval of the General Assembly of the shareholders.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards affecting amounts reported in the current period

During the year, the Group has adopted the following Standards, Interpretations, revisions and amendments to IFRS issued by International Accounting Standards Board which are relevant to and effective for the Group's consolidated financial statements beginning on or after 1 January 2009.

IAS 1 (revised 2007) Presentation of Financial Statements

The revised Standard has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard requires all non-owner changes in equity (i.e. comprehensive income) to be presented separately in the consolidated statement of comprehensive income. However, the revised Standard has had no impact on the reported results or financial position of the Group.

IAS 40 Investment property

IAS 40 has been amended to include within its scope investment property in the course of construction. Therefore, following the adoption of the amendments and in line with the Group's general accounting policy, investment property under construction is included in investment properties and measured at cost. The Group had previously accounted for such assets at cost less accumulated impairment losses under IAS 16 "Property, Plant and Equipment".

The change has been applied prospectively from 1 January 2009 in accordance with the relevant transitional provisions, resulting in transfer of "property under development" to "investment property" (See Notes 20 & 21). As at 31 December 2009, the impact of this transfer has been to increase "investment property" by KD 574 thousand and decrease "property under development" by KD 574 thousand. However the revised Standard has had no impact on the reported results of the Group as the Group follows the cost model for the accounting of investment properties.

IFRS 8 Operating Segments

IFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segments (See Note 30), but has had no impact on the reported results of financial position of the Group. This new standard which replaced IAS 14 "Segment reporting" requires a management approach for segment reporting under which segment information is presented on the same basis as that used for internal reporting purposes. Reported segment results are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual audited consolidated financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONT'D)

Standards and Interpretations in issue not yet effective (Cont'd)

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Annual Improvements 2008

In addition to the changes affecting amounts reported in the financial statements described above, the Improvements have led to a number of changes in the detail of the Group's accounting policies, some of which are changes in terminology only, and some of which are substantive but have has no material effect on amounts reported. The majority of these amendments are effective from 1 January 2009.

Standards and Interpretations in issue not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

•	IAS 1(Revised) Presentation of Financial Statements	Effective for annual periods beginning on or after 1 January 2010
•	IAS 7(Revised) Statement of Cash Flows	Effective for annual periods beginning on or after 1 January 2010
•	IAS 17 (Revised) Leases	Effective for annual periods beginning on or after 1 January 2010
•	IAS 27 (Revised) Consolidated and Separate Financial Statements	Effective for annual periods beginning on or after 1 July 2009
•	IAS 28 (Revised) Investment in Associates	Effective for annual periods beginning on or after 1 July 2009
•	IAS 31 (Revised) Interests in Joint Ventures	Effective for annual periods beginning on or after 1 July 2009
•	IAS 32 (Revised) Financial Instruments Presentation	Effective for annual periods beginning on or after 1 February 2010
•	IAS 36 (Revised) Impairment of Assets	Effective for annual periods beginning on or after 1 January 2010
•	IAS 38 (Revised) Intangible Assets	Effective for annual periods beginning on or after 1 July 2009
•	IAS 39 (Revised) Financial Instruments: Recognition and Measurement	Effective for annual periods beginning on or after 1 July 2009
•	IFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards	Effective for annual periods beginning on or after 1 January 2010
•	IFRS 2 (Revised) Share-based Payments	Effective for annual periods beginning on or after 1 January 2010
•	IFRS 3 (Revised) Business Combinations	Effective for annual periods beginning on or after 1 July 2009
•	IFRS 5 (Revised) http://www.iasplus.com/standard/ifrs05.htm Non-current Assets Held for Sale and Discontinued Operations	Effective for annual periods beginning on or after 1 July 2009

•	IFRS 8 Operating Segments	Effective for annual periods beginning on or after 1 January 2010
•	IFRS 9 Financial Instrument: Classification and Measurement	Effective for annual periods beginning on or after 1 January 2013
•	IFRIC 17 Distribution of non cash assets to owners	Effective for annual periods beginning on or after 1 July 2009
•	IFRIC 18 Transfers of Assets from Customers	Effective for annual periods beginning on or after 1 July 2009
•	IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Effective for annual periods beginning on or after 1 July 2010

Management anticipate that the adoption of these Standards and Interpretations where applicable and once become effective in future periods will not have a material financial impact on the consolidated financial statements of the Group in the period of initial application, except for the adoption of IFRS 9 Financial Instruments.

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The IASB aims to replace IAS 39 in its entirety by the end of 2010. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. While adoption of IFRS 9 is mandatory from 1 January 2013. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed in note 2, the accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2008.

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee 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 IFRS 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 as described below.

In March 2007, the Central Bank of Kuwait ("CBK") issued a circular amending the basis of making general provisions on facilities from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period 2007.

During the year 2008, CBK allowed the Group to reverse the excess general provision of 1% to the consolidated statement of income provided that amount is transferred to voluntary reserve.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company rounded off to the nearest thousand and are prepared under the historical cost convention, except for investments held at fair value through statement of income, available for sale investments and derivatives that are stated at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries- See Note 5). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of their interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests have a binding obligation and is able to make an additional investment to cover the losses.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to the consolidated statement of income or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these consolidated financial statements, the results and financial position of each Group entity are translated into KD which is the functional currency of the Parent Company and the presentation currency for these consolidated financial statements.

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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KD using exchange rates prevailing at the consolidated statement of financial position 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 classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated statement of income in the period in which the foreign operation is disposed of.

Revenue recognition

Interest and similar income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Dividend income is recognised when the right to receive payment is established.

Management fees and commission income relating to fiduciary client portfolio and fund management is recognised when these services are rendered.

Finance costs

Finance costs on borrowings are calculated on the accrual basis and are recognised in the consolidated statement of income in the period in which it is incurred.

Contribution to Kuwait Foundation for the Advancement of Sciences

The Group is required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS is recognised as an expense and is calculated at the rate of 1 % of profit before transfer to legal reserve, Directors' remuneration, National Labour Support Tax and Zakat.

National Labour Support Tax

The Group is required to contribute to the National Labour Support Tax ("NLST"). The Group's contribution to NLST is recognised as an expense and is calculated in accordance with Ministry of Finance resolution No. 24/2008, law number 19/2000.

Zakat

The Group is required to contribute to Zakat. The Group's contribution to Zakat is recognised as an expense and is calculated in accordance with Ministry of Finance resolution No. 58/2007 and 46/2006.

Share based payments

The Group provides certain employees with the ability to purchase the Parent Company's shares from its treasury shares. The exercise price is between the book value at the end of the each year and average cost of treasury shares. The resulting difference between the exercise price and the market value of the shares at that date is treated as a discount.

The fair value determined at the grant date of the share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each consolidated statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of income over the remaining vesting period, with a corresponding adjustment to the accounts payable and other liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial assets

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, net of 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', financial assets 'at fair value through statement of income' ("FVTSI"), 'available for sale' ("AFS") financial assets 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.

Cash and cash equivalents

Cash and cash equivalents as stated in the consolidated statement of cash flows comprise bank and cash balances, time deposits less due to banks and other financial institutions. Time deposits held with banks at short notice are redeemable into cash within 90 days.

Financial assets at fair value through statement of income ("FVTSI")

Financial assets at FVTSI are initially recognised at fair value excluding transaction costs. Financial assets 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 permits the entire combined contract (asset or liability) to be designated as at FVTSI.

After initial recognition, financial assets at FVTSI are remeasured at fair value. The fair value of FVTSI with standard terms and conditions and traded on active liquid markets is determined with reference to active market prices. Gain or loss arising either from sale or changes in fair value on remeasurement is recognised in the consolidated statement of income.

Available for sale financial assets ("AFS")

AFS investments are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition. After initial recognition, AFS investments are remeasured at fair value except for investment in equity securities that do not have active market and whose fair value cannot be reliably measured, which are carried at cost.

The fair value of AFS with standard terms and conditions and traded on active liquid markets is determined with reference to active market prices. The fair value of AFS not traded on active liquid markets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate 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 the fair value reserve is reclassified to the consolidated statement of income for the period.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the date fair value is determined. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated statement of income, and other changes are recognised in equity.

Loans to customers

Loans to customers originated by the Group by providing money directly to the borrower and that have fixed or determinable payments that are not quoted in an active market are classified as "loans to customers". Loans are measured at amortised cost using the effective interest method, less any impairment. Provision for credit risk is established to meet any decline in value.

Effective interest method

The effective interest method calculates 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 (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTSI.

Derecognition of financial asset

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.

Impairment of financial assets

Financial assets, other than those at FVTSI, are assessed for indicators of impairment at each consolidated statement of 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 asset have been impacted.

For equity instruments 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash and cash equivalents (Cont'd)

Impairment of financial assets (Cont'd)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts receivable, assets 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, 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. Individual impairment is identified at counterparty specific level following objective evidence the financial asset is impaired. This may be after an interest or principal payment is defaulted or when a contract covenant is breached. The present value of estimated cash flow recoverable is determined after taking into account any security held.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and loans to customers, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable or loan to customer 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.

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 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 consolidated statement of income are not reversed through consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 1% for the funded facilities and 0.5% for the non-funded facilities net of certain categories of collateral, to which Central Bank of Kuwait instructions are applicable and not subject to specific provisions, is made.

Property, equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Property and equipment are depreciated on straight line basis as follows:

Office equipment and software	3 years
Motor vehicles	4 years
Furniture and fixtures	10 years
Decorations	7 years
Licence fee	3 years

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. The carrying amounts are reviewed at each consolidated statement of financial position 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.

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.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities and equity instruments issued by the Group (Cont'd)

Financial liabilities

Financial liabilities are classified as "Due to banks and other financial institutions", "Accounts payables and other liabilities", "Bonds" and "Short term borrowings"

Financial liabilities are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with finance costs recognised on an effective yield basis.

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

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

Derivative financial instruments

The Group enters in to a variety of derivative financial instruments to manage its exposures to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period in the consolidated statement of financial position. The resulting gain or loss is recognised in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship (see below). A derivative with a positive fair value is recognised as a financial asset while a derivative with a negative fair value is recognised as a financial liability.

Hedge accounting

The Group has designated its interest rate swaps as cash flow hedges in order to mitigate interest rate risk arising from its bonds.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 35 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the consolidated statement of income in the periods when the hedged item is recognised in the consolidated statement of income. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. When a forecast transaction is expected to occur, any gain or loss accumulated in equity at that time remains separately in equity and is recognised in the consolidated statement of income when the forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of income.

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 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 shareholders' equity (treasury shares reserve), which is not distributable. Any realised 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 to reserves. Gains realised 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.

Related party transactions

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are approved by management.

End of service indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law, employee contracts and applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the consolidated statement of financial position date.

Operating segment

An operating segment is a component of the Group:

1) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

2) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

3) for which discrete financial information is available.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Fiduciary assets

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting polices, which are described in note 3, management is required to make judgements, estimates and assumption 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.

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.

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 risk of 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
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Effectiveness of hedges

Determining the effectiveness of hedges require significant estimation as to the various inputs (future interest rates, cash flows, whether the hedge will be terminated before expiry). Management uses data received from various sources to measure effectiveness of hedges.

Critical judgements in applying accounting polices

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of real estate property

Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held at fair value through statement of income, held to maturity or available for sale.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as investment at fair value through income statement depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through statement of income. All other investments are classified as available for sale.

Impairment of investments

The Group treats the 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.

5. SUBSIDIARIES

Name of subsidiary	Country of incorporation	Proportion of ownership interest 2009 and 2008	Proportion of voting power held 2009 and 2008	Principal activity
Margulf Management Inc	USA	100%	100%	Asset management
KFC Lone Star, Inc	USA	100%	100%	Asset management
KFC Lone Star 1, Inc.	USA	100%	100%	Asset management
First Management and Economic Consultancy Company–K.S.C.(Closed)	Kuwait	100%	100%	Economic Consultancy
Marsoft for Computer Programming, and Consultancy Services Company–W.L.L.	Kuwait	67%	67%	Computer Consultancy
Markaz Gulf Fund Company B.S.C. (Closed)	Bahrain	99%	99%	Fund management
Markaz Real Estate Opportunities Fund Company B.S.C.(Closed)	Bahrain	99%	99%	Fund management

6. INTEREST INCOME

	2009 KD 000's	2008 KD 000's
Time deposits	82	142
Investments at fair value through statement of income	589	304
Short term financing	182	330
Loans to customers	863	1,617
	1,716	2,393

7. DIVIDEND INCOME

Dividend income during the year represents dividends received from:

	2009 KD 000's	2008 KD 000's
Investments at fair value through statement of income	131	439
Available for sale investments	41	374
	172	813

8. MANAGEMENT FEES AND COMMISSION

Management fees relates to income arising from the Group's management of portfolios, funds, custody and similar trust and fiduciary activities.

9. UNREALISED LOSS ON INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2009 KD 000's	2008 KD 000's
Change in fair value of trading securities	(22)	(242)
Change in fair value of investments designated as investments at fair value through statement of income	(1,146)	(21,905)
Change in fair value of forward foreign exchange contracts (note 35)	(16)	-
	(1,184)	(22,147)

10. GENERAL AND ADMINISTRATIVE EXPENSES

General and administration expenses include the following:

	2009 KD 000's	2008 KD 000's
Staff costs	2,680	2,744
Depreciation	193	172

11. FINANCE COSTS

	2009 KD 000's	2008 KD 000's
Bonds	584	1,297
Short term borrowings	233	1,423
Due to banks	377	38
	1,194	2,758

All the finance costs during the year relates to financial liabilities at amortised cost.

12. NET GAIN / (LOSS) ON FINANCIAL ASSETS

	2009 KD 000's	2008 KD 000's
Time deposits	82	142
Investments at fair value through statement of income	(168)	(23,091)
Available for sale investments	(1,689)	(484)
Loans to customers	1,476	1,474
Short term financing	222	342
	(77)	(21,617)

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

Basic and diluted earnings / (loss) per share attributable to Owners of the Parent Company is calculated by dividing the profit / (loss) for the year attributable to Owners of the Parent Company by the weighted average number of shares in issue excluding treasury shares.

	2009	2008
Profit / (loss) for the year attributable to Owners of the Parent Company (KD 000's)	2,573	(18,784)
Number of shares outstanding		
Weighted average number of paid up shares (thousands)	506,000	506,000
Weighted average number of treasury shares (thousands)	(48,094)	(46,270)
Weighted average number of outstanding shares (thousands)	457,906	459,730
Basic and diluted earnings / (loss) per share attributable to Owners of the Parent Company (Fils)	6	(41)

14. CASH AND CASH EQUIVALENTS

	2009 KD 000's	2008 KD 000's
Cash and bank balances	3,348	1,415
Time deposits	8,713	10,001
Less: Due to banks and other financial institutions	(3)	(2,774)
	12,058	8,642

The Group's time deposits yield interest at an average rate of 1.28% per annum (2008: 5.06% per annum) and mature within one month from the date of deposit.

15. INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2009 KD 000's	2008 KD 000's
Trading:		
Local quoted securities and managed funds	554	703
Foreign quoted securities and managed funds	2,126	1,098
	2,680	1,801
Designated on initial recognition:		
Local quoted securities and managed funds	22,833	26,912
Foreign quoted securities and managed funds	3,123	2,441
Fixed income securities	12,529	5,999
	38,485	35,352
	41,165	37,153

The interest on fixed income securities range from 1.79% to 8.75% per annum (2008: 3.87% to 6% per annum).

16. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2009 KD 000's	2008 KD 000's
Management fees and commission receivable	2,307	2,134
Interest receivable	352	452
Receivable from sale of available for sale investments	82	79
Prepayments	288	371
Others	1,661	6,170
	4,690	9,206

All accounts receivable and other assets are due within one year.

17. SHORT TERM FINANCING

Short term financing represents short term advances at an interest rate of 12% per annum (2008: 8.25% per annum) (See Note 29). The advance is due within 6 months of the consolidated statement of financial position date.

18. LOANS TO CUSTOMERS

	2009 KD 000's	2008 KD 000's
Commercial loans	5,300	7,300
Margin loans	4,142	7,202
Personal loans	3,069	4,858
	12,511	19,360
Provision for credit losses	(638)	(1,888)
	11,873	17,472
The maturity profile of loans to customers is as follows:		
Up to one month	1,134	986
Between one month and six months	2,318	6,416
Between six months and one year	8,517	10,372
Over one year	61	49
Non-performing loans	481	1,537
	12,511	19,360

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements including general provision (See Note 3) on the balance of regular facilities for which no specific provisions are made.

The total non-performing loans which have been fully provided amounts to KD 481 thousand (2008: KD 1,537 thousand).

The interest rate on loans to customers ranges from 4.5% to 6.75% (2008: 5.25% to 6.75%) per annum for commercial loans, from 5.5% to 6.75% (2008: 5.75% to 6.75%) per annum for margin loans and from 2.28% to 6.00% (2008: 6.05% to 6.75%) per annum for personal loans.

All loans are denominated in KD or US Dollars. Commercial loans are fully secured by charges over property and investments in the funds and securities held in fiduciary portfolios on behalf of the borrowers.

19. AVAILABLE FOR SALE INVESTMENTS

	2009 KD 000's	2008 KD 000's
Quoted securities and managed funds	21,423	24,452
Equity participations	25,764	26,502
	47,187	50,954

Equity participations are acquired with the intention of capital appreciation over a medium to long-term time frame. Equity participations amounting to KD 2,257 thousand (2008: KD 1,704 thousand) are carried at cost since their fair values could not be measured reliably.

Equity participation include investments amounting to KD 23,507 thousand (2008: KD 24,798 thousand) whose fair values are determined using valuation techniques normally used by fund managers that are not necessarily based on observable market prices or rates.

Based on management estimates the Group has recognised impairment loss for available for sale investments carried at fair value and cost by KD 1,614 thousand and KD 869 thousand (2008: KD 4,339 thousand and KD 617 thousand) respectively. Management has performed an analysis of the remaining underlying available for sale investments carried at cost which indicates that there is no further impairment.

20. INVESTMENT PROPERTIES

	2009 KD 000's	2008 KD 000's
Carrying value at 1 January	747	36
Transfer from property under development (See Notes 2& 21)	574	-
Additions	610	907
Disposals	-	(15)
Impairment loss	-	(181)
Carrying amount as at 31 December	1,931	747

Following the adoption of IAS 40 (revised), as disclosed in note 2, the Group has transferred the "property under development" to "investment properties" effective from 1 January 2009. Hence investment properties now include property under development of KD 1,175 thousand. Investment properties are located outside Kuwait. In the opinion of management the carrying value of the investment properties approximates its fair value.

The commitment for development of investment property has been disclosed in note 33.

21. PROPERTY UNDER DEVELOPMENT

	2009 KD 000's	2008 KD 000's
Carrying value at 1 January	574	3,065
Transfer to investment properties (See Notes 2 & 20)	(574)	-
Reimbursement	-	(2,347)
Impairment loss	-	(144)
Carrying amount as at 31 December	-	574

22. SHORT TERM BORROWINGS

Short term borrowings represent money market borrowings from local and foreign banks. The borrowings are denominated in KD and US Dollar and bear an average interest rate ranging from 2.29% to 5.4% (2008: 1.25% to 7.5%) per annum and are unsecured.

23. BONDS

On 5 July 2007, the Parent Company issued unsecured bonds in the principal amount of US Dollars 100,000 thousand with an interest rate of LIBOR plus 1.1 % payable quarterly in arrears. The bonds are listed on the Dubai International Financial Exchange and mature on 5 July 2012.

24. SHARE CAPITAL

The authorised, issued and fully paid up share capital consists of 506,000 thousand shares of 100 fils each (31 December 2008: 506,000 thousand shares of 100 fils each).

The shareholders' Annual General Assembly held on 7 May 2009 approved the annual audited consolidated financial statements of the Group for the year ended 31 December 2008 and did not declare any dividend for the year ended 31 December 2008 (2007: cash dividend of 25 fils and 15% bonus shares).

25. SHARE PREMIUM

Share premium is not available for distribution.

26. LEGAL RESERVE

As required by the Kuwait Commercial Companies Law and the Parent Company's Articles of Association, 10% of profit for the year attributable to owners of the Parent Company before KFAS, NLST, Zakat and Directors' remuneration is to be transferred to the legal reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends. No transfer is required in the year of loss or where cumulative losses exist.

27. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of profit for the year attributable to owners of the Parent Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer. No transfer is required in the year of loss or where cumulative losses exist. During 2008, as per the directives of the CBK, the Group has transferred the excess general provision of 1% amounting to KD 169 thousand to the voluntary reserve.

28. TREASURY SHARES

	2009	2008
Number of shares (000's)	48,094	48,094
Percentage of issued shares	9.5%	9.5%
Cost (KD 000's)	16,342	16,342
Market value (KD 000's)	5,386	4,425

29. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group management. Transactions between the Parent Company and its subsidiaries which are related parties with the Parent Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entities entered into the following transactions with related parties that are not members of the Group:

	2009 KD 000's	2008 KD 000's
a) Transactions included in the consolidated statement of income		
Interest income	841	1,240
Management fees and commissions	5,754	8,329
b) Balances included in the consolidated statement of financial position		
Loans to related parties		
Short term financing (See Note 17)	54	4,012
Loans to directors and senior management	9,830	12,871
	9,884	16,883
c) Compensation of key management personnel:		
Salaries and other short term benefits	460	478
Terminal benefits	42	37
	502	515

30. SEGMENTAL INFORMATION

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. Under IFRS 8, operating segments are identified based on internal management reporting information that is regularly reviewed by the Chief Operating decision maker in order to allocate resources to the segment and to assess its performance and is reconciled to Group profit or loss. In contrast, the predecessor Standard (IAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risk and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its annual audited consolidated financial statements.

The Group primarily operates in one area of business activity, investment. Accordingly in prior years, segment information reported externally was analysed on the geographical basis. However, information reported to the Group's decision makers for the purposes of resource allocation and assessment of performance is more specifically focussed on the types of investment activities. The Group's reportable segments under IFRS 8 are therefore as follows:

Asset management

- GCC and MENA investments
- International investments
- Private equity

Investment banking

- Corporate finance & advisory
- Real estate
- Oil and gas
- Treasury
- Loans
- Structured finance and derivatives

30. SEGMENTAL INFORMATION (CONT'D)

The revenues and profits generated by the Group from business segments are summarised as follows:

	Year ended 31 December					
	Asset Management		Investment Banking		Total	
	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's
Segment income	4,143	(16,048)	4,854	5,472	8,997	(10,576)
Segment profit / (loss)	1,651	(19,025)	1,012	255	2,663	(18,770)
KFAS, NLST and Zakat	(74)	-	(49)	-	(123)	-
Profit / (loss) for the year	1,577	(19,025)	963	255	2,540	(18,770)
Total segment assets	59,675	65,109	59,859	67,123	119,534	132,232
Total segment liabilities	30	290	36,710	55,215	36,740	55,505
Interest income	141	54	1,575	2,339	1,716	2,393
Finance costs	-	-	(1,194)	(2,758)	(1,194)	(2,758)
Reversal of provision / (provision) for credit losses	-	-	653	(131)	653	(131)
Depreciation	(43)	(38)	(150)	(134)	(193)	(172)
Impairment in value of available for sale investments	(1,508)	(4,483)	(975)	(473)	(2,483)	(4,956)
Purchase of property and equipment	(10)	(38)	(18)	(298)	(28)	(336)
Additions to investment properties	-	-	(610)	-	(610)	-
Provision for staff indemnity	(32)	(30)	(104)	(146)	(136)	(176)

Segment income above represents income generated from external customers. There was no inter-segment income in the year (2008: Nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable

31. FIDUCIARY ASSETS

The Group manages portfolios on behalf of others, mutual funds and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated statement of financial position. Assets under management as at 31 December 2009 amounted to KD 798,922 thousand

(2008: KD 820,541 thousand). The Group earned management fee of KD 7,285 thousand (2008: KD 9,545 thousand) from these activities which is included in note 8.

32. EMPLOYEE SHARE OPTION PLAN

In 2005, the Group established an employee share option plan ("ESOP") to reward the performance of its employees. Under the plan, certain employees are eligible to purchase the Parent Company's shares from its treasury shares and no new shares will be issued. The exercise price is the difference between the book value at the end of each year and average cost of treasury shares. This plan will be in effect for a nine year period for a maximum of 10% of the paid up share capital of the Parent Company at the date of inception of the program.

Pursuant to the plan, the directors approved to make 1,680 thousand shares available for this purpose for the year ended 31 December 2005 which was approved by the relevant regulatory authorities and the shareholders general assembly on 2 April 2006. The fair value of a share at that date was 700 fils and exercise price was 500 fils. The Group recognised a total expense and corresponding liability of KD 336 thousand in the consolidated financial statements for the year ended 31 December 2005. No shares were granted, exercised, expired or forfeited under the ESOP during the years ended 31 December 2009 and 31 December 2008.

33. COMMITMENTS

	2009 KD 000's	2008 KD 000's
For purchase of investments	12,915	15,500
For development of land	-	725
	12,915	16,225

34. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to these consolidated financial statements.

Categories of financial instruments

	2009 KD 000's	2008 KD 000's
Financial assets		
Cash and bank balances	3,348	1,415
Time deposits	8,713	10,001
Investments at fair value through statement of income	41,165	37,153
Accounts receivable and other assets	4,400	8,833
Short term financing	54	3,972
Loans to customers	11,873	17,472
Available for sale investments	47,187	50,954
	116,740	129,800
Financial liabilities		
Due to banks and other financial institutions	3	2,774
Accounts payable and other liabilities	2,955	2,331
Dividends payable	368	416
Short term borrowings	4,012	20,820
Bonds	28,680	27,595
	36,018	53,936

34. FINANCIAL INSTRUMENTS (CONT'D)

Financial Risk Management Objectives

The board of directors of the Parent Company is ultimately responsible for setting out risk management objectives. The Group's risk management 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 market risk (including equity price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk.

Market Risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates 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.

Equity price risk

The Group is exposed to the equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income or available for sale investments.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The equity price risk sensitivity analysis shown below has been determined based on the quoted market price of investments at fair value through statement of income and available for sale investments that are listed on the Kuwait Stock Exchange at the reporting date.

If equity price had been 10% higher / lower, the effect on the profit and equity for the year ended 31 December would have been as follows:

A positive number below indicates an increase in profit and equity where the equity price increases by 10%. A 10% decrease in the equity price would have the opposite effect. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

			2009		2008
Market indices	% change in price	Effect on profit	Effect on equity	Effect on profit	Effect on equity
		KD 000's	KD 000's	KD 000's	KD 000's
Kuwait stock exchange	10%	215	64	304	68

The Group is not significantly exposed to any single stock exchange other than the Kuwait Stock Exchange.

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	
	2009	2008	2009	2008
	KD 000's	KD 000's	KD 000's	KD 000's
US Dollars	32,623	29,815	52,931	47,322
Euros	3	5	3,527	3,528
Sterling Pounds	2	1	588	583
Bahraini Dinars	-	-	138	172
UAE Dirhams	-	-	1,817	1,652
Qatari Riyals	-	-	237	-
Others	6	7	592	179

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollars, Euros and UAE Dirhams.

The following table details the Group's sensitivity to a 5% increase and decrease in the KD against US Dollars, Euros and UAE Dirhams. The sensitivity analysis includes only outstanding US Dollars, Euros and UAE Dirhams denominated monetary assets and liabilities and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and equity and a negative number indicates decrease in profit and equity. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	+5 % Impact		-5 % Impact	
	2009	2008	2009	2008
	KD 000's	KD 000's	KD 000's	KD 000's
Consolidated statement of income	413	332	(413)	(332)
Equity (i)	(1,695)	(1,467)	1,695	1,467

(i)This is as a result of the changes in fair value of available for sale investments.

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rates views and defined risk appetite, ensuring the most cost effective hedging strategies were applied.

Interest rate sensitivity analysis

The Group's exposures to interest rates on assets and liabilities are detailed in the liquidity risk management section of this note.

The following table illustrates the sensitivity of the profit / (loss) for the year to a reasonably possible change in interest rates of + 1% and - 1 % (2008: + 1% and - 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each consolidated statement of financial position date. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis other than the fact that the floating interest rate on bond of US Dollars 50,000 thousand have now been converted in to a fixed interest rate through the use of interest rate swaps (note 35).

A positive number below indicates an increase in profit and negative number indicates decrease in profit.

	2009		2008	
	+ 1 %	- 1 %	+ 1 %	- 1 %
	KD 000's	KD 000's	KD 000's	KD 000's
Profit for the year	(163)	163	(300)	300

34. FINANCIAL INSTRUMENTS (CONT'D)

Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5 % of gross monetary assets at any time during the year.

Exposure to credit risk

The carrying amount of financial assets which is net of impairment losses, recorded in the consolidated statement of financial position represents the Group's maximum credit exposure without taking account of the value of any collateral obtained. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2009	2008
	KD 000's	KD 000's
Bank balances	3,347	1,414
Time deposits	8,713	10,001
Investments at fair value through statement of income	41,165	37,153
Accounts receivable and other assets	4,400	8,833
Short term financing	54	3,972
Loans to customers	11,873	17,472
Available for sale investments	47,187	50,954
	116,739	129,799

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

	Carrying amount	
	2009	2008
	KD 000's	KD 000's
Kuwait	70,027	74,016
Gulf and Middle East	15,935	20,524
North America	20,403	27,359
Europe	6,154	5,075
Emerging Markets	4,043	-
Others	177	2,825
	116,739	129,799

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. None of the financial assets of the Group have been rated by external credit rating agencies. The Group assesses the credit quality of financial assets using internal records and customer profiles.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The table below analyses the Group's financial liabilities based on the remaining period at the consolidated statement of financial position 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.

As at 31 December 2009	Up to 1 Month	1-3 Months	3-12 Months	1 to 5 Years	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Due to banks and other financial institutions	3	-	-	-	3	5.33
Accounts payable and other liabilities	195	467	539	1,754	2,955	-
Dividends payable	368	-	-	-	368	-
Short term borrowings	3,012	-	1,000	-	4,012	3.845
Bonds	-	189	568	29,815	30,572	1.3525
	3,578	656	2,107	31,569	37,910	
Commitments	-	-	-	12,915	12,915	

As at 31 December 2008	Up to 1 Month	1-3 Months	3-12 Months	1 to 5 Years	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Due to banks and other financial institutions	2,774	-	-	-	2,774	7.5
Accounts payable and other liabilities	2,137	-	194	-	2,331	-
Dividends payable	416	-	-	-	416	-
Short term borrowings	20,820	-	-	-	20,820	4.375
Bonds	-	322	1,316	30,820	32,458	4.725
	26,147	322	1,510	30,820	58,799	
Commitments	-	-	725	15,500	16,225	

34. FINANCIAL INSTRUMENTS (CONT'D)

Fair value of financial instruments

	2009 KD 000's Fair value	2009 KD 000's At amortised cost	2008 KD 000's Fair value	2008 KD 000's At amortised cost
Financial assets				
Cash and bank balances	-	3,348	-	1,415
Time deposits	-	8,713	-	10,001
Investments at fair value through statement of income	41,165	-	37,153	-
Accounts receivable and other assets	-	4,400	-	8,833
Short term financing	-	54	-	3,972
Loans to customers	-	11,873	-	17,472
Available for sale investments	47,187	-	50,954	-
	88,352	28,388	88,107	41,693
Financial liabilities				
Due to banks and other financial institutions	-	3	-	2,774
Accounts payable and other liabilities	560	2,395	-	2,331
Short term borrowings	-	4,012	-	20,820
Bonds	-	28,680	-	27,595
	560	35,090	-	53,520

Fair value measurements recognised in the consolidated statement of financial position

The Group has adopted the amendments to IFRS 7 relating to improving disclosures about Financial Instruments effective from 1 January 2009 (See Note 2). These amendments require the Group to present certain information about financial instruments measured at fair value in the consolidated statement of financial position. In the first year of application comparative information need not be presented. Accordingly the disclosure for the fair value hierarchy is only presented for the 31 December 2009 year end.

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 assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2009			
	Level 1	Level 2	Level 3	Total
	KD 000's	KD 000's	KD 000's	KD 000's
Investments at fair value through statement of income				
Investments held for trading	1,175	1,377	128	2,680
Financial assets designated at fair value through statement of income	8,603	26,317	3,565	38,485
Available for sale investments				
Quoted securities	604	-	-	604
Managed funds				
- Local	-	4,988	-	4,988
- Foreign	-	14,218	1,613	15,831
Equity participations (unquoted securities)	-	-	25,764	25,764
Derivative financial instrument				
Negative fair value				
- cash flow hedges	-	(560)	-	(560)
- Forward foreign exchange contracts	-	(16)	-	(16)
	10,382	46,324	31,070	87,776

There were no transfers between Level 1 and 2 during the year.

Valuation techniques and assumptions for the purpose of measuring fair value

1) Quoted Securities

All the listed equity securities are publicly traded on a recognized stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

2) Local managed funds

The underlying investments in local managed funds primarily comprise of local quoted securities whose fair values has been determined by reference to their quoted bid prices at the reporting date.

3) Foreign managed funds

The underlying investments of foreign managed funds primarily comprise of foreign quoted and unquoted securities. The fair value of the quoted underlying securities has been determined by reference to their quoted bid prices at the reporting date. The fair value of the unquoted underlying securities has been determined using valuation techniques that are normally used by Fund Managers. All significant inputs into the model are based on observable market prices.

4) Unquoted securities

Unlisted securities are measured at fair value estimated using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

34. FINANCIAL INSTRUMENTS (CONT'D)

Level 3 Fair value measurement

The Group's financial assets and liabilities classified in level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be measured as follows:

Reconciliation of Level 3 fair value measurements of financial assets

	Investments at fair value through statement of income	Available for sale		Total
		Unquoted equity securities	Unquoted debt securities	
	2009	2009	2009	2009
	KD 000's	KD 000's	KD 000's	KD 000's
Opening balance	3,765	28,114	-	31,879
Total gains or losses				
- in consolidated statement of income	-	680	-	680
- in other comprehensive income	-	(1,911)	-	(1,911)
Purchases	-	3,736	-	3,736
Sales	(72)	(3,242)	-	(3,314)
Closing balance	3,693	27,377	-	31,070

Gains or losses recognized in the consolidated statement of income for the year are included in realised gain / (loss) on sale of investments at fair value through statement of income, unrealised gain / (loss) on investments at fair value through statement of income and gain on sale of available for sale investments.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of income, total assets, total liabilities or total equity.

There are no transfers into or out of level 3 during the year.

35. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value by referring to interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivatives are carried at fair value and shown in the consolidated statement of financial position net of any internal arbitrage deals. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the consolidated statement of financial position date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. Negative fair value represents the cost to the Group in favour of the counter parties.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing bonds. Similarly the Group deals in forward foreign exchange contracts to manage its foreign currency positions and cash flows.

1) Derivatives held for trading (Forward foreign exchange contracts)

Derivatives used for hedging purposes but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'.

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date. Forward foreign exchange contracts mature within four months of the consolidated statement of financial position date.

The notional amounts of forward foreign exchange contracts together with fair values as at 31 December is summarised as follows:

	Notional principal value		Fair value (Negative) / Positive	
	2009	2008	2009	2008
	KD 000's	KD 000's	KD 000's	KD 000's
Derivatives held for trading				
- Forward foreign exchange contracts (US Dollars – KD)	5,736	-	(16)	-

2) Cash flow hedges (Interest rate swap contracts)

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts on bonds calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the bonds issued at variable interest of 3 months LIBOR plus 1.1%. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

Maturity date of outstanding receive floating pay fixed contracts	Average contracted fixed interest rate		Notional principal value		Fair values (Negative) / Positive	
	2009	2008	2009	2008	2009	2008
			KD 000's	KD 000's	KD 000's	KD 000's
5 July 2010	2.38%	-	7,170	-	(236)	-
5 July 2010	3.27%	-	7,170	-	(324)	-

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the 3 months LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on bonds. The net cash inflow or outflow on the interest rate swaps and the interest payments on the bonds occur simultaneously.

36. 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. The management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

37. CAPITAL MANAGEMENT OBJECTIVES

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of equity attributable to Owners of the Parent Company, comprising issued share capital, share premium and reserves as disclosed in notes 24, 25, 26 and 27 respectively, treasury shares as disclosed in note 28 and retained earnings. Debt consists of short term borrowings disclosed in note 22 and bonds disclosed in note 23.

Gearing ratio

The gearing ratio at year end was as follows:

	2009 KD 000's	2008 KD 000's
Debt	32,692	48,415
Less: Cash and cash equivalents (See Note 14)	(12,058)	(8,642)
Net debt	20,634	39,773
Equity	82,171	76,647
Net debt to equity ratio	25.11%	51.89%

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