Annual Report 2010

Since 1974

Kuwait Financial Centre

المركز
MARKAZ

H.H. SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH
The Crown Prince

H.H. SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH
The Amir of The State of Kuwait

H.H. SHEIKH NASSER AL MOHAMMED AL-AHMAD AL-SABAH
The Prime Minister

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	Chief Executive Officer
Ali H. Khalil	Chief Operating Officer
Gopal Menon	Executive Vice President – International Investments
Bassam N. Al-Othman	Executive Vice President – MENA Real Estate
Amani Al-Omani	Executive Vice President – MENA Equities
Khaled A. Chowdhury	Senior Vice President – Financial Management
M.R. Raghu	Senior Vice President – Research
Rasha A. Al-Hamad	Senior Vice President – Human Resources & Administration
Maha A. Imad	Senior Vice President – Private Equity, Fund Administration, Transaction Processing and Reporting
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	Vice President – Risk Management & Compliance
Johnny Al-Khoury	Vice President – Information Technology
Farah S. Al-Essa	Assistant Vice President – Media & Communications

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DIRECTORS' REPORT 2010

Dear Stakeholders,

Global Markets in 2010: strong returns, but debt levels still high

Most markets posted strong returns during 2010, but high debt levels continued to weigh on the situation in different forms. The Quantitative Easing (QE2) policy in the United States provided momentum to stock markets. This policy was aimed at raising the wealth of the common American through holdings of securities and real estate properties but ignoring high debt levels as the second phase of the Quantitative Easing process entails high risks for the Unites States' Finances. While economic growth in emerging markets resulted in strong returns that benefited both financial markets and commodity prices, the central banks adopted tighter monetary policies to control inflation. In Europe, sovereign bonds in Greece and subsequently in Ireland, were a source of concern not only for these markets, but also for the banking sector in the European Union, in particular, and for the Euro as a major global currency, in general.

Retreating liquidity and varied performance in GCC markets

GCC financial markets generally suffered from contraction in liquidity levels and witnessed varied performance in their bourses. In the Kingdom of Saudi Arabia, current expenditure rose to a historic level, contributing to some rise in returns, reflecting receding trading volumes. The United Arab Emirates was one of the GCC countries that witnessed the highest decline in stock markets performance; banks increased their provisions to offset impaired debts, but the year 2010 saw green buds of confidence in the Dubai debts problem after 99% of Dubai World creditors agreed to reschedule its debts totaling $ 22 billion.

Kuwait posts highest returns in the GCC

The Kuwait Stock Exchange posted the highest returns in GCC markets in terms of the weighted index. This return was achieved as a result of selective liquidity targeting strong operational companies and shunning the stocks of companies impacted by the financial crisis. The most impacted companies were those operating in the investment and real estate sectors, in addition to companies invested in non-core activities through borrowed funds. The debt of such companies rose over the past five years to unsustainable levels exacerbated by the fact that it was of a short-term nature with high interest rates and was serving illiquid, non-income generating long-term assets. Hence, local companies came to be under pressure to restructure in order to repay their short-term debts and to fund their main lines of business and ensure their survival. For this reason, they resorted to either liquidating some of their assets or to increasing their capital.

A bottle-necked financing chain impacted economic activity

During the year, the financing sector passed through a critical phase in which financing sources contracted for private sector companies, including operational ones, which impeded their future growth. Banks were hesitant to pressure borrowers to repay their debts, driven by the fear that this would compel debtors to liquidate their assets in a manner impairing the value of those assets in general, which might have an adverse effect on the overall collateral adequacy for bank loan portfolios.

A weaker demand in investing in securities

Investors' risk appetite contracted notably owing to debtor companies' liquidation of investments coupled with the banks aversion to lend, which drove them to refrain from investing in securities and real estate in general, except in short-term investment transactions. Investors' confidence in markets also weakened due to lack of transparency which undermined confidence in the information some companies disclosed, as well as to the wide difference between book value and liquidation value for some companies' assets, especially those with illiquid assets.

Judicial system in Kuwait should meet the restructuring imperatives

The situation was further aggravated by the fact that the judicial system in Kuwait is not ready to resolve bankruptcy and debt restructuring court cases, due to lack of sizeable precedents. This resulted in an aversion to lend, thus undermining companies operating in productive sectors and enjoying sound financial conditions. Markaz participated in intensive and prolonged rounds of creditors committee meetings of one of the major companies under distress to reach a settlement with the shareholders of that company, but the results of those discussions are still pending the decision of the regulatory authorities. An expedited decision on the recommendations submitted by this committee will dissipate the uncertainty surrounding a large number of companies operating in the financial sector, and accordingly, restore confidence in our market, in particular, and in the prevailing investment climate, in general.

The State's intervention was limited to two main forms. The first was the Financial Stability Law that refrained from providing funds for purchasing assets and increasing capitals due to the increasing sensitivity of the public's opinion to use public funds for financial bailouts. Hence, the Law was limited to the State's participation in mainly providing guarantees offsetting any deficits banks may face in their provisions. The second was the State's support of the Kuwait Stock Exchange by investing therein.

Serious steps taken towards more transparency

In light of the severe losses incurred by some investment companies in Kuwait, particularly the larger ones, the Central Bank of Kuwait issued instructions which tighten supervision on this sector. In our opinion, the new instructions aim at enhancing transparency and credibility, as well as streamlining the investment sector, which has grown and came to be of vital importance for the financial sector in Kuwait. This move, drawn from the criteria of the Basel Accord on Banking Supervision, seeks to reinforce capital adequacy of companies and the sources of their liquidity so as to fulfill their obligations in various economic cycles. Those criteria addressed liquidity in companies' balance sheets and debt to equity ratio.

A wide-scale Development Plan

In a commendable move, the State initiated, through its various authorities, a new ambitious and wide-scale Development Plan aimed at enhancing the regional competitiveness of Kuwait. We see signs of new expansionary policies for expending not less than KD 35 billion over five years beginning from 2010.

What is the financial sector's priority on the Development Plan's agenda?

Despite of our support of this move in principle, a quick review of the phases of this plan makes it imperative to raise fundamental questions relating to the role of the financial sector. Clear policies enabling financial sector institutions to perform their role in the execution phase are absent. This is because it is difficult to say that actual actions have been implemented for adopting expansionary financial policies that are intended to restore confidence and accordingly improve asset prices, to reinstate the economic cycle to its normal course. The most significant areas in this regard include increasing the financial institutions' capital, extending financing to operational companies, energizing bonds market and purchasing assets and buying debt.

It is our view that the State should take the initiative of handling three economic issues, namely, the distressed companies which have been in a standstill for a long time, the scarcity of long-term and banking financing, and the absence of a clear policy to strengthen the financial and economic sector and link it to the development process in the country.

Creation of the Capital Market Authority

We believe that the regulatory instructions issued during 2010, coupled with the creation of the Capital Market Authority, have provided a key milestone for a new financial environment meeting international standards. This made it possible to identify strong operational companies that are capable of participating in the execution of a number of large scale projects in terms of providing advisory services, issuing bonds and sukuks and other financial services, as well as attracting foreign investors. This would raise, to a large extent, investors' confidence in the country, with the consequent positive reflection on the financial sector and specifically on the investment sector in Kuwait. While the year 2010 witnessed the creation of the long-waited Capital Market Authority, we look forward to seeing this Authority operating at the earliest, so as to regulate all activities of securities trading in a manner that enhances the principles of fairness and efficiency, thus lifting local companies' performance and compliance.

Private sector will remain the real driver for any development

We strongly believe that the private sector will be an indispensable element in any set of economic reforms. The State is responsible for empowering it to enable it to perform its role and to create new job opportunities.

DIRECTORS' REPORT 2010 (continued)

FINANCIAL RESULTS FOR THE YEAR 2010

222% increase in net profit and 29% growth in AUM

For the year 2010, Markaz reported a net profit of KD 8.17 million, or 18 fils per share; a 222% increase over last year's results of KD 2.54 million in net profit, or 6 fils per share. Total shareholders' equity reached KD 93.89 million, a growth of 14%. Markaz Assets Under Management totalled KD 1.03 billion as of end of December 2010, which represents a growth of 29% compared to the same period of 2009.

10% cash dividend and 5% bonus share distribution

Markaz's Board of Directors proposed to the General Assembly the distribution of a cash dividend of 10% of the par value, or 10 fils per share, and a bonus share distribution of 5% for shareholders registered at the time of the AGM.

Full compliance with the regulatory standards of the Central Bank of Kuwait and strict self-supervision

The leverage ratio for Markaz stood at 0.50:1 against the 2:1 ratio stipulated by the Central Bank of Kuwait. This implies that the borrowing ratio for Markaz was notably lower than most sector companies. The quick ratio at Markaz amounted to 13%, which is higher than the minimum of 10% imposed by the Central Bank of Kuwait. Foreign exposure ratio, which represents the company's total liabilities towards foreign lenders to shareholders' equity stood at 26%, which is lower by far than the maximum of 50% prescribed by the Central Bank of Kuwait.

OUR ACTIVITIES

Asset Management

MENA Equities

Qatari and Kuwaiti Markets the best performers

Regional markets closed the year 2010 on a strong note as S&P Pan Arabian Composite Index posted a return of 15.3% while KIC Index gained 17.4%. Qatari and Kuwaiti Markets were the best in terms of performance in the region for the year. The banking sector led the two markets, in addition to strong economic growth in Qatar and the international investors' interest towards Zain Telecom stock resulted in high traded volumes, which represents a major share of the market's Weighted Index.

Markaz's conventional funds continue to outperform their benchmarks

Markaz Equity funds continue to deliver superior returns outperforming their benchmarks. Markaz flagship fund "Markaz Fund for Excellent Yields - Mumtaz" posted 22.8% returns for the year. "Markaz Investment & Development Fund - MIDAF", one of the biggest funds in Kuwait, returned 20.5% while "Markaz Arabian Fund", formerly known as "Markaz Gulf Fund", yielded 14.9% for the year 2010. "Markaz Islamic Fund" yielded 8.6% against the benchmark, Al Madar Index which returned 25.31%. The discrepancy in performance is due to 6% provisions taken from total size of the Fund, and core differences between the Fund's and the Benchmark's asset allocation policies, as the latter deploys 35% of its weight on a single stock, conflicting with Markaz's risk management policies. "Forsa Financial Fund", an options market maker in Kuwait, returned 15.5% for 2010.

Markaz received credible awards for its strong fundamentals

Markaz received numerous credible awards in 2010. Markaz won the "Best Asset Manager in Kuwait" awarded by Global Investor magazine, a Euromoney publication. The judges granted the award taking into account the company's healthy balance sheet, performance and diversity of its product offerings, innovation, investment policies that navigate market cycles, high level of corporate governance, and sustainable growth in market share, assets under management and client base.

Standard and Poor's renewed its "A" rating for both "Mumtaz" and "Arabian" Funds

Three funds collectively won four Lipper Awards for best risk-adjusted performance during the year. Markaz "Mumtaz Fund" won two awards for Best Kuwaiti Equities Fund for the periods of three and five years. "Markaz Arabian Fund" won Best MENA Equities Fund and "Markaz Islamic Fund" won Best Islamic Kuwaiti Equities Fund, both for the period of three years. Furthermore, Standard and Poor's renewed its "A" rating for both "Mumtaz" and "Arabian" Funds.

Additionally, "Mumtaz Fund" was awarded "Best Equity Fund - Kuwait" for the year 2009 by the leading regional publication "MENA Fund Manager". "Markaz Arabian Fund" has been ranked as the top performing MENA Equities Fund by Zawya, the leading Middle East business information company.

International Investments

International Markets had a positive start but variable closures

The year 2010 started off well for global equity markets with the exception of China, which showed weakness due to fears of a sharp correction and increasing interest rates. However, May 2010 saw risk of European Sovereign debt coming to the fore and causing turmoil in the markets in the months of May and June. Double dip fears gained prominence during this period. Credit ratings of Greece followed by Portugal and Ireland were lowered. The likelihood of sovereign defaults created panic in the European and global markets, which eventually led to creating the European Financial Stability Facility of EUR 70 billion by European Central Bank to avoid the crisis altogether. As a result, the Euro experienced heightened volatility against the US Dollar. The Federal Reserve's second quantitative easing announcement in late September in the form of additional USD 600bn stimulus gave fillip to the markets and is a solitary factor to which most of the last quarter rally can be attributed to. The month of December was unusually busy and very positive, and the Frontier markets were positioned as one of the most significant investment spots in 2010.

DIRECTORS' REPORT 2010 (continued)

Dynamic asset allocation strategy pays off

Markaz made alterations to its asset allocation strategies for the second half of the year, but continued with its bias of being long on Emerging Markets and commodities, which paid off when markets rallied hugely in the final quarter.

For the year 2010, Markaz's international investment funds achieved positive performance and were in line with their respective benchmarks. The international flagship fund "Atlas Diversified Class" returned 10.6% compared to 10.9% posted by Markaz Global Securities Index. The "ETFs Program", which invests in a slew of exchange traded funds, has beaten the benchmark handsomely by about 4% and was up 13.9%. The "Creative Investment Program", which is modeled on a hedge fund style of investing, has returned 7.2% bettering the benchmark by around 2 pts. The themes based fund, "Atlas EMT Class" was up 7.92% for the year. Markaz's international proprietary investments achieved 9%.

The launch of a product with 90% capital preservation

For 2011, it is planned to launch "Markaz Capital Preservation Portfolio service" in Q1, which preserves capital to the extent of 90% using Constant Proportion Portfolio Insurance.

Private Equity

Global stability drives growth

2010 has seen a slow, yet smooth recovery for the private equity industry in terms of portfolio valuations, sales of portfolio companies, fund-raising and increased deal activities, which are strong indicators of an upward trend for the industry. To put it into perspective, the Private Equity industry had about 2,000 deals in 2010, valued at USD 196.7 billion, whereas 2009 saw approximately 1,500 deals, valued at only USD 86.7 billion. "Markaz Private Equity Portfolio" was a large beneficiary of the upward trend, reporting an annual return of 9.96%. The industry is expected to continue to grow alongside the public equity markets, and with a more stable global economy.

Treasury

Reinforcing Markaz credibility amongst local and international banks

The Treasury Department maintains a robust network with all the local and major international banks thereby enabling clients to benefit from a global reach. The internal operational system is designed to enable investors to benefit in their cash management when migrating between Markaz managed funds.

The Department has maintained sufficient liquidity levels yielding the proper balance of liability maturities with that of assets. This approach enabled Markaz to timely honor its financial obligations and reinforce its credibility among local and international banks.

Investment Banking

Corporate Finance

Consultancy and restructuring solutions suitable in an illiquid environment

The region's business landscape has undergone a significant transformation in the recent years, which resulted in the emergence of more challenges concerning many companies that needed to lower the level of debt and replace short-term debt with long-term financial solutions. Local companies are focusing on their core business and are getting rid of secondary assets. Companies who are financially stable are interested in expanding their operations with current weak competition environment, are being held back due to the scarcity of working capital and the reluctance of banks to lend.

Markaz continues to target resultant opportunities, especially as liquidity slowly returns to capital markets. In particular, it is focusing on providing advisory services related to restructuring liabilities of companies, disposing non-core assets for clients, and raising fresh capital for local corporations.

Consistent with emerging trends, in 2010, the Department successfully delivered on several advisory mandates, including: lead managing the capital increase of a listed investment company, providing restructuring services for a petrochemicals company, and assisting several real estate and holding companies in restructuring their liabilities. It has also secured several sell-side mandates from clients to divest their ownership in listed and unlisted companies, which are expected to be successfully executed in early 2011. Markaz is in the process of expanding its client channels who are interested in the department's services, and focuses its effort confidently in turning this interest into concrete operations.

Fixed Income

High investor interest in lower risk issuances

GCC Fixed income market witnessed an increase in bonds and Sukuk issuance activity in 2010, as the number of issues increased by 47%, most of which were corporate. This resulted from high investors' interest, and lower profit margins of government bonds.

However, aggregate value decreased by 25% to USD 54.40 billion due to a drop in the value of government and government-related issues. This helped maintain a strong demand for fixed income securities, tightening of spreads, and positively impacting bond prices. "Markaz Fixed Income Program" refocused its investment strategy from investing opportunistically in 2009 to investing in low-risk sovereign and quasi-sovereign issues in 2010, achieving an attractive annual return of 8.8%. As of end of 2010, Markaz was in the final stages of launching "Markaz Fixed Income Fund" which seeks to provide investors with steady returns and reduced risks by investing in high grade bonds and sukuk in the GCC countries.

Structured Finance

Markaz, an options market maker with ambitions

As an industry leader and the only market maker for Options at the Kuwait Stock Exchange (KSE) since 2005, Markaz believes in the importance of having an advanced derivatives market. Its high skill set, experience, and resources it possesses, enabled the Company to achieve a professional performance in this domain.

The number of stocks covered in the Options Market at the Kuwait Stock Exchange (KSE) was increased to 57 in 2010. The list of companies traded on the options market remains dynamic, and depends on demand, risk and liquidity measures.

The total number of traded contracts declined by 19.14% from 9,000 contracts in 2009 to 7,277 contracts in 2010, and the underlying value for those contracts also declined by 27.24% from KD 117 million in 2009 to an underlying value of KD 85.125 million in 2010; indicating a decline in risk appetite by investors in Kuwait.

Markaz Structured Finance team continues to provide customers with creative investment solutions to fulfill their needs in the derivatives industry, in addition to contributing to developing the derivatives market in Kuwait. The team aims to expand its product offerings by next year to include put options, Islamic call options, index options, and enabling investors to sell their contracts directly through the market maker. Although Markaz continues its drive to expand its derivatives' capability regionally, dealing with legal and regulatory constraints will remain the primary challenge to its progress.

The team also developed the trading infrastructure according to the industry's standards, to become more efficient, flawless, strong, and able to handle any trading volumes. Recently, an options webpage has been launched on Markaz website, which provides live information on the options market such as daily trading prices, volumes and values of daily contracts, in addition to options prices.

With the declaration of the Capital Market Authority, Markaz hopes to speed up the approval process on a number of proposals presented earlier to the Kuwait Stock Exchange, which are aimed to diversify the offerings in the market and keep pace with the global developments.

DIRECTORS' REPORT 2010 (continued)

MENA Real Estate Investments

Fundamentals drive GCC Real Estate Markets with the residential sector on top

Some of Kuwait's real estate sectors especially the investment sector have seen signs of recovery in 2010. The residential sector in Saudi market also continued its good performance and is expected to be the most attractive sector in the GCC. Qatari real estate was stable throughout the year with a slight setback in prices and rent values. The common factor between all of these markets is the continuous retreat of the office space rent due to a raise in free space and an increase in supply. Abu Dhabi witnessed a retreat in value and prices in all real estate sectors. Although there are signs of commercial and economical recovery, the main setback is the high recent and future amounts of supply. The GCC residential sector is anticipating stability and a marginal growth in 2011. The commercial sector is expected to stabilize in the region's main markets next year, excluding Dubai's commercial and office space sectors.

Regarding MENA region, Egypt's residential sector was positive due to supply and demand being stable, although a decline in available office space was witnessed; an increase in supply of office space is expected in the near future. Syria and Jordan residential sector was stable in 2010 and that is mainly because of transactions returning to normal. Although the commercial sector for both countries was weak throughout the year, it is expected that both markets would be stable with minimal growth in different real estate sectors in 2011. Both industrial and hospitality sectors in MENA primary markets were positive performers in 2010, as it is expected that they would continue performing with a big chance of growth in 2011.

"MREF" invests in income generating properties and is unexposed to weak sectors

"Markaz Real Estate Fund", which invests in income generating properties in the Kuwaiti Market and has no exposure to the adversely affected office sector, was able to attract significant funds from new investors and acquired a number of attractive income generating properties. The fund continued to pay monthly cash distributions to investors amounting to 7% of the par value per annum.

Identifying gaps and meeting the needs of the largest segments

During Q2 of 2010, Markaz launched a new residential development investment portfolio in Al Khobar, KSA. The investment is targeting a 40% return over two and a half years from the development and sale of villas tailored for the local Saudi mid-level employees who constitute the segment of population with the largest demand.

Exiting investments with returns and dividends

Aradi Development Ltd, which is managed by Markaz, exited one of its two investments achieving 21.5% returns to investors, and distributed the proceeds of the exit to investors in Q3 of 2010. Efforts are now focused on exiting the second investment. Markaz continues to work with Masraf Al Rayan towards improving the potential returns on investments in Lusail Waterfront Development at Qatar.

"MREOF" an opportunistic investment tool

"Markaz Real Estate Opportunities Fund", which manages investments in Lebanon, KSA, Jordan, Syria, Abu Dhabi and Qatar returned 20% of the fund's capital to investors as a result of presales from one of its Lebanon projects. In Q2 2010, the Fund acquired a land plot in Abu Dhabi's Reem Island to be developed into a residential building. Additionally, progress has been made towards completing one residential development in Lebanon in Q3 2010, and efforts are in place for exiting residential developments in Jordan and land development in KSA and Qatar, while work continues for the remaining investments as planned.

International Real Estate

Challenges for creditors and borrowers in the US Real Estate Market

Several factors have contributed to the stabilization of commercial real estate values in the US throughout 2010, fundamentals started improving driven by signs of an economic recovery led by government stimulus and a stronger corporate sector. Real estate prices improved driven by sources of opportunistic capital aggressively pursuing attractively priced properties. Notwithstanding the above, commercial real estate mortgages are still high (USD 1.5 Trillion), and leveraged borrowers and lenders will continue to face challenges going forward refinancing maturing debt.

The International Real Estate Department focused on the preservation of capital values for the existing funds by maintaining the tenant occupancy and by proactively working with lenders to extend maturities. Towards this, despite challenging debt market conditions, the Department successfully refinanced a total of USD 169 million of maturing debt for "Markaz U.S. Industrial Realty Investment Unit – I" and projects in the "Markaz U.S. Multifamily Realty Investment Unit – IV".

Capturing attractive opportunities in US distressed debt

To capitalize on the prevalent distress in real estate debt markets, Markaz launched the "Markaz U.S. Distressed Debt Program" with the objective of investing in non-performing and sub-performing commercial mortgages in the U.S. To date, seven commercial real estate loans were acquired which are collateralized by properties in California, Arizona and Nevada at significant discounts to underlying property values. Within seven months since inception, the first investment was liquidated at a significant premium over acquisition costs and Markaz received attractive offers for the second investment. Markaz expects to develop this program into an investment fund to offer to its investors in 2011.

Oil and Gas

"MEF" invests in a diversified portfolio in a promising sector

In 2010, the oil and gas sector witnessed a notable improvement in performance. Internationally listed energy companies, energy related bonds and sukuk, and GCC listed energy companies posted over 12%, 13% and 6.7% respectively.

"Markaz Energy Fund" (MEF), with its diversified oil and gas investment portfolio, achieved 3.4% as of end of 2010. In line with the Fund's investment strategy, which allocates some assets to private equity investments, and due to favorable oil prices, MEF invested more than 10% of its assets in Kuwait Energy, which operates in the exploration and production sector. The Fund plans to focus its investments in the oil mines service sector, due to its potential growth in the near future.

In directs investments, Kuwait First Transportation Company (KFTC), which leases equipment to contractors in the energy sector and with both Markaz and MEF investing in it, achieved 8% return on investment in 2010 and 44% since inception. KFTC has recently hired an international advisor to restructure its strategy in order to achieve its expansionary plans. The company has already started implementing some of the advisor's recommendations. In advisory services, Markaz is in the final stages of managing a capital increase mandate for a logistics services company in the oil sector.

Support Departments

Research

Partnership of research institutions and governmental entities towards sustainable development

The economic sectors of the country are in dire need for objective research to guide governmental institutions towards proper planning and sustainable regional economic development. Markaz believes that the presence of such research in Kuwait, away from commercial considerations, will enhance the intellectual depth of public institutions and increase the efficiency of the country's economy, capital markets, energy, reforms and regulations.

DIRECTORS' REPORT 2010 (continued)

Markaz researches present a wide array of the industry's major topics

The Research Department continued last year to publish a wide array of researches that helped investors and clients take correct decisions in an unstable investment environment. In addition to the usual periodic research such as the Monthly Market Report and Daily Market Briefs, the research team published many strategic reports on the Investment Sector in Kuwait, GCC Banks, Investments Funds Performance and the Capital Markets Authority Law. The team continued to publish special reports on companies' earnings, the state of equity research in GCC and company research.

The research team provided working papers in international conferences, and participated in Markaz videocasts which are posted on the company's website. Markaz research has found a high level of acceptance and readership in the investment community with several regional and international websites, newspapers and prestigious publications regularly covering the research findings.

The role of research will rapidly develop in supporting different institutions, both public and private, to enable them to utilize the best resources available in facing the predominant challenging environment.

Institutional Sales

Strategic partnerships and new marketing channels

2010 has been a recovery year for Institutional Sales Department 'ISD' and paved the way for a hopeful 2011. Long-term efforts to identify strong partners interested in distributing Markaz products in the region have paid off in 2010. Markaz signed a distribution agreement with Gulf Bank of Kuwait due to its experience in the areas of real estate and asset management spanning over three decades, and being the leading fund manager in Kuwait in terms of market share. Several Markaz products are now distributed to Gulf Bank's affluent and high-net-worth clients through its priority banking network in select branches. This agreement reflects a partnership based on the experience of two leading financial institutions that will enable Markaz to develop its client base and provides Gulf Bank's clients a variety of investment products that will cater to their needs and help them appreciate their net worth. The agreement started initially in marketing two investment funds "Markaz Real Estate Fund" and "Mumtaz Fund".

Markaz has also continued its solicitations of international investors, such as family-offices and private banks, and were able to seize some promising conventional and Islamic MENA mandates.

ISD has also ventured into developing new and innovative investment products that are being proposed to clients and third-party distributors. These products aim to offer unique investment solutions to a highly-competitive, although weakened, market place. Product development initiatives will continue in 2011.

Private Banking

Integrated services and investment solutions

In 2010, Markaz witnessed a significant increase in assets under management, as a result of an expected increase in investors' confidence towards investments in general and Markaz products with a good track record in particular. During the year, the Department focused on retaining existing clients and building relationships with new clients by providing them with a variety of investment solutions and attending to their investment needs.

Media and Communications

Communicating Markaz's vision and promoting core values

The Department continues communicating values core to Markaz's vision, such as increasing investors' awareness, risk management, transparency, and achieving investors' goals without compromising compliance.

During the past year, Markaz continued its corporate social responsibility's efforts by supporting the development of human capital through activities focused on training to achieve the needed intellectual depth for the country's sustainable development.

State's governance and self-governance

Corporate Governance and Risk Management

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 Board's governance mandate is implemented through an independent Compliance and Risk Management Department. The Compliance and Risk Management Department identifies measures, evaluates and reports on all credit risks, liquidity and market risks to which Markaz is exposed. 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 Steering Committee, which reviews and approves investment performance and investment decisions, the Audit Committee which oversees the decision-making in the company and checks the effectiveness of internal controls. As part of its mandate, the Department coordinates with Regulatory Auditors, Internal Auditors and Internal Control Review (ICR) auditors.

During 2010, KPMG reviewed Markaz's Internal Control Framework .KPMG were appointed pursuant to the directive of Central Bank of Kuwait to all investment companies in the Internal Control Review exercise. The auditor provides an opinion on whether the internal control systems applied within Markaz were compliant to the Manual of Directives issued by CBK in all material respects. The ICR auditor does an overall assessment of the internal control system and its adequacy for each business area to address the relevant risks.

As a part of Internal Compliance, the Department also represents in various internal committees such as the Budget Management Committee, Investment Advisory Committee, Compliance and IT Committee, Assets and Liabilities Committee and Loan Classification Committee.

Investing in information systems remains crucial

Information Technology

The IT Department provides a stable and up-to-date infrastructure to accommodate all arising needs. Upgrade projects and system enhancements are done year-round to allow Markaz to adopt the latest proven technology trends. It also implements technologies that will secure the company's and client's data and information. IT projects including server virtualization and cloud-based computing will enable the team to retrieve data from different locations in case a technical failure or an emergency occurs to assure business continuity under any circumstances. Moreover, collaboration with other departments and individuals ensures that new solutions implemented comply with the requirements and satisfy user needs and ultimately enhancing productivity.

Compliance with International Financial Reporting Standards

Financial Management Department

Markaz's Financial Management Department 'FMD' continued its role to attain appropriate financial information prior to presenting them to General Management, Board of Directors and Decision Makers, in order for them to make reasonable decisions. The Department gave more emphasis on presenting a true and fair financial position by applying strong effective strategies over recent changes in International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and timely compliance with the requirements of regulatory bodies including Central Bank of Kuwait and Ministry of Finance. Implementing these measures enabled Markaz to face the difficult financial conditions during this Global Crisis.

In June 2010, Central Bank of Kuwait had set forth new regulations for compliance with regards to the limits on the Financial Leverage Ratio, Quick Ratio and Foreign Liabilities Exposure Ratio. FMD increased its core functions by paying more attention to control, regulatory compliance and adopting mature processes, taking

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adequate provisions, maintaining ample liquidity and low leverage to comply with CBK requirements. Additionally, Markaz stepped into US Distressed Debt program as a new asset class of investment. Accounting standards were fairly implemented, investment structures and cycles were efficiently developed which enhanced Markaz's reputation in local regulatory bodies and the market place.

FMD constantly works towards achieving the operational realities by applying conservative approaches to measure and analyze organizational performance with adequate interpretation of financial information. The Department operates within a framework aligned with the budget to monitor the efficiency of finance processes which in turn drive cost effectiveness across the organization, funds and assets under management. FMD also contributes to the achievement of the strategic objectives and goals of the company as a whole resulting in present and future growth.

Transaction Processing & Reporting Department

One platform to increase efficiency and effectiveness

In line with regulatory requirements to strengthen internal controls and enhance operational efficiency, Markaz has undergone an internal restructuring of the back office functions by consolidating various teams and has created the Transaction Processing and Reporting Department 'TPR'. The Department has been a vital factor in enhancing Markaz's control and commitment towards best international practices.

TPR's main goal is to ensure that convergence and streamlining of the Company's back-office functions (Primarily Settlement, Reconciliation and Reporting) are carried out as effectively and efficiently as possible. To achieve this objective, processes were streamlined and cross training was done amongst the newly constituted TPR team on the existing portfolio management systems & revised processes. An implementation of a new system is planned to strengthen the Company's capabilities in handling diverse asset classes on one platform.

Human Resources and Administration

Developing and measuring the performance of human capital

In accordance with Human Resources and Administration Department HRAD's constant endeavour to upgrade the skills of Markaz employees and strengthen the organization, the Department worked to develop the framework for its corporate goals and objectives to integrate them in the performance management system. In addition, the Department upgraded and updated all its policies and procedures to bring them in line with the new labour law of 2010 and the consequent developments in the governmental agencies. HRAD continued its efforts to recruit the appropriate candidates for staffing requirements in the company's headquarters in Kuwait and for its international affiliates and subsidiaries.

CORPORATE SOCIAL RESPONSIBILITY

Markaz continues to support organizations involved in youth development and public health

Markaz continues to support organizations such as: Lothan Youth Achievement "LOYAC", Kuwait Association for the Care of Children in Hospitals "KACCH", Children Cancer Center of Lebanon, Gulf Federation For Cancer Control, The Arab Federation for Drug Abuse Prevention, Madrasati Palestine "Al Quds" and Kuwait University, and others that are involved in youth development and public health.

Huge value addition potentially to be provided by the financial sector

Markaz well-positioned to perform an effective role in public-private partnerships

MARKAZ STRATEGIC OUTLOOK FOR THE YEAR 2011

We foresee promising investment opportunities in attractively priced assets which are commercially sold by distressed investors. We will employ our expertise in the field of investment banking to capitalize on opportunities arising as companies seek financial advisors to restructure their financial positions through bond issues and convertible debt instruments.

In light of the increasing pace of government projects, we see Markaz as one of a handful of qualified local players who can play a role in providing advisory services for infrastructure projects, which will be executed within the framework of partnership between the public and private sectors. Such financial services can include building alliances, investment structuring, debt and shares coverage, arrangement of financing and partnerships with contractors and service providers for these projects.

We would like to take this opportunity to thank our Shareholders and Clients for their continued support and to our staff for their dedication and relentless efforts over the years which helped the company stand firmly and overcome last year's challenges. We also extend our gratitude to the regulatory authorities, specifically, the Central Bank of Kuwait, the Kuwait Stock Exchange and the Ministry of Commerce & Industry, for their continued support and guidance. At the outset of a new era for the financial services industry, we also wish every success to the Capital Market Authority in creating and reinforcing the partnership between the public and private sectors.

We would like to congratulate His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister Sheikh Nasser Al-Mohammed Al-Ahmad Al-Sabah, on the 50th Anniversary of the Independence of the State of Kuwait, the 20th Anniversary of Liberation, and the 5th Anniversary of the ascendance of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah to the leadership of the State of Kuwait, wishing for further progress and prosperity for our country.

The Board of Directors

22 February 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kuwait Financial Centre – SAK (Closed)
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Financial Centre – SAK (Closed) ("parent company") and its subsidiaries, (collectively "the group") which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of group as at 31 December 2010, and their financial performance and 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 Matters

In our opinion, proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960 and by the company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960 nor of the parent company's articles of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the parent company.

We further report that, during the course of our audit, we have not become aware of any material violations, during the year, of the provisions 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.

Abdullatif M. Al-Aiban (CPA)
(Licence No. 94-A)
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Jassim Ahmad Al-Fahad
(Licence No. 53-A)
of Al-Fahad, Al-Wazzan & Co. – Deloitte & Touche

CONSOLIDATED STATEMENT OF INCOME

	Note	**Year ended 31 December 2010 KD'000**	Year ended 31 December 2009 KD'000
Income			
Interest income	7	**1,566**	1,716
Dividend income		**54**	172
Management fees and commission	8	**8,088**	8,338
Realised (loss)/gain on sale of investments at fair value through statement of income		**(75)**	280
Change in fair value of investments at fair value through statement of income	9	**4,668**	(1,184)
Gain on sale of available for sale investments		**1,991**	753
Impairment in value of available for sale investments	19	**(839)**	(2,483)
Impairment in value of investment properties	20	**(274)**	-
Gain on sale of investment properties		**44**	-
Reversal of provision for credit losses		**30**	653
Foreign exchange gain		**12**	735
Loss on sale of subsidiaries		**(36)**	-
Other income		**42**	17
		15,271	8,997
Expenses and other charges			
General and administrative expenses	10	**(5,698)**	(5,140)
Finance costs	11	**(874)**	(1,194)
		(6,572)	(6,334)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and directors remuneration		**8,699**	2,663
Provision for contribution to KFAS		**(78)**	(25)
Provision for NLST		**(249)**	(70)
Provision for Zakat		**(99)**	(28)
Directors' remuneration		**(105)**	-
Profit for the year		**8,168**	2,540
Attributable to:			
Owners of the parent company		**8,123**	2,573
Non-controlling interests		**45**	(33)
Profit for the year		**8,168**	2,540
Basic and diluted earnings per share attributable to owners of the parent company	13	**18 Fils**	6 Fils

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2010 KD'000	Year ended 31 December 2009 KD'000
Profit for the year	**8,168**	2,540
Other comprehensive income:		
Available for sale investments:		
Net change in fair value during the year	**3,785**	1,781
Transferred to consolidated statement of income on sale	**(1,991)**	(753)
Transferred to consolidated statement of income on impairment	**839**	2,483
Cash flow hedges		
Net change in fair value during the year	**3**	(560)
Foreign currency translation		
Exchange differences arising on translation of foreign operations	**(17)**	-
Total other comprehensive income for the year	**2,619**	2,951
Total comprehensive income for the year	**10,787**	5,491
Total comprehensive income attributable to:		
Owners of the parent company	**10,742**	5,524
Non-controlling interests	**45**	(33)
	10,787	5,491

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2010**	31 December 2009
		KD'000	KD'000
ASSETS			
Cash and bank balances	14	**2,177**	3,348
Time deposits	14	**3,500**	8,713
Investments at fair value through statement of income	15	**52,097**	41,165
Accounts receivable and other assets	16	**6,164**	4,690
Short-term financing	17	**-**	54
Loans to customers	18	**12,893**	11,873
Available for sale investments	19	**56,823**	47,187
Investment properties	20	**2,340**	1,931
Property and equipment		**426**	573
TOTAL ASSETS		**136,420**	119,534
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**3,753**	3
Accounts payable and other liabilities		**4,871**	4,253
Dividends payable		**344**	368
Short-term borrowings	21	**5,500**	4,012
Bonds	22	**28,060**	28,680
TOTAL LIABILITIES		**42,528**	37,316
EQUITY			
Share capital	23	**50,600**	50,600
Share premium	24	**7,902**	7,902
Legal reserve	25	**13,005**	12,140
Voluntary reserve	26	**12,951**	12,086
Treasury shares	27	**(16,342)**	(16,342)
Treasury shares reserve		**7,973**	7,973
Fair value reserve		**7,880**	5,247
Foreign currency translation reserve		**(8)**	-
Cash flow hedging reserve		**(557)**	(560)
Retained earnings		**9,521**	3,125
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**92,925**	82,171
Non-controlling interests		**967**	47
TOTAL EQUITY		**93,892**	82,218
TOTAL LIABILITIES AND EQUITY		**136,420**	119,534

Diraar Yusuf Alghanim
Chairman & Managing Director

Manaf AbdulAziz Alhajeri
Chief Executive Officer

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent company											Non-controlling interests	Total
	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Foreign currency translation reserves	Cash flow hedging reserve	Retained earnings	Sub Total		
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2010	50,600	7,902	12,140	12,086	(16,342)	7,973	5,247	-	(560)	3,125	82,171	47	82,218
Profit for the year	-	-	-	-	-	-	-	-	-	8,123	8,123	45	8,168
Other comprehensive income:													
Available for sale investments													
- Net change in fair value during the year	-	-	-	-	-	-	3,785	-	-	-	3,785	-	3,785
-Transferred to consolidated statement of income on sale	-	-	-	-	-	-	(1,991)	-	-	-	(1,991)	-	(1,991)
-Transferred to consolidated statement of income on impairment	-	-	-	-	-	-	839	-	-	-	839	-	839
Cash flow hedges													
- Net change in fair value during the year	-	-	-	-	-	-	-	-	3	-	3	-	3
Foreign currency translation													
- Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	(8)	-	-	(8)	(9)	(17)
Total comprehensive income for the year	-	-	-	-	-	-	2,633	(8)	3	-	2,628	(9)	2,619
Arising on sale of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(43)	(43)
Arising on part disposal of subsidiaries	-	-	-	-	-	-	-	-	-	3	3	196	199
Capital contribution by non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	731	731
	-	-	-	-	-	-	-	-	-	3	3	884	887
Transfer to reserves	-	-	865	865	-	-	-	-	-	(1,730)	-	-	-
Balance at 31 December 2010	**50,600**	**7,902**	**13,005**	**12,951**	**(16,342)**	**7,973**	**7,880**	**(8)**	**(557)**	**9,521**	**92,925**	**967**	**93,892**

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the parent company										Non-controlling interests	Total
	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Cash flow hedging reserve	Retained earnings	Sub Total		
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance 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
Other comprehensive income:												
Available for sale investments												
- Net change in fair value during the year	-	-	-	-	-	-	1,781	-	-	1,781	-	1,781
-Transferred to consolidated statement of income on sale	-	-	-	-	-	-	(753)	-	-	(753)	-	(753)
-Transferred to consolidated statement of income on impairment	-	-	-	-	-	-	2,483	-	-	2,483	-	2,483
Cash flow hedges												
- Net change in fair value during the year	-	-	-	-	-	-	-	(560)	-	(560)	-	(560)
Total comprehensive income for the year	-	-	-	-	-	-	3,511	(560)	-	2,951	-	2,951
Transfer to reserves	-	-	270	270	-	-	-	-	(540)	-	-	-
Balance 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 notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Year ended 31 December 2010 KD'000**	Year ended 31 December 2009 KD'000
OPERATING ACTIVITIES			
Profit for the year		**8,168**	2,540
Adjustments for:			
Depreciation		**139**	193
Gain on sale of available for sale investments		**(1,991)**	(753)
Gain on sale of investment properties		**(44)**	
Loss on sale of subsidiaries		**36**	-
Impairment in value of available for sale investments		**839**	2,483
Impairment in value of investments properties		**274**	-
Reversal of provision for credit losses		**(30)**	(653)
Foreign exchange (gain)/loss on bonds		**(620)**	1,085
Finance costs		**874**	1,194
Dividend income		**(54)**	(172)
Interest income		**(1,566)**	(1,716)
		6,025	4,201
Increase in investments at fair value through statement of income		**(10,932)**	(4,012)
(Decrease)/increase in accounts receivable and other assets		**(1,597)**	4,417
Decrease in short term financing		**54**	3,918
(Decrease)/increase in loans to customers		**(990)**	6,252
Increase in accounts payable and other liabilities		**656**	334
Net cash (used in)/from operating activities		**(6,784)**	15,110
INVESTING ACTIVITIES			
Purchase of property and equipment		**(64)**	(28)
Proceeds from sale of available for sale investments		**6,459**	12,650
Purchase of available for sale investments		**(12,310)**	(7,102)
Purchase of investment properties		**(975)**	(610)
Proceeds from disposal of investment properties		**336**	-
Proceeds from disposal of subsidiaries		**263**	-
Dividend received		**54**	172
Interest received		**1,566**	1,815
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**(4.671)**	6.897
FINANCING ACTIVITIES			
Increase/(decrease) in short term borrowings		**1,488**	(1,735)
Dividends paid		**(24)**	(48)
Finance costs paid		**(874)**	(16,808)
Capital contribution by non-controlling interest		**731**	-
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**1,321**	(18,591)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(10,134)**	3,416
Cash and cash equivalents at the beginning of the year		**12,058**	8,642
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**1,924**	12,058

The notes set out on pages 25 to 51 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

1. Incorporation and activities
Kuwait Financial Centre – SAK (Closed) ("the parent company") was incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The parent company is listed on the Kuwait Stock Exchange and is governed under the directives of the Central Bank of Kuwait.

The principal activities of the parent company and its subsidiaries (together referred as "the group") are investment management, corporate financing, investment and financial advisory services, private equity funds, mutual funds and real estate funds and real estate funds management, money market and foreign exchange.

The address of the parent company's registered office is PO Box 23444, Safat 13095, State of Kuwait.

These consolidated financial statements of the group for the year ended 31 December 2010 were authorised for issue by the parent company's board of directors on 22 February 2011 and is subject to the approval of the general assembly of the shareholders.

2. Statement of compliance
These consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as modified by the State of Kuwait for financial services institutions regulated by 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 under the accounting policy for impairment of financial assets.

3. Adoption of new and revised standards
The group has adopted all the following new 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 for the annual period beginning 1 January 2010. Certain other new standards and interpretations have been issued but are not relevant to the group's operations and, therefore, not expected to have a material impact on the group's consolidated financial statements.

* IFRS 3 Business Combinations (Revised 2008)
* IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
* 2009 Improvements to IFRSs

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described below.

Adoption of IFRS 3 Business Combinations (Revised 2008)
The revised standard on business combinations introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. Acquisition related costs are now expensed in the consolidated statement of income in the periods in which the costs are incurred. Also equity interest held prior to control being obtained are remeasured to fair value at the date of obtaining control, and any gain or loss is recognised in the consolidated statement of income. The adoption of the revised standard did not have any material effect on the measurement and recognition of the group's assets, liabilities, income and expenses.

Adoption of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
The adoption of IFRS 3 required that the revised IAS 27 is adopted at the same time. IAS 27 introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. Changes in ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are accounted for within equity. These changes are applied prospectively. During the period, the parent company disposed 33.33% ownership interest in MDI Management Ltd and MDI Holding Ltd for a consideration of KD199 thousand and realised a gain of KD3 thousand on disposal, and as a result of the revision to IAS 27 the gain on sale has been credited directly to retained earnings.

Adoption of 2009 Improvements to IFRSs (Issued in April 2009)
The IASB issued Improvements for International Financial Reporting Standards 2009 to certain standards. Most of these

3. Adoption of new and revised standards (continued)

Adoption of 2009 Improvements to IFRSs (Issued in April 2009) (continued)

amendments became effective for annual periods beginning on or after 1 July 2009 or 1 January 2010 and have been adopted by the group that largely clarify the required accounting treatment where previous practice had varied some of which are substantive but have not resulted in any significant changes in the group's accounting policies.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's consolidated financial statements.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the group's consolidated financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice, due to the non-completion of the remaining stages of the standard.

IAS 24 Related Party Disclosures

The amendments to the standard revised the definition of a related party. The adoption of this amendment is not expected to have a significant impact on the group's consolidated financial statements.

IAS 32 Financial Instruments: Presentation

The amendment to the standard clarifies classification right issues in foreign currency. The adoption of this amendment is not expected to have a significant impact on the group's consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. The Interpretation is required to be applied retrospectively. However, management does not expect to have any significant effect on the consolidated financial statements on the date of initial application of the interpretation.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. 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 2009, except for those disclosed in note 3.

The group has elected to present the "statement of comprehensive income" in two statements: the "statement of income" and a "statement of comprehensive income".

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.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2010, and the financial statements of its subsidiaries prepared to that date using consistent accounting policies.

Subsidiaries are consolidated from the date on which control is transferred to the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Inter company balances and transactions, including inter company profits and unrealised profits and losses are eliminated on consolidation. Adjustments are made for non-uniform accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill.
Profit and losses are attributed to the owners of the parent company and to the non-controlling interest in the ratio of their respective shareholding even if this results in the non-controlling interest, having a deficit balance.

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent company.

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 statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the 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. Foreign exchange differences on retranslation are taken to statement of income of individual entities.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations

4. Significant accounting policies (continued)

Foreign currencies (continued)

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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income

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

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

Management fees and commission

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.

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 to customers'. 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 30 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
ii) 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.

4. Significant accounting policies (continued)

Financial assets (continued)

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.

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 soft ware	3 years
Motor vehicles	4 years
Furniture and fixtures	10 years
Decorations	7 years
Licence fee	3 years

Investment properties

The group accounts for its investments in properties using the cost method whereby these investments are stated at cost less accumulated depreciation and impairment losses, if any. The group depreciates its investment property except land on the straight-line method over their expected useful lives.

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 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.

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.

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.

4. Significant accounting policies (continued)

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.

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 labour 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 financial position date.

Operating segment
An operating segment is a component of the group:
- (a) 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),
- (b) 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
- (c) 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 statement of financial position, 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.

5. Critical accounting judgements and key sources of estimation uncertainty
In the application of the group's accounting polices, which are described in note 4, 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 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 these consolidated financial statements:

5. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying accounting polices (continued)

Classification of real estate 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.

6. Subsidiaries

Name	Country of incorporation	Voting capital held		Purpose
		31 December 2010	31 December 2009	
Margulf Management Inc.	USA	**100%**	100%	Assets management
KFC Lone Star 1, Inc.	USA	**100%**	100%	Assets management
First Management and Economic Consultancy Company – KSC (Closed)	Kuwait	**100%**	100%	Economic consultancy
MDI Holding Limited	Cayman Island	**66.66%**	-	Fund management
MDI Management Limited	Cayman Island	**66.66%**	-	Fund management
Markaz Offshore Ltd.	Cayman Island	**100%**	-	Investment in fixed income securities
Marsoft for Computer Programming, Operations and Consultancy Services Company – WLL	Kuwait	-	67%	Computer Consultancy
KFC Lone Star, Inc	USA	-	100%	Asset management

a) During the year, the parent company has established two fully owned subsidiaries MDI Holding Ltd and MDI Management Ltd and later disposed 33.33% ownership interest in both companies for a consideration of KD199 thousand and realised a gain of KD3 thousand on disposal. However, the parent company continues to hold 66.67% in both MDI Holding Ltd and MDI Management Ltd and continues to exercise control over them. Therefore, the gain on sale of these subsidiaries have been recognised directly in equity.

b) During the year, the parent company established Markaz Offshore Ltd., a wholly owned subsidiary.

c) During the year, the parent company disposed Marsoft for Computer Programming, Operations and Consultancy Services Company – WLL, a subsidiary in which it previously had 67% ownership for a consideration of KD101 thousand and realised a loss of KD12 thousand on disposal.

d) During the year, the parent company disposed KFC Lone Star, Inc. for Asset Management, a subsidiary in which it previously had 100% ownership for a consideration of KD57 thousand and realised a loss of KD24 thousand on disposal.

7. Interest income

	Year ended 31 December 2010 KD'000	Year ended 31 December 2009 KD'000
Time deposit	**103**	82
Investments at fair value through statement of income	**831**	589
Short term financing	**49**	182
Loans to customers	**583**	863
	1,566	1,716

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. Change in fair value of investments at fair value through statement of income

	Year ended 31 December 2010 KD'000	Year ended 31 December 2009 KD'000
Change in fair value of trading securities	**266**	(22)
Change in fair value of investments designated as investments at fair value through statement of income	**4,402**	(1,146)
Change in fair value of forward foreign exchange contracts (note 35)	**-**	(16)
	4,668	(1,184)

10. General and administrative expense

General and administrative expenses include the following:

	Year ended 31 December 2010 KD'000	Year ended 31 December 2009 KD'000
Staff costs	**3,747**	2,680
Depreciation	**139**	193

11. Finance costs

	Year ended 31 December 2010 KD'000	Year ended 31 December 2009 KD'000
Bonds	**419**	584
Short term borrowings	**79**	233
Due to banks	**376**	377
	874	1,194

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

12. Net gain/(loss) on financial assets

	Year ended 31 December 2010 KD'000	Year ended 31 December 2009 KD'000
Time deposits	**103**	82
Investments at fair value through statement of income	**5,448**	(168)
Available for sale investments	**1,182**	(1,689)
Loans to customers	**613**	1,476
Short term financing	**49**	222
	7,395	(77)

13. Basic and diluted earning per share attributable to owners of the parent company

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to owners of the parent company by the weighted average number of shares in issue excluding treasury shares.

	Year ended 31 December 2010	Year ended 31 December 2009
Profit for the year attributable to the owners of the parent company (KD'000)	**8,123**	2,573
Weighted average number of shares in issue during the year (excluding treasury shares) (000's)	**457,906**	457,906
Basic and diluted earnings per share attributable to owners of the parent company	**18 Fils**	6 Fils

14. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following:

	31 December 2010 KD'000	31 December 2009 KD'000
Cash and bank balances	**2,177**	3,348
Time deposits	**3,500**	8,713
Less: Due to banks and other financial institutions	**(3,753)**	(3)
	1,924	12,058

The group's time deposits yield interest at an average interest rate of 1.29% (31 December 2009: 1.28%) per annum and mature within one month from the date of deposit.

During the year, the group obtained a USD25 million overdraft facility from a foreign bank with the intention of financing the purchase of fixed income securities. The facility carries interest at 1% per annum above the bank's overnight rate and is secured by way of certain fixed income securities (see note 15). At 31 December 2010, the group has drawn USD11,596 thousand equivalent to KD3,254 thousand of this facility.

15. Investments at fair value through statement of income

	31 December 2010	31 December 2009
	KD'000	KD'000
Trading:		
Local quoted securities and managed funds	**710**	554
Foreign quoted securities and managed funds	**1,910**	2,126
	2,620	2,680
Designated on initial recognition:		
Local quoted securities and managed funds	**28,098**	22,833
Foreign quoted securities and managed funds	**4,703**	3,123
Fixed income securities	**16,676**	12,529
	52,097	41,165

The managed fund investments are carried at net asset value provided by the fund managers due to the nature of those investments. Management believes the net asset value provided by the fund managers represents the best estimate of fair value available for the investment.

The interest on fixed interest securities range from 1.19% to 8.75% per annum (2009: 1.79% to 8.75% per annum).

Fixed income securities with a fair value of KD8,104 thousand (2009: Nil) are secured against the bank overdraft facility.

16. Accounts receivable and other assets

	31 December 2010	31 December 2009
	KD'000	KD'000
Management fees and commission receivable	**2,158**	2,307
Interest receivable	**223**	352
Receivable from sale of available for sale investments	**80**	82
Prepayments	**256**	288
Others	**3,447**	1,661
	6,164	4,690

17. Short term financing

Short term financing represented short term advances at an interest rate of 12% per annum (2009: 12% per annum), that were fully settled in 2010.

	31 December 2010	31 December 2009
	KD'000	KD'000
Balance at 1 January	**54**	4,012
Granted during the year	**766**	-
Settled during the year	**(820)**	(3,958)
Balance at 31 December	**-**	54

18. Loans to customers

	31 December 2010 KD'000	31 December 2009 KD'000
Commercial loans	**5,300**	5,300
Margin loans	**5,485**	4,142
Personal loans	**2,717**	3,069
	13,502	12,511
Provision for credit losses	**(609)**	(638)
	12,893	11,873

The maturity profile of loans to customers is as follows:

	31 December 2010 KD'000	31 December 2009 KD'000
Up to one month	**1,584**	1,134
Between one month and six months	**1,259**	2,318
Between six months and one year	**10,181**	8,517
Over one year	**-**	61
Non-performing loans (fully impaired)	**478**	481
	13,502	12,511

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements including general provision (see Note 4) 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 KD478 thousand (2009: KD481 thousand).

The interest rate on loans to customers ranges from 5% to 5.5% (2009: 4.5% to 6.75%) per annum for commercial loans, from 5% to 5.5% (2009: 5.5% to 6.75%) per annum for margin loans and from 3% to 5.5% (2009: 2.28% to 6.00%) 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

	31 December 2010 KD'000	31 December 2009 KD'000
Quoted securities and managed funds	**26,433**	21,423
Equity participations and other investments	**30,390**	25,764
	56,823	47,187

Equity participations are acquired with the intention of capital appreciation over a medium to long-term time frame. Investments in equity participations and other investments amounting to KD3,648 thousand (31 December 2009: KD2,257 thousand) are carried at cost due to unpredictable nature of future cash flows and the unavailability of financial information to arrive at a reliable measure of fair value.

Investments in equity participations include investments amounting to KD26,742 thousand (31 December 2009: KD23,507 thousand) whose fair values are determined using valuation techniques frequently used by fund managers that are not based on observable market prices or rates. Due to the nature of these investments, the Fund Manager's reported fair value represents the best estimate of the fair value available for these investments.

During the year, the group recognised an impairment loss of KD839 thousand (31 December 2009: KD2,483 thousand). Management has performed an analysis of the underlying investments which indicate that there is no further impairment.

20. Investment properties

	31 December 2010 KD'000	31 December 2009 KD'000
Carrying value at 1 January	**1,931**	747
Transfer from property under development	**-**	574
Additions	**975**	610
Disposals	**(292)**	-
Impairment loss	**(274)**	-
Carrying amount at 31 December	**2,340**	1,931

Following the adoption of IAS 40 (revised), in 2009, 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 KD883 thousand (2009: KD1,175 thousand). Investment properties are located outside Kuwait. In the opinion of management the carrying value of the investment properties approximates their fair value.

During the year the parent company acquired a land in Kingdom of Saudi Arabia for total consideration of KD975 thousand.

During the year group recognised impairment loss of KD274 thousand (2009: Nil) in respect to its property in U.A.E.

21. Short-term borrowings

Short-term borrowings represent money market borrowings from local and foreign banks. The loans are denominated in KD and U.S. Dollar and bear an average interest rate ranging from 3.50% to 4.75% per annum (2009 : 2.29% to 5.4% per annum) per annum and are unsecured.

22. 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. Interest rate risk relating to these bonds risk have been hedged by the parent company by the interest rate swap contracts (see note 35)

23. Share capital

The authorised, issued and fully paid up share capital consists of 506,000 thousand shares of 100 fils each (31 December 2009: 506,000 thousand shares of 100 fils each).

24. Share premium

Share premium is not available for distribution.

25. 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.

26. 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 2009, as per the directives of the CBK, the group has transferred the excess general provision of 1% amounting to KD169 thousand to the voluntary reserve.

27. Treasury shares

	31 December 2010	31 December 2009
Number of shares (000's)	**48,094**	48,094
Percentage of issued shares	**9.5%**	9.5%
Cost (KD'000)	**16,342**	16,342
Market value (KD'000)	**6,829**	5,386

28. Proposed dividend

Subject to the requisite consent of the relevant authorities and approval of the general assembly, the director propose for the year ended 31 December 2010 a cash dividend of 10 Fils per share and bonus shares of 5% (5 shares for every 100 shares) of paid up share capital be distributed to the shareholders of records as of the date of the general assembly.

The shareholders' annual general assembly held on 31 March 2010 approved the audited consolidated financial statements of the group for the year ended 31 December 2009 and did not declare any dividends for the year ended 31 December 2009 (2008: Nil).

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's management. Transactions between the parent company and its subsidiaries which are related parties of 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:

	31 December 2010 KD'000	31 December 2009 KD'000
Transactions included in the consolidated statement of income:		
Interest income	**525**	841
Management fees and commission	**5,804**	5,754
Key management compensation:		
Salaries and other short-term benefits	**519**	460
Terminal benefits	**52**	42
Directors remuneration	**105**	-
	676	502
Balances included in the consolidated statement of financial position:		
Short-term financing (see note 17)	-	54
Loans to directors and senior management	**4,203**	4,501
Loans to other related parties	**5,327**	5,329
	9,530	9,884

30. Segmental analysis

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. 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. 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

	Asset Management		Investment Banking		Total	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009	**31 December 2010**	31 December 2009
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Segment income	**11,605**	4,143	**3,666**	4,854	**15,271**	8,997
Segment profit	**8,240**	1,651	**459**	1,012	**8,699**	2,663
KFAS, NLST, Zakat and directors remuneration	**(480)**	(74)	**(51)**	(49)	**(531)**	(123)
Profit for the year	**7,760**	1,577	**408**	963	**8,168**	2,540
Total segment assets	**66,345**	59,675	**70,075**	59,859	**136,420**	119,534
Total segment liabilities	**1,327**	30	**41,201**	37,286	**42,528**	37,316
Interest income	**-**	141	**1,566**	1,575	**1,566**	1,716
Finance costs	**-**	-	**(874)**	(1,194)	**(874)**	(1,194)
Reversal of provision for credit losses	**-**	-	**30**	653	**30**	653
Depreciation	**(39)**	(43)	**(100)**	(150)	**(139)**	(193)
Impairment in value of available for sale investments	**(533)**	(1,508)	**(306)**	(975)	**(839)**	(2,483)
Purchase of property and equipment	**(6)**	(10)	**(58)**	(18)	**(64)**	(28)
Purchase of investment properties	**-**	-	**(975)**	(610)	**(975)**	(610)
Provision for staff indemnity	**(32)**	(32)	**(191)**	(104)	**(223)**	(136)

Segment income above represents income generated from external customers. There was no inter-segment income in the year (2009: Nil).

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 4. 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 accounts

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 2010 amounted to KD1,029,743 thousand (2009: KD798,922 thousand). The group earned management fee of KD7,063 thousand (2009: KD7,285 thousand) from these activities which is included in note 8.

32. Contingent liabilities and commitments

	31 December 2010 KD'000	31 December 2009 KD'000
Commitments for purchase of investments	**9,362**	12,915

33. Financial risk management objectives

The group's activities expose it to the variety of financial risks: Market risk (including foreign currency, equity price and investment rate risks), credit risk and equity risk.

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.

The group does not enter into or trade in financial investment, including derivative financial instruments, for speculative purpose.

The most significant financial risks to which the group is exposed to are described below.

33.1 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.

a) 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 2% (2009:10%) higher/lower, the effect on the profit and equity for the year ended 31 December, 2010 would have been as follows:

A positive number below indicates an increase in profit and equity where the equity price increases by 2% (2009: 10%). A 2% (2009: 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.

	31 December 2010			31 December 2009		
	change in price	**Effect on profit**	**Effect on equity**	change in price	Effect on profit	Effect on equity
Market indices:	**%**	**KD'000**	**KD'000**	%	KD'000	KD'000
Kuwait Stock Exchange	**2%**	**43**	**7**	10%	215	64

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

b) Foreign currency risk
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:

	Financial liabilities		Financial assets	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
	KD'000	KD'000	**KD'000**	KD'000
US Dollars	**33,440**	32,623	**66,154**	52,931
Euros	**3**	3	**5,331**	3,527
Sterling Pounds	**1**	2	**581**	588
Bahraini Dinars	**-**	-	**194**	138
UAE Dirhams	**-**	-	**1,352**	1,817
Qatari Riyals	**-**	-	**382**	237
Others	**6**	6	**1,311**	592

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

The following table details the group's sensitivity to a 2% (2009: 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 2% (2009: 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.

	+2 % Impact	+5 % Impact	**-2 % Impact**	-5 % Impact
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
	KD'000	KD'000	**KD'000**	KD'000
Profit for the year	**38**	413	**(38)**	(413)
Equity (i)	**(723)**	(1,695)	**723**	1,695

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

c) 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.

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

33. Financial risk management objectives (continued)

33.1 Market risk (continued)

c) Interest rate risk management (continued)

of + 1% and - 1 % (2009: + 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 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 with a total value of US Dollars 50,000 thousand have now been converted in to a fixed interest rate through the use of interest rate swaps (see note 35).

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

	31 December 2010		31 December 2009	
	+1%	**-1%**	+1%	-1%
	KD'000	**KD'000**	KD'000	KD'000
Profit for the year	**(193)**	**193**	(163)	163

33.2 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	
	31 December 2010	31 December 2009
	KD'000	KD'000
Bank balances	**2,175**	3,347
Time deposits	**3,500**	8,713
Investments at fair value through statement of income	**52,097**	41,165
Accounts receivable and other assets	**5,906**	4,400
Short term financing	**-**	54
Loans to customers	**12,893**	11,873
Available for sale investments	**56,823**	47,187
	133,394	116,739

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

	Carrying amount	
	31 December 2010	31 December 2009
	KD'000	KD'000
Kuwait	**79,733**	70,027
North America	**22,274**	20,403
GCC	**12,179**	9,208
Europe	**9,315**	6,154
MENA	**6,349**	6,727
Emerging Markets	**3,367**	4,043
Japan	**22**	22
Others	**178**	177
	133,394	116,739

33.3 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The group assesses the credit quality of financial assets using internal records and customer profiles.

33.4 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 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.

	Upto 1 month	Upto 1-3 months	3-12 months	1 to 5 years	Total	Weighted average effective interest rate
	KD'000	KD'000	KD'000	KD'000	KD'000	%
31 December 2010						
Financial liabilities						
Due to banks and other financial institutions	**3,753**	**-**	**-**	**-**	**3,753**	**4.833**
Accounts payable and other liabilities	**576**	**426**	**19**	**1,904**	**2,925**	**-**
Dividends payable	**344**	**-**	**-**	**-**	**344**	**-**
Short term borrowings	**5,500**	**-**	**-**	**-**	**5,500**	**4.125**
Bonds	**-**	**181**	**543**	**28,422**	**29,146**	**1.4413**
	10,173	**607**	**562**	**30,326**	**41,668**	
Commitments	**-**	**-**	**-**	**9,362**	**9,362**	
31 December 2009						
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	

33. Financial risk management objectives (continued)

Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

The maturity profile of the group's asset and liabilities is as follows:

	Upto one year	More then one year	Total
	KD'000	KD'000	KD'000
31 December 2010			
Assets:			
Cash and bank balances	**2,177**	**-**	**2,177**
Time deposits	**3,500**	**-**	**3,500**
Investments at fair value through statement of income	**42,106**	**9,991**	**52,097**
Accounts receivable and other assets	**6,144**	**20**	**6,164**
Loans to customers	**12,893**	**-**	**12,893**
Available for sale investments	**-**	**56,823**	**56,823**
Investment properties	**-**	**2,340**	**2,340**
Property and equipment	**-**	**426**	**426**
	66,820	**69,600**	**136,420**
Liabilities			
Due to banks and other financial institutions	**3,753**	**-**	**3,753**
Accounts payable and other liabilities	**2,967**	**1,904**	**4,871**
Dividends payable	**344**	**-**	**344**
Short term borrowings	**5,500**	**-**	**5,500**
Bonds	**-**	**28,060**	**28,060**
	12,564	**29,964**	**42,528**
31 December 2009			
Assets:			
Cash and bank balances	3,348	-	3,348
Time deposits	8,713	-	8,713
Investments at fair value through statement of income	29,758	11,407	41,165
Accounts receivable and other assets	4,690	-	4,690
Short term financing	54	-	54
Loans to customers	11,873		11,873
Available for sale investments	-	47,187	47,187
Investment properties	-	1,931	1,931
Property and equipment	-	573	573
	58,436	61,098	119,534
Liabilities			
Due to banks and other financial institutions	3	-	3
Accounts payable and other liabilities	2,499	1,754	4,253
Dividends payable	368	-	368
Short term borrowings	4,012	-	4,012
Bonds	-	28,680	28,680
	6,882	30,434	37,316

34. Summary of financial assets and liabilities by category

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

	31 December 2010	31 December 2009
	KD'000	KD'000
Financial assets:		
Cash and bank balances	**2,177**	3,348
Time deposits	**3,500**	8,713
Investments at fair value through statement of income	**52,097**	41,165
Accounts receivable and other assets	**5,906**	4,400
Short term financing	**-**	54
Loans to customers	**12,893**	11,873
Available for sale investments	**56,823**	47,187
	133,396	116,740

	31 December 2010 KD'000	31 December 2009 KD'000
Financial liabilities:		
Due to banks and other financial institutions	**3,753**	3
Accounts payable and other liabilities	**2,925**	2,955
Dividends payable	**344**	368
Short term borrowings	**5,500**	4,012
Bonds	**28,060**	28,680
	40,582	36,018

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the group's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 20 to these consolidated financial statements, the carrying amounts of financial assets and liabilities as at 31 December 2010 and 2009 approximate their fair values.

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

	31 December 2010		31 December 2009	
	Fair value KD'000	Carrying amount KD'000	Fair value KD'000	Carrying amount KD'000
Financial assets:				
Cash and bank balances	-	**2,177**	-	3,348
Time deposits	-	**3,500**	-	8,713
Investments at fair value through statement of income	**52,097**	-	41,165	-
Accounts receivable and other assets	-	**5,906**	-	4,400
Short term financing	-	-	-	54
Loans to customers	-	**12,893**	-	11,873
Available for sale investments	**56,823**	-	47,187	-
	108,920	**24,476**	88,352	28,388
Financial liabilities:				
Due to banks and other financial institutions	-	**3,753**	-	3
Accounts payable and other liabilities	**557**	**2,368**	560	2,395
Short term borrowings	-	**5,500**	-	4,012
Bonds	-	**28,060**	-	28,680
	557	**39,681**	560	35,090

Financial instruments measured at fair value

The following table presents financial assets and liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy.

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).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of consolidated financial position are grouped into the fair value hierarchy as follows:

34. Summary of financial assets and liabilities by category (continued)

Financial instruments measured at fair value (continued)

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
31 December 2010				
Investments at fair value through statement of income				
Investments held for trading	**1,040**	**1,580**	**-**	**2,620**
Financial assets designated at fair value through statement of income	**8,635**	**33,368**	**7,474**	**49,477**
Available for sale investments				
Quoted securities	**277**	**-**	**-**	**277**
Managed funds				
- local	**-**	**5,436**	**-**	**5,436**
- foreign	**-**	**19,339**	**1,381**	**20,720**
Equity participations	**-**	**-**	**30,390**	**30,390**
Derivative financial instruments:				
Negative fair value				
-cash flow hedges	**-**	**(557)**	**-**	**(557)**
	9,952	**59,166**	**39,245**	**108,363**
31 December 2009				
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	-	-	25,764	25,764
Derivative financial instruments:				
Negative fair value				
-cash flow hedges	-	(560)	-	(560)
- forward foreign exchange contracts	-	(16)	-	(16)
	10,382	46,324	31,070	87,776

There have been no significant transfers between levels 1 and 2 during the reporting period.

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) 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.

b) 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.

c) 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.

d) 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.

Level 3 fair value measurements

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 reconciled from beginning to ending balances as follows:

31 December 2010

	Investments at fair value	Available for sale investments	Total
		Unquoted securities	
	KD'000	KD'000	KD'000
Opening balance	**3,693**	**27,377**	**31,070**
Gains or losses recognised in:			
- Consolidated statement of income	**-**	**1,419**	**1,419**
- Other comprehensive income	**-**	**524**	**524**
Purchases	**4,209**	**5,181**	**9,390**
Sales	**(428)**	**(2,730)**	**(3,158)**
Closing balance	**7,474**	**31,771**	**39,245**

31 December 2009

	Investments at fair value	Available for sale investments	Total
		Unquoted securities	
	KD'000	KD'000	KD'000
Opening balance	3,765	28,114	31,879
Gains or losses recognised in:			
- Consolidated statement of income	-	680	680
- 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

35. Derivative financial instruments (continued)

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.

a) 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 matured during the year.

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	
	31 December 2010 KD'000	31 December 2009 KD'000	**31 December 2010 KD'000**	31 December 2009 KD'000
Derivatives held for trading:				
- Forward foreign exchange contracts (US Dollars – KD)	-	5,736	-	(16)

b) Cash flow hedges (Interest rate swap contracts)

Under interest rate swap contracts, the group agreed 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.

	Average contracted fixed interest rate		Notional principal value		Fair value Negative/positive	
	31 December 2010 %	31 December 2009 %	**31 December 2010 KD'000**	31 December 2009 KD'000	**31 December 2010 KD'000**	31 December 2009 KD'000
5 July 2012	**+2.38**	+2.38	**7,015**	7,170	**(221)**	(236)
5 July 2012	**+3.27**	+3.27	**7,015**	7,170	**(336)**	(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. 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 were eligible to purchase the parent company's shares from its treasury shares and no new shares will be issued. The exercise price was the difference between the book value at the end of each year and average cost of treasury shares. This plan to be 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 KD336 thousand in these consolidated financial statements for the year ended 31 December 2005. During the year the director decided to cancel the ESOP plan as the share price since the ESOP was established never reached exercise price of 500 fils. Therefore, the directors approved to distribute to the employees the amount of KD336 thousand previously, recorded as a liability under the plan.

37. 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.

38. 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 previous year.

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 23, 24, 25 and 26 respectively, treasury shares as disclosed in note 27 and retained earnings. Debt consists of short term borrowings disclosed in note 21 and bonds disclosed in note 22.

Gearing ratio
The gearing ratio at year end was as follows:

	31 December 2010	31 December 2009
	KD'000	KD'000
Debt	**33,560**	32,692
Less: Cash and cash equivalents (see note 14)	**(1,924)**	(12,058)
Net debt	**31,636**	20,634
Equity	**92,925**	82,171
Net debt to equity ratio	**34.04%**	25.11%

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