



ANNUAL REPORT 2010





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REPORT 2010**





His Highness
**Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah**
Amir of the State of Kuwait



His Highness
**Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah**
Crown Prince

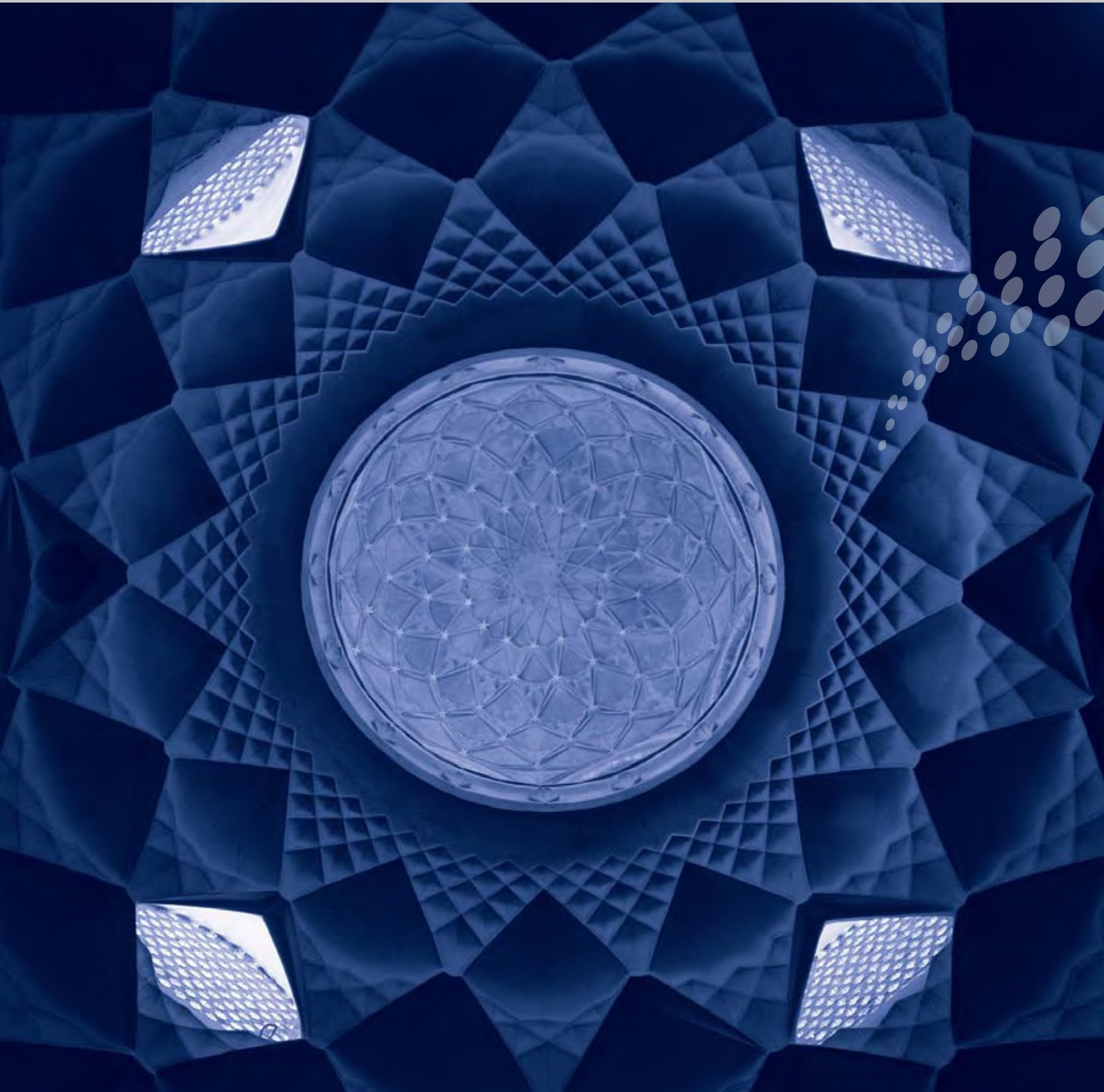


His Highness
**Sheikh Naser Al-Mohammad
Al-Ahmad Al-Sabah**
Prime Minister



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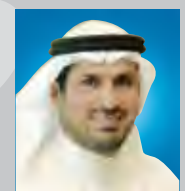
BOARD MEMBERS



Dr. Mohammad Al Alloush
Chairman



Mohammad M. Al-Gharaiba
Vice Chairman



Khalid S. Al-Sanousi
MD & CEO



Sa'ad A. Al-Hunayyan
Member



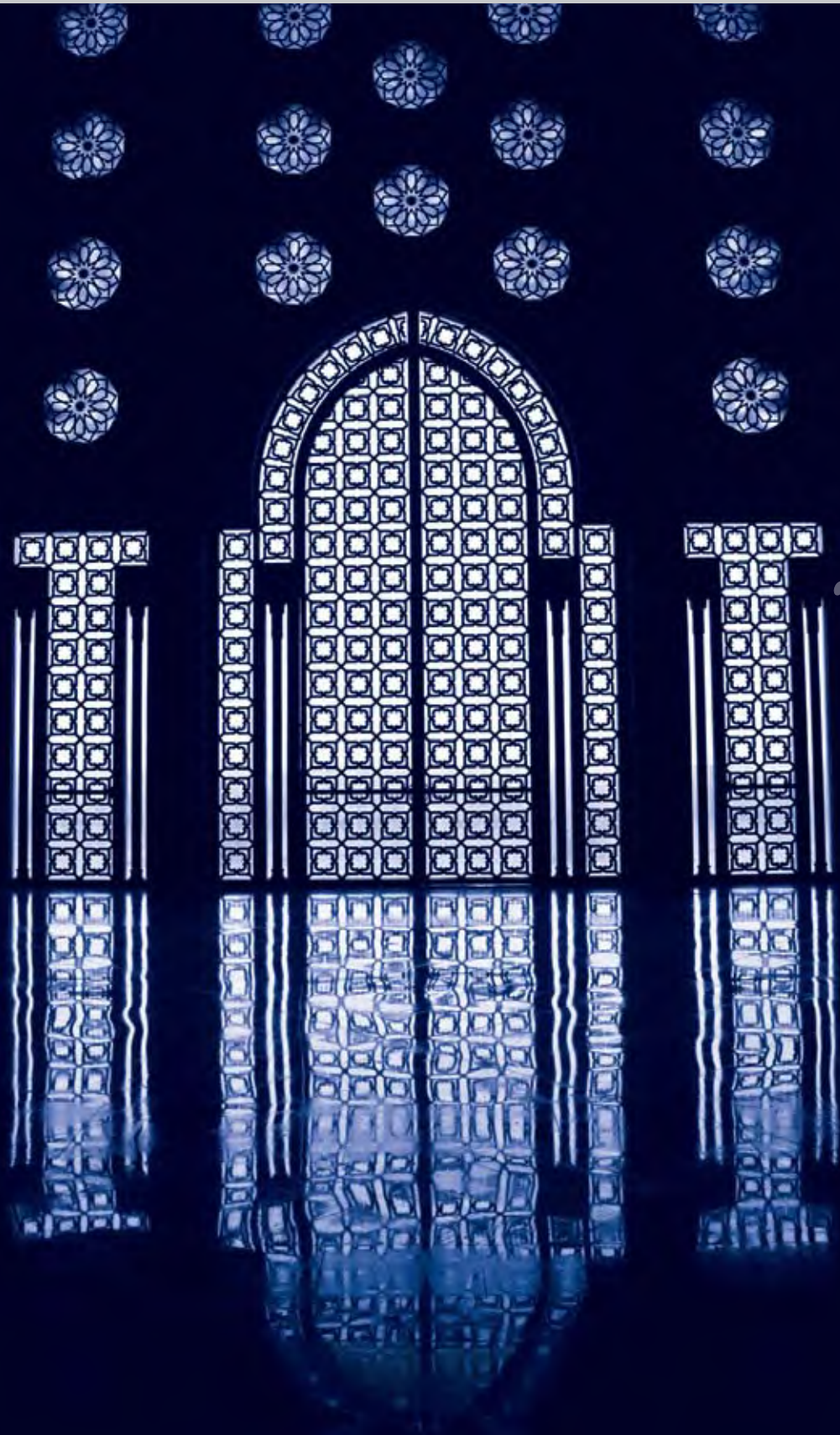
Fahad A. Al-Mukhaizeem
Member



Marzouq F. Al-Mutairi
Member



Abdul Nasser Al-Subaih
Member



MISSION STATEMENT

“Uphold Stakeholder’s interests by being a Professionally Managed Financial Institution offering Shari’a Compliant Investment Products and Services for Local and International Clients”

FATWA AND SHARI'A SUPERVISORY BOARD



Sheikh Dr. Ali Mohyiddeen Al-Qaradaghi
Chairman



Sheikh Dr. Essa Zaki Shaqra
Member



Sheikh Dr. Abdulaziz Khalefa Al-Qassar
Member

EXECUTIVE MANAGEMENT



Tareq A. Al-Adsani
Deputy C.E.O



Mohamed Ajami Abdulbaki
General Legal Consultant



Omar Salem Al-Mutawaa
Deputy C.E.O



CHAIRMAN'S ADDRESS



In the Name of Allah the Most Gracious the Most Merciful

Praise be to Allah and prayers and peace be upon Allah's prophet, his family, companions and followers.

Dear shareholders,

We meet you at the end of the fiscal year 2010 where the state of recession dominated regional markets in general and Kuwait in particular, which is a continuation of economical and financial conditions from year 2009.

Repercussions of global financial crisis continued to adversely affect many companies from lack of liquidity and negative effects of funding long-term projects and investments using short-term finance compounded by the significant downturn in volume of credit made available by banks to companies in different sectors to carry on their different business activities.

We, in First Investment Company (FIC), addressed repercussions created by the crisis in its early stages through allocating adequate provisions and restructuring liabilities in line with the prevailing market conditions. Furthermore, the company's business model, which is based on diversification of investments in different sectors in the region, has positively affected the company's investments. FIC's Associate companies have maintained appropriate levels of liquidity. Further, operating expenses have been reduced whilst not impeding developments of companies' activities. However, the crisis repercussions resulted in delaying the company in exit from certain target assets to enhance liquidity.

Within the context of global financial crisis, your company intensified efforts with local banks through issuing Sukuk amounting to K.D. 92 million to restructure its financings in compliance with its strategic plans and business model for the upcoming period.

The six local banks who participated in the Sukuk for the purpose of the restructure of FIC's financing obligations are, namely Kuwait Finance House, Burgan Bank, Alhly Bank of Kuwait, Kuwait International Bank, Bubyank Bank and Commercial Bank of Kuwait. Sukuk issuance period is five years with semiannual repayment of Sukuk principal commencing in March 2012 after a grace period of eighteen months. Sukuk issuance is made against high quality assets at coverage of 150% of the Sukuk amount.

We are looking forward to 2011 with optimism and resolved vision where regional markets are expected to start recovery which is expected to positively reflect on the company's assets and investments within Kuwait and abroad. This will be executed through adopting an ambitious business plan for 2011 by the Company, which will be completely in harmony with current market conditions.

The business plan is based on achieving exits from high quality selected assets, i.e. diverse properties in distinct geographical locations in Gulf region. totaling approximately K.D. 32 million. In addition, there will be exits from significant stakes in banks and companies with view to restructuring the Company's assets according to its new business model in order to realize appropriate cash flows that will be deployed to develop certain assets and attract new opportunities in diversified sectors in the region.

The company will also exert diligent efforts in accordance with the new business plan towards developing some of its prime real estate assets that are distributed over strategic areas in main locations within GCC region. Development of such assets will be distributed among residential and investment properties in addition to logistics related properties.

The business plan is focused on the Company playing a significant role in enhancing operating activities of its associate companies involved in diversified business sectors that were to a lesser amount affected by the global financial crisis as they maintained good liquidity levels. Therefore, returns generated from such associate companies will serve as main income sources for the Company. It is worthy of mention that such companies have a number of feasible opportunities that will be structured in the best interests of shareholders and investors. Your Company also endeavors to merge certain associate companies to promote their operating activities within a single sector according to market conditions.

Your Company is in the process of developing investment products concentrated in diversified funds and portfolios that will cater to the asset allocation criterion investors' needs. Such portfolios will cover different territories within the GCC region and focus on diverse economic activities such as real estate, logistics and education.

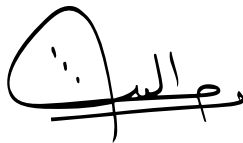
The following are our summarized financial results for the year ended on December 31st, 2010:

	2010	2009	Change %
Net profit/ loss (in KD million)	(10.5)	(22.9)	-54%
Return	0.3	(2.1)	114%
Expenses (in KD million)	10.8	20.7	-48%
Total assets	219	233.6	-6%
Return on Assets	-4.6%	-9.5%	
Return on Equity	-11.4%	-20.8%	
(profit/ loss) per share (Fils)	(16.19)	(35.20)	
Bonus shares distributions	-	-	
Cash distributions	-	-	
Capital increase	-	-	

Based on such results, the Board of Directors recommended to general meeting not to distribute profits for the fiscal year ended on December 31st, 2010.

Finally, we extend sincere thanks and gratefulness to all official concerned bodies for their support and assistance provided to the Company. We supplicate to Allah Almighty to grant grace of safety and security to our dear Kuwait and safeguard it from any misfortune under the leadership of His Highness the Emir of State Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah and His Highness Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah. We also extend our thanks to the Company's clients and shareholders for their valued trust. We cannot forget the efforts of the members of Sharia Board for their blessed efforts. The Board of Directors expresses its due appreciation to the staff of the Company who spared no effort in diligently working to achieve the Company objectives.

May allah grant us all success



Dr. Mohammed Abdul Aziz Al-Aloush

Chairman

MD & CEO'S ADDRESS



In the Name of Allah, Most Gracious, Most Merciful

Praise be to Allah and prayers and blessings be upon Allah's prophet, his family and companions,

Dear Shareholders,

Repercussions of economic downturn resulting from the global financial crisis continued in 2010 as the markets witnessed slight decline in trading volumes as compared to sharp recession during 2008 and 2009. The financial conditions in year 2010 did not improve from the previous year mainly due to the low asset and investment values that resulted in realized and unrealized losses, along with the disruption in the bank financing lines, the conservative approach adopted by banks in granting financing and the lack of liquidity.

In view of these anticipated economical situations, First Investment Company initiated a comprehensive review of its policies and strategies and determined its priorities in line with the current economic and financial conditions, local and regional political and economical shifts, and future vision for the Company.

First Investment Company managed to reach the final stages of structuring of FIC's rescheduling of financing through issuing of Sukuk to local banks (the agreement was signed in February 2011), by which First Investment Company shall act as the investment agent for Sukuk holders for management of the assets. The restructuring of financing agreement allows for repayment of the financing in eight semi-annual payments, the first of which shall commence after eighteen months from the signing date of the agreement and expire in the second half of 2015. The Sukuk will be issued against prime assets at a 150% coverage.

At the early stages of economic crisis, First Investment Company committed itself to repay all its financial obligations on a timely basis. The rescheduling of financing process through Sukuk issuance affirms the strength and solvency of the company's assets, which have been evaluated more than once by independent agencies.

Dear shareholders,

First Investment Company has diversified portfolios of high quality assets in different sectors in GCC countries. Such portfolios were only slightly affected by the global financial crisis due to the nature of their operating activities and diversification in several sectors such as real estate, energy, education and industry. Therefore, FIC's assets have not significantly declined as compared to other competitors in local and Gulf markets.

During 2010, First Investment Company conducted a comprehensive restructuring for all its subsidiaries and associates that covered a set of organizational procedures such as carrying out changes to the organizational structure of some corporate departments including recruitment of highly competent staff to implement the new strategy. It also developed the process for issuance of investment and financial performance reports updated the investment policy in line with the company's business plan, and enhanced internal control systems and governance in compliance with the instructions of the Central Bank of Kuwait.

On the other hand, the financial restructuring included capital reduction for certain companies and taking prudent provisions for some of their assets following a conservative policy for assets evaluation and amortization of losses resulting from the impacts of global financial crisis. Such procedures also included investments in income generating assets towards covering of overheads and administrative expenses; increasing fees generated from third party's management of funds; and enhancing revenue from associates and subsidiaries through effective follow-up on their activities.

In view of both strategies indicated above, First Investment Company implemented initial stages of an ambitious plan that primarily includes development of real estate assets that will support profitability and strengthen cash flows; and structuring of new and diverse investment products to satisfy the investors' needs, which will be concentrated in investment funds and portfolios covering different geographical areas within Gulf region. They will also focus on diversified activities such as real estate, logistics and education sectors.

The Company also intends to execute exits from selected prime real estate assets and significant stakes in banks and corporations with a view to providing necessary liquidity for supporting and developing existing assets and towards achieving the new business plan that is expected to have a positive impact on the company's financial results for 2011.

Finally, I extend grateful thanks to the main shareholders and all other shareholders, regulatory authorities, my colleague BOD members and all clients and investors for their continuous support over the past period.

Allah is the best Guardian



Khaled S. Al-Sanaousi

MD & CEO

GROUP STRATEGIC INVESTMENTS

Real Estate Sector



First Real Estate Investment Company

Country of Incorporation : Kuwait
 Capital : KD 15,228.358 million
 FIC contribution % : 19.79 %
 Nature of business : Real estate development and investment in Kuwait and Arabian Gulf region.



Al Muttahed Company

Country of Incorporation : Kingdom of Saudi Arabia
 Capital : SAR 2,000 million
 FIC contribution % : 9.65 %
 Nature of business : Real estate development and investment in Kingdom of Saudi Arabia.



Sahab Al Khaleej Real Estate Co.

Country of Incorporation : Kingdom of Bahrain
 Capital : B.D 6,900,000 million
 FIC contribution % : 35.29 %
 Nature of business : Real estate development and investment in Kingdom of Bahrain.



Taameer Investment Company

Country of Incorporation : Oman
 Capital : OR 18,507 million
 FIC contribution % : 37.40 %
 Nature of business : Real estate development and investment in Oman.



Arkan Al-Kuwait Real Estate Company

Country of Incorporation : Kuwait
 Capital : KD 22,116 million
 FIC contribution % : 28.83 %
 Nature of business : Real estate development and investment in Kuwait and Arabian Gulf region.

Financial Sector



First Investment Bank

Country of Incorporation	: Kingdom of Bahrain
Capital	: USD 120 million
FIC contribution %	: 26.65 %
Nature of business	: provision of islamic financial and investment services as well as asset management.



Adeem Capital

Country of Incorporation	: Kingdom of Saudi Arabia
Capital	: SAR 60 million
FIC contribution %	: 40.00 %
Nature of business	: provision of Islamic financial and investment services as well as asset management in the Kingdom of Saudi Arabia.

Energy Sector



Burgan Well Drilling Company

Country of Incorporation	: Kuwait
Capital	: KD 20,962,500 million
FIC contribution %	: 11.12 %
Nature of business	: Drilling & Exploration.



First Energy Resources Company

Country of Incorporation	: Kuwait
Capital	: KD 21.650 million (50% paid up)
FIC contribution %	: 33.21 %
Nature of business	: Investment company in the energy, oil and gas sector.



Asian Petroleum Company

Country of Incorporation	: Kuwait
Capital	: KD 0.2 million
FIC contribution %	: 50.00 %
Nature of business	: Oil field, Services, Supply & Construction.

Education Sector



First Education Company

Country of Incorporation	: Kuwait
Capital	: KD 15 million
FIC contribution %	: 16.49 %
Nature of business	: Investment in the Education sector.

صندوق الأولي للأسهم الخليجية First Gulf Equity Fund



Overview

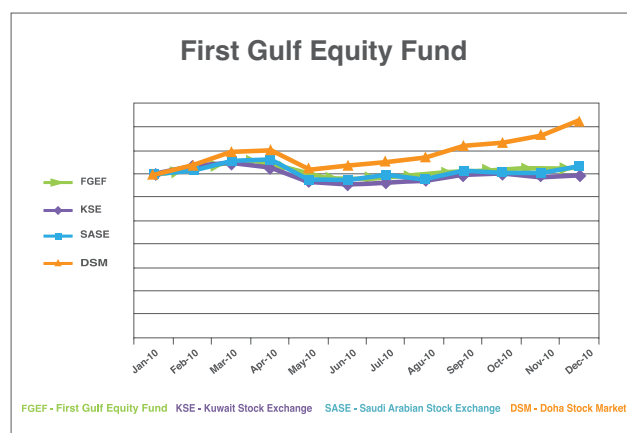
First Gulf Equity Fund is an investment fund of variable capital, established by First Investment Funds E.C. domiciled in the Kingdom of Bahrain. The Fund is a collective investment scheme and is intended to last for a period of 25 years.

The fund aims

to achieve high returns through Shariah compliant equity investments in listed companies based in the GCC.

Fund Summary

Date of Establishment	: July 2007
Fund Manager	: First Investment Company KSC (closed), Kuwait
Fund Period	: 25 years
Currency	: U. S.\$
Minimum Investment	: 500 units (USD 5,000/-)
Subscription	: Monthly
Redemption	: Monthly
Net Asset Value	: Calculated on the last trading day of every month
Auditors	: Deloitte & Touche, Bahrain





صندوق الأولى Equity Fund للأسهم العربية AN ISLAMIC FUND 2000 صندوق إسلامي

Overview

First Arabian Equity 2000 Fund was established by First Investment Funds E.C. domiciled in kingdom of Bahrain. The Fund is a collective investment scheme intended to last for a period of 25 years.

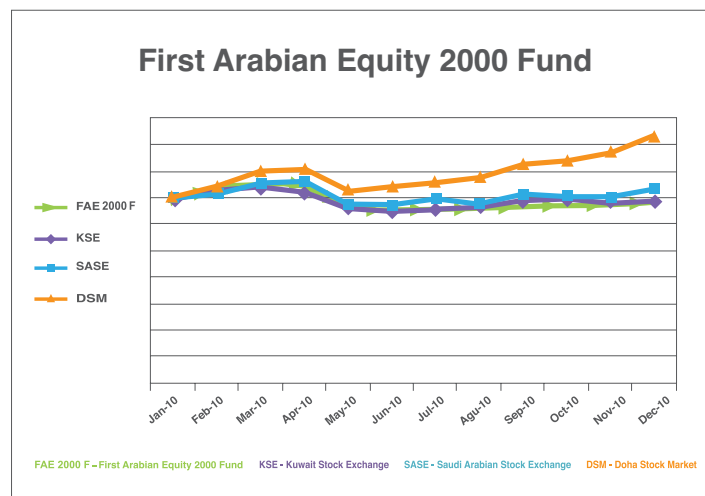
The fund targets

Institutional and high net worth investors who are looking for Shariah compliant investment opportunities in emerging Arab Markets.

The fund main objective is to achieve long term capital growth by investing mainly in Arab emerging markets.

Fund Summary

Date of Establishment	: April 2001
Fund Manager	: First Investment Company KSC (closed), Kuwait
Fund Period	: 25 years
Currency	: U. S.\$
Minimum Investment	: 500 units (USD 5,000/-)
Subscription	: Monthly
Redemption	: Monthly
Net Asset Value	: Calculated on the last trading day of every month
Auditors	: Ernst & Young, Bahrain



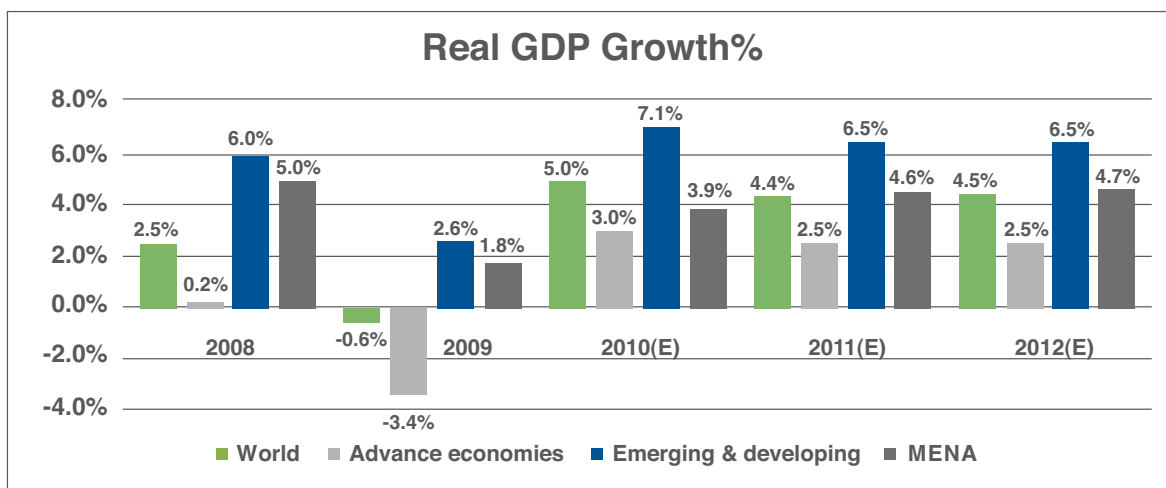
THE ECONOMIC REPORT



WORLD ECONOMY

Nearly four years after the onset of the largest financial crisis since the Great Depression, global financial stability is still not assured and there remain significant policy challenges to be addressed.

After the sharp growth deceleration of 2008 and the contraction in 2009 the Global activity is estimated to have expanded at an annualized rate of just over 5 percent in 2010 as per IMF Forecasts. A Forecast growth of 7.1% in 2010 for emerging and Developing Economies which is more than twice as strong as in Advanced Economies. Stimulus measures were partly responsible for the strengthened outturn. More generally, signs are increasing that private consumption—which fell sharply during the crisis—is starting to gain a foothold in major advanced economies.



Global output is projected to expand by about 4.4 percent in 2011. Activity in the advanced economies is projected to expand by 2.5 percent during 2011–12, which is still sluggish considering the depth of the 2009 recession. Unfortunately these growth rates are unlikely to be fast enough to eliminate unemployment and slack in the hardest hit economies and economic sectors.

In both 2011 and 2012, growth in emerging and developing economies is expected to remain buoyant at 6.5 percent, a modest slowdown from the 7 percent growth registered last year. Developing Asia continues to grow most rapidly, but other emerging regions are also expected to continue their strong rebound. Notably, growth in sub-Saharan Africa—projected at 5.5 percent in 2011 and 5.75 percent in 2012—is expected to exceed growth in all other regions except developing Asia. This reflects sustained strength in domestic demand in many of the region's economies as well as rising global demand for commodities.

Financial conditions are expected generally to remain stable or improve in year 2011. Bank lending conditions in the major advanced economies are expected to ease further, and bond issuance by nonfinancial firms is also expected to strengthen. Amid generally sluggish recovery and continued high saving in key emerging Asian economies, real yields are likely to remain low through 2011.

Although the world is on a recovery path from the global economic crisis, action is still needed to address key constraints in the international economy and financial system, including high unemployment and banking problems in advanced economies and risks of overheating in emerging markets, according to the International Monetary Fund (IMF). Asia entered the global crisis on a strong footing and is continuing to lead the global recovery. In most parts of the region, resilience in domestic demand—thanks in part to proactive policy stimulus—has offset the drag from net exports. The region is projected to grow by about 7.9 percent in 2010 and 6.7 percent in 2011.

Overall, growth in **China** is projected to average 10.5 percent in 2010 and 9.6 percent in 2011, driven by domestic demand. The slight moderation in recent activity is expected to continue through 2011 in light of tighter quantitative limits on credit growth, measures to cool off the property market and limit bank exposure, and the planned unwinding of fiscal stimulus in 2011.

India's macroeconomic performance has also been vigorous, with industrial production at a two-year high. Leading indicators—the production manufacturing index and measures of business and consumer confidence—continue to point up. Growth is projected at 9.7 percent in 2010 and 8.4 percent in 2011, led increasingly by domestic demand.

In Japan, an export-led recovery since the second quarter of 2009 strengthened in early 2010, thanks to a stronger-than-anticipated recovery in the Western advanced economies and rising demand for capital goods from China. However, sporadic appreciation of the yen and the recent cooling of the U.S. economy will continue to affect exports. Real GDP growth is projected at 2.8 percent in 2010 and 1.5 percent in 2011, although output will remain below its potential level.

The U.S. economy is recovering, thanks to unprecedented macroeconomic policy stimulus, emergency financial stabilization measures, and a modest cyclical upswing. But the rate of expansion is beginning to moderate. The most likely prospect for the U.S. economy is for a continued but slow recovery, with growth far weaker than in previous recoveries, considering the depth of the recession. GDP growth is projected to be 2.6 percent in 2010 and 2.3 percent in 2011. The unemployment rate is expected to remain high. Against this backdrop, inflation will remain low—it is projected to be 1.4 percent in 2010 and 1 percent in 2011.

In Europe, the road to recovery has been bumpy largely caused by unsustainable policies in some member countries. The sovereign debt crisis erupted before the euro area's recovery could gain traction. Advanced Europe's GDP is projected to grow at 1.7 percent in 2010 and 1.6 percent in 2011. Emerging Europe's growth is expected to be 3.7 percent in 2010 and 3.1 percent in 2011. There are pronounced differences in economic prospects across the region, depending on the condition of public and private sector balance sheets and the extent to which macroeconomic policies can support the recovery.

The Latin American region is exiting the global crisis at a faster pace than anticipated. Growth in the region is projected to average 5.7 percent in 2010 and 4 percent in 2011. This reflects solid macroeconomic policy fundamentals, sizable policy support, favorable external financing conditions, and strong commodity revenues. Robust commodity export revenues have boosted domestic income, which along with easy financing conditions has supported domestic demand.

Output growth in the **CIS** is projected to reach 4 percent in 2010 and 4.3 percent in 2011. The recovery in the CIS region has been supported by high commodity prices, normalizing trade and capital flows, accommodative policies, and positive regional spillovers. The region is benefiting from Russia's gradual recuperation. In Russia, despite relatively high oil prices, the near-term outlook is for a modest recovery.

The MENA region is a major contributor to the world's economy, as it produces more than 30% of the World's oil supply. The strength of the recent economic recovery in the MENA region is largely underpinned by the rebound in oil prices from their trough in 2009, which has boosted receipts for oil exporters in the region. In addition, a sizable fiscal policy response, especially in oil-exporting economies, has played a substantial role in supporting the nonoil sector in these economies. These positive factors contribute to an expected growth rate for the region as a whole of 3.9 percent in 2010 and 4.6 percent in 2011.

The economic outlook in the region is closely linked to global developments, primarily through the impact of global economic activity on oil prices. The impact is not confined to the MENA exporters. Oil-importing economies in the region also benefit (as roughly one-fourth of their exports go to oil exporters). Expansion in demand by rapidly growing emerging markets is expected to be offset by stagnant demand from advanced economies.

In line with the improvement in oil prices, the overall external balance in the region is expected to recover, although not to pre-crisis levels. For oil exporters, the current account balance, which fell from a surplus of close to 20 percent of GDP in 2008 to 4.6 percent in 2009, is projected to increase to 6.7 percent of GDP in 2010 and 7.8 percent of GDP in 2011. Surpluses of roughly this magnitude are expected to continue through 2015.

However the unrest in Egypt and Tunisia and other countries in the region could have an adverse impact on the growth of this region.

The most urgent requirements for robust recovery are comprehensive and rapid actions to overcome sovereign and financial troubles in the euro area and policies to redress fiscal imbalances and to repair and reform financial systems in advanced economies more generally. These need to be complemented with policies that keep overheating pressures in check and facilitate external rebalancing in key emerging economies.

Two key issues for the global economy at this point are how emerging market countries handle capital inflows which present both an opportunity and a challenge for emerging economies. An opportunity, as they decrease the cost at which these countries can borrow; a challenge because they can lead to overheating and bubbles.

In addition to concern about the US and global recovery there are other key risks that investors need to be alert to. These being the state of play on the euro-zone periphery, the risk of slowdown in China, the so called “currency wars” and the risk posed by emerging markets asset bubbles and inflation. China has become so central to prospects for almost every other market that a major upset or deterioration in outlook in China would lead to impacting other economies. China’s growth is a barometer that needs to be watched carefully.

GCC ECONOMY

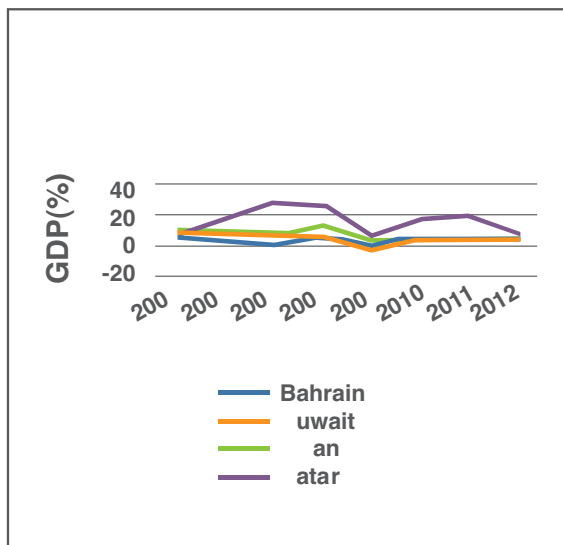


Economies in the Gulf Cooperation Council (GCC) comprising Saudi Arabia, UAE, Kuwait, Qatar, Oman and Bahrain were adversely impacted by the fallout of the financial crisis. Mainly due to sharp drop in oil prices, flight of capital and sudden contraction of the credit markets. As a result the combined nominal GDP of the GCC states contracted by 18.2% in 2009 to reach US\$874 billion) and according to IMF estimates the GCC GDP is expected to cross US\$ 1 trillion by the end of 2010 on the back of a recovery of oil prices, increased government spending and increase in production.

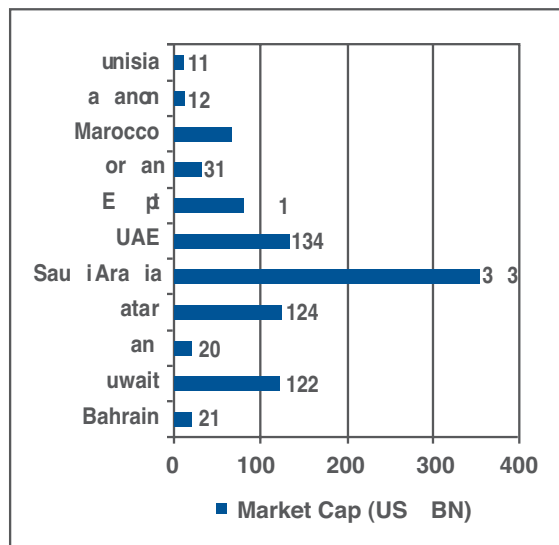
After GCC GDP growth of an estimated 0.4% in real terms in 2009 and -19.5% in nominal terms, 2010 is expected to show a strong recovery with an estimated gain of 4.5% and 15.0% for real and nominal GDP respectively with Qatar leading the way at 16.0% and with Saudi Arabia 4.7%, and the UAE at 3.3%. The real GDP growth for the GCC in 2011 is projected to reach 5.9%, with Qatar leading the way yet again at 20.0%.

GCC benefited from a substantial 28 percent gain in dollar denominated oil prices in the year to \$79/bbl from \$61/bbl in 2009 on the back of stronger demand in emerging markets, expectations of improved future global demand, and continued supply restraint on the part of OPEC. Higher oil revenues' will result in comfortable fiscal position that in turn will allow most GCC states to sustain their fiscal stimulus plans in 2011. The unrest in the North African countries will result in higher oil prices until there is stability in these countries. However, OPEC is not expected to allow prices to rise uncontrollably for fear of inducing additional non OPEC supply or demand substitution. Globally there are no medium-to longer run supply constraints (2020).

Real GDP Growth GCC Countries



Market Cap (US\$ BN of MENA Stocks as of 31-Dec - 2010)



Source: Respective Stock Exchanges

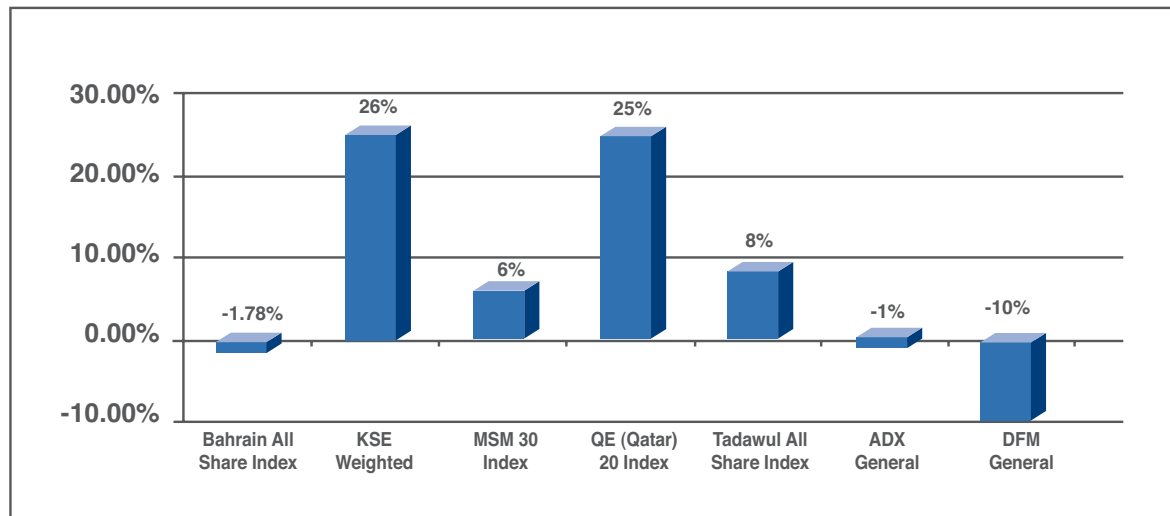
The private sector recovery in the GCC will also be dependent on continued improvement in credit extension which remains the major challenge for the GCC states in the short term. In all GCC countries excluding the UAE, credit extension improved in 2010, which should have provided a positive boost to domestic demand. A rebound on Credit growth in Saudi Arabia is expected underpinned by the robust economic growth, positive developments in the property market and planned implementation the fiscal stimulus to boost economic growth. The Credit growth in the UAE is expected to be sluggish as the Dubai debt crisis still weighing on the credit market.

GCC inflation remains well contained and significantly lower than the mid-2008 highs, mostly due to substantial declines in real estate prices. Moreover, the recent increase in inflation has largely come on the back of higher food prices, with food accounting for around 40% of headline YoY inflation in the GCC (ex Qatar) in recent months .

After underperforming emerging market peers in 2009 GCC markets performed more on par with the same in 2010. Dubai was the worst performer primarily due to debt restructuring. The S&P GCC index gained 11% YTD verses about 13% for MSCI Emerging Markets. Qatar, Kuwait, Saudi Arabia and Oman ended the year on a positive note mainly due to positive local developments, continued global recovery, stable oil prices along with the award for Qatar to host the World Cup during 2022. These positive developments have improved the GCC equity market outlook for 2011 and are expected to continue to drive the market performance over the short term horizon.

Market capitalization added 12% to end the year at US\$750 billion. Accounting for more than 40% of this increase was Qatar, representing an increase of 41% from US\$ 88 billion to US\$ 124 billion. The Saudi market constituted about 47 percent of the aggregate market capitalization of GCC stock markets followed by the Kuwait market with its capitalization accounting for 17 percent.

Equity Market Performance



Economies of the GCC region is expected to strengthen as credit markets starts to ease, monetary and fiscal stimulus adopted by GCC states, gain in oil prices driven by the recovery in global economy and the unrest in Egypt and Tunisia and gradual recovery in real estate and equity prices combining to deliver strong GDP growth in 2011. However, GCC economic growth could be dampened, if the political unrest in the region continues for a prolong period of time.

As Asia is the main export destination for GCC exports, with expectation for continued strong growth, albeit lower than in 2010, should also support continued recovery in the GCC. The high level of openness means the GCC, and in particular the UAE, is not, however, immune to the moderation in global trade seen during past months. However GCC economic growth could be dampened if the political unrest in the region continuous for a prolong period of time.

KUWAIT ECONOMY



The oil sector represented 45% of the total GDP during 2009, which decreased to 40% compared to the previous year. As oil prices continue rising, the oil sector will consequently grow, which will have a positive effect on Kuwait's economy in 2011.

The economic outlook for Kuwait is generally positive with IMF forecasting a real GDP to grow by 3% and a nominal by 17% in 2010 fueled by the global economic recovery which boosted the demand for oil as was evident in rebound in oil prices to reach US\$ 80 per barrel and surge in capital development spending on infrastructure projects as part of the five year economic development plan.

The economy is expected to grow by 4.5% in 2011 as oil prices are forecast to stabilize above the US\$ 80 per barrel driven by the rebound in oil demand and global economic recovery (however if the political unrest in the region continues the oil could reach US\$ 100 plus per barrel), and the government accelerates the implementation of its US\$ 104 billion development plan. However the economic outcome for 2011 will depend largely on the level of government capital expenditure and the associated private investments.

The Credit Growth in Kuwait has been sluggish in the aftermath of the financial crisis which affected both the banking sector and the non-financial corporate sector. Bank Credit growth was virtually flat in 2010, up only 0.4% compared to 6.1% in 2009. The growth performance was the weakest in over 15 years with the year as a whole adding only KD 97 million. With weaker sentiment and higher perceived risks banks shied away from lending to a number of sectors, such as real estate and financial institutions whilst banks directed their lending to productive sectors which enjoyed the cover of the financial stability law.

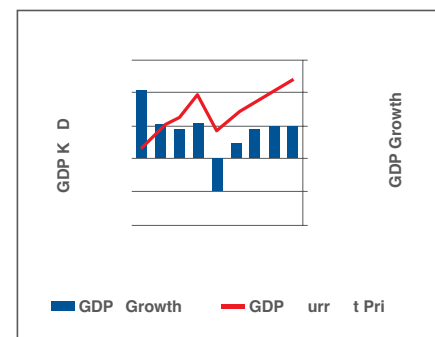
Defaults by some large investment companies along with concentration of local banks' loan portfolio in real estate and construction sectors and households have contributed to increased

uncertainty regarding the health of the financial sector. The decline in external sources of funds, along with slow deposit growth has limited the ability of Kuwaiti banks to extend loans. However Kuwaiti banks were able to weather the financial turmoil and emerge with minimal damage to their balance sheets and sources of income.

At the end of 2009, inflation as measured by CPI increased by 4.0%. As of November 2010, inflation for the year was 4.4%. It is important to note that housing, which accounts for 26.7% of the CPI basket, grew by 3.8% during 2010.

K D oth rwi tat					
GDP ha o ta t ri					
GDP urr t ri					
GDP P r a ita KD urr t Pri					
atio a o u r ri					
Po u atio					
urr ta ou t a a					

Kuwait GDP & GDP Growth



The average price of KECP during 2010 reached USD77.5, which is an increase of 33% compared to the previous year. Based on IMF projections, total revenues are expected to reach KWD21bn at the end of the 2010/11 and KWD22.9 at the end of 2011/12.

Official statistics released by the Ministry of Justice revealed a 47% year of year increase in the number of real estate transactions registered in 2010. The number of residential property rose to 5,074 (KWD 952 MN) during the year, up 52% compared to 2009. The report also exhibited a 30% year over year growth in investment property which rose to 1,551 transactions or KSD 651 MN from 1,194 transactions in 2009.

GCC equity Markets closed the year 2010 mostly in green, sustained by crude oil price gains and positive economic and corporate news. In contrast to its performance in 2009 year 2010 will be remembered as a year that KSE recorded robust gains and outperformed its peers in the GCC region as the KSE weighted Index recorded yearly returns of 25.5 per cent.

In spite of the robust gains recorded during 2010 the Kuwait market witnessed a significant decline in liquidity during 2010; the average daily traded value fell to KD 51 MN, down 42% compared to KD 87 MN in 2009. This deterioration in liquidity was mainly due to the weak investor sentiment, tight liquidity conditions for most investors and asset managers. The announcement of the development plan involving massive infrastructure spending during the next five years in Kuwait and the recovery in oil prices had a positive impact on the market. The outlook for the KSE is generally positive for year 2011 due to positive economic indicators and better corporate earnings. Lack of market liquidity will remain a concern.

REPORT OF FATWA AND SHARI'A BOARD

Praise be to Allah, the Lord of the Universe and Prayers and Peace upon the Messenger of Allah who was sent as Blessing to the world, Mohammad may Prayers and Peace be upon him, his family, his companions and his followers until the Day of Judgment.

We, the Fatwa and Shari'a Board of First Investment Company ("the Company"), state hereby that we have reviewed the principles followed and the contracts pertaining to the transactions and deals made by the Company during the year ended 31st December, 2010, have exercised our control duties as a preview to expressing our opinion on whether the Company has complied with the dictates and principles of Islamic Shari'a Law to specific edicts, decisions and guidelines issued by our board.

It is our view that:

1. The contracts, operations and transactions concluded by the Company during the year ended 31st December, 2010, which we have reviewed, were carried out in conformity with the dictates and principles of Islamic Shari'a Law.
2. The distributions of profits and encumbrances of losses against the investment accounts conform with our approved principles which conform with the dictates and principles of the Islamic Shari'a Law.
3. All earnings realized from sources or through ways prohibited by the dictates and principles of the Islamic Shari'a Law have been disbursed in charitable activities.

We hereby take this opportunity to express our appreciation and thanks to the management of the Company for its kind cooperation to our board, as well as the shareholders and other parties dealing with the Company.

We pray to Allah Almighty to bless their efforts and dedication to serve the Islamic economy, and develop our nation in ways that shall yield benefits to all parties involved.



Sheikh Dr. Ali Mohyiddeen Al-Qaradaghi

Chairman



Sheikh Dr. Essa Zaki Shaqra

Member



Sheikh Dr. Abdulaziz Khalefa Al-Qassar

Member

First Investment Company

K.S.C. (Closed)
and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRST INVESTMENT COMPANY K.S.C. (CLOSED)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Investment Company K.S.C. (Closed) (the "parent company") and its subsidiaries (together the "group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards of 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' judgement, 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 auditor considers 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 the group as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
FIRST INVESTMENT COMPANY K.S.C. (CLOSED) (continued)**

Report on Other Legal and Regulatory Requirements

Furthermore, 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, as amended, and by the parent 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, as amended, or of the parent company's Articles of Association, as amended have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the parent company or on its financial position.

We further report that, during the course of our audit we have not become aware of any material violations 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 during the year ended 31 December 2010.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG



ALI A. AL-HASAWI
LICENCE NO. 30 A
RÖDL MIDDLE EAST
BURGAN - INTENTIONAL ACCOUNTANTS

4 April 2011
Kuwait

First Investment Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	<i>Notes</i>	2010 KD	<i>2009 KD</i>
INCOME			
Murabaha and ijara income		263,018	1,255,166
Realised gain on financial assets at fair value through income statement	5	1,407,840	174,824
Unrealised loss on financial assets at fair value through income statement	6	(2,299,071)	(279,758)
Gain on disposal of financial assets available-for-sale		681,244	233,437
Valuation gain on investment properties		27,854	102,076
Placement and arrangement fees		-	57,888
Management fees		486,529	686,519
Dividend income	7	1,019,333	1,167,594
Reversal of other liabilities	8	1,328,244	-
Share of results of associates	14	(2,784,308)	(5,631,875)
Other income		191,786	107,487
		322,469	(2,126,642)
EXPENSES			
Provision against murabaha and ijara receivables – net	12	(203,899)	(646,778)
Provision for other assets	16	(2,246,076)	(2,310,799)
Impairment of financial assets available-for-sale	13	(632,332)	(8,861,503)
Staff costs		(1,046,200)	(1,459,020)
(Loss) gain on foreign exchange		(457,192)	632,607
Depreciation		(53,579)	(82,236)
Finance costs		(5,775,833)	(6,887,752)
Other expenses		(435,965)	(1,160,445)
		(10,851,076)	(20,775,926)
LOSS FOR THE YEAR	4	(10,528,607)	(22,902,568)
Attributable to:			
Owners of the parent company		(10,540,023)	(22,899,303)
Non-controlling interests		11,416	(3,265)
		(10,528,607)	(22,902,568)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF PARENT COMPANY	9	(16.19) fils	(35.20) fils

The attached notes 1 to 30 form part of these consolidated financial statements.

	Note	2010 <i>KD</i>	<i>2009</i> <i>KD</i>
Loss for the year		(10,528,607)	(22,902,568)
Other comprehensive income			
Financial assets available-for-sale:			
Unrealised loss on financial assets available-for-sale		(2,005,005)	(12,201,109)
Transferred to consolidated income statement on impairment of financial assets available-for-sale	13	632,332	8,861,503
Net unrealised loss on financial assets available-for-sale		(1,372,673)	(3,339,606)
Share of other comprehensive income of associates		(924,270)	1,694,187
Exchange differences on translation of foreign operations		(1,785,376)	3,839,876
Other comprehensive (loss) income for the year		(4,082,319)	2,194,457
Total comprehensive loss for the year		(14,610,926)	(20,708,111)
Attributable to:			
Owners of the parent company		(14,439,902)	(21,374,795)
Non-controlling interests		(171,024)	666,684
		(14,610,926)	(20,708,111)

First Investment Company K.S.C. (Closed) and its Subsidiaries
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 At 31 December 2010

	Notes	2010 KD	2009 KD
ASSETS			
Bank balances and cash	10	9,054,170	2,591,465
Financial assets at fair value through income statement	11	20,993,238	28,025,293
Murabaha and ijara receivables	12	2,995,217	3,628,108
Financial assets available-for-sale	13	90,187,508	99,790,333
Investment in associates	14	49,208,962	53,472,104
Properties under development	15	36,771,351	34,725,180
Investment properties		1,950,803	1,964,018
Other assets	16	7,734,077	9,291,120
Furniture and equipment		78,493	112,157
TOTAL ASSETS		218,973,819	233,599,778
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	17	65,107,055	65,107,055
Share premium	17	21,490,583	32,909,612
Statutory reserve	19	7,275,988	7,275,988
General reserve	19	-	7,046,396
Share options reserve	3	3,016,890	3,016,890
Treasury shares reserve		1,090,539	1,090,539
Cumulative changes in fair values		(2,735,106)	(821,862)
Foreign currency translation reserve		319,622	2,306,257
Accumulated losses		(10,516,209)	(18,465,425)
		85,049,362	99,465,450
Non-controlling interests		8,931,900	9,394,740
Total equity		93,981,262	108,860,190
Liabilities			
Murabaha and sukuk payables	20	108,303,095	111,849,011
Other liabilities	21	16,689,462	12,890,577
Total liabilities		124,992,557	124,739,588
TOTAL EQUITY AND LIABILITIES		218,973,819	233,599,778



Dr. Mohammed A. Al-Alloush
Chairman



Khalid S. Al-Sanaousi
Managing Director and Chief Executive Officer

First Investment Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2010

	<i>Notes</i>	2010 KD	<i>2009 KD</i>
OPERATING ACTIVITIES			
Loss for the year		(10,528,607)	(22,902,568)
Adjustments for:			
Depreciation		53,579	82,236
Finance costs		5,775,833	6,887,752
Murabaha and ijara income		(263,018)	(1,255,166)
Realised gain on financial assets at fair value through income statement	5	(1,407,840)	(174,824)
Unrealised loss on financial assets at fair value through income statement	6	2,299,071	279,758
Gain on disposal of financial assets available-for-sale		(681,244)	(233,437)
Dividend income	7	(1,019,333)	(1,167,594)
Reversal of other liabilities	8	(1,328,244)	-
Share of results of associates	14	2,784,308	5,631,875
Valuation gain on investment properties		(27,854)	(102,076)
Provision against murabaha and ijara receivables - net	12	203,899	646,778
Impairment of financial assets available-for-sale	13	632,332	8,861,503
Loss (gain) on foreign exchange		457,192	(632,607)
Provision for other assets	16	2,246,076	2,310,799
		(803,850)	(1,767,571)
Changes in operating assets and liabilities:			
Financial assets at fair value through income statement		5,200,800	(3,479,719)
Murabaha and ijara receivables		157,000	204,408
Other assets		(374,768)	(811,851)
Other liabilities		7,462,228	316,386
		11,641,410	(5,538,347)
Murabaha and ijara income received		6,976	1,269,102
Finance costs paid		(4,530,649)	(6,565,474)
		7,117,737	(10,834,719)
INVESTING ACTIVITIES			
Dividend income received	7	1,019,333	1,167,594
Purchase of financial assets available-for-sale		-	(14,224,064)
Proceeds from disposal of financial assets available-for-sale		4,063,863	18,567,060
Purchase of investment in associates	14	-	(5,701)
Proceeds from disposal of investment in associates	14	389,332	460,240
Dividend received from associates	14	-	173,813
Purchase of properties under development	15	(2,792,450)	(1,951,324)
Proceeds from partial disposal of subsidiary		632,822	-
Purchase of investment properties		-	(29,148)
Purchase of furniture and equipment		(6,809)	(46,033)
		3,306,091	4,112,437

The attached notes 1 to 30 form part of these consolidated financial statements.

First Investment Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
 Year ended 31 December 2010

	2010 KD	<i>2009</i> <i>KD</i>
FINANCING ACTIVITIES		
Net movement in murabaha payables	(2,733,741)	8,175,540
Movement in non-controlling interests	(1,227,382)	-
Purchase of treasury shares	-	(618,922)
Proceeds from sale of treasury shares	-	587,164
	(3,961,123)	8,143,782
INCREASE IN BANK BALANCES AND CASH	6,462,705	1,421,500
Bank balances and cash at 1 January	2,591,465	1,169,965
BANK BALANCES AND CASH AT 31 DECEMBER	9,054,170	2,591,465

First Investment Company K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

Attributable to owners of the parent company

*Non-controlling
interests*

*Total
equity*

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	General reserve KD	Share options reserve KD	Treasury shares reserve KD	Cumulative changes in fair values KD	Foreign currency transition reserve KD	(Accumulated losses) / retained earnings KD	Sub- total KD	KD	KD
As at 1 January 2010	65,107,055	32,909,612	-	7,275,988	7,046,396	3,016,890	1,090,539	(821,862)	2,306,257	(18,465,425)	99,465,450	9,394,740	108,860,190
(Loss) gain for the year	-	-	-	-	-	-	-	-	-	(10,540,023)	(10,540,023)	11,416	(10,528,607)
Other comprehensive loss	-	-	-	-	-	-	-	(1,913,244)	(1,986,635)	-	(3,899,879)	(182,440)	(4,082,319)
Total comprehensive loss for the year	-	-	-	-	-	-	-	(1,913,244)	(1,986,635)	(10,540,023)	(14,439,902)	(171,024)	(14,610,926)
Write-off of accumulated losses (Note 17)	-	(11,419,029)	-	-	(7,046,396)	-	-	-	-	18,465,425	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	23,814	23,814	(291,816)	(268,002)
At 31 December 2010	65,107,055	21,490,583	-	7,275,988	-	3,016,890	1,090,539	(2,735,106)	319,622	(10,516,209)	85,049,362	8,931,900	93,981,262
As at 1 January 2009	65,107,055	32,909,612	-	7,275,988	7,046,396	3,016,890	1,122,297	1,732,540	(1,772,653)	4,433,878	120,872,003	8,728,056	129,600,059
Loss for the year	-	-	-	-	-	-	-	-	-	(22,899,303)	(22,899,303)	(3,265)	(22,902,568)
Other comprehensive (loss) income	-	-	-	-	-	-	-	(2,554,402)	4,078,910	-	1,524,508	669,949	2,194,457
Total comprehensive loss for the year	-	-	-	-	-	-	-	(2,554,402)	4,078,910	(22,899,303)	(21,374,795)	666,684	(20,708,111)
Purchase of treasury shares	-	-	(618,922)	-	-	-	-	-	-	-	(618,922)	-	(618,922)
Sale of treasury shares	-	-	618,922	-	-	-	(31,758)	-	-	-	587,164	-	587,164
At 31 December 2009	65,107,055	32,909,612	-	7,275,988	7,046,396	3,016,890	1,090,539	(821,862)	2,306,257	(18,465,425)	99,465,450	9,394,740	108,860,190

The attached notes 1 to 30 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of First Investment Company K.S.C. (Closed) (the “parent company”) and its subsidiaries (collectively the “group”) for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 4 April 2011. The shareholders’ General Assembly has the power to amend these consolidated financial statements after issuance.

The parent company is a Kuwaiti closed shareholding company incorporated on 26 July 1997 under the Commercial Companies Law No. 15 of 1960 and amendments thereto and is regulated by the Central Bank of Kuwait as an investment company. The parent company’s registered office is at Souk Al Safat, Abdullah Mubarak Street, Kuwait City.

The parent company is principally engaged in the provision of investment and financial services. All activities of the parent company are carried out in compliance with the Islamic Sharia.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through income statement, financial assets available-for-sale and investment properties that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars which is also the functional currency of the parent company.

2.2 Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by CBK’s requirement for a minimum general provision made on all applicable credit facilities that are not provided specifically.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) Interpretations effective as of 1 January 2010:

IFRS 2: *Share-based Payment: Group Cash-Settlement Share-based Payment Transactions* effective 1 January 2010

IFRS 3: *Business Combinations* (Revised) and IAS 27 *Consolidated and Separate Financial Statements* (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 28, IAS 31 and IAS 39.

IAS 39: *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* effective 1 July 2009

IFRIC 17: *Distributions of Non-Cash Assets to Owners* effective 1 July 2009

The adoption of the standards or interpretations is described below:

IFRS 2: *Share-based Payment: Group cash-settlement share-based payment transactions*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 July 2009.

The change in accounting policy was applied prospectively and had no material impact on loss per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The group has concluded that the amendment will have no impact on the financial position or performance of the group, as the group has not entered into any such hedges.

IFRIC 17: Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the group.

2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the group's financial statements are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The group intends to adopt those standards when they become effective.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The group does not expect any impact on its financial position or performance.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the group after initial application.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in consolidated income statement. The adoption of this interpretation will have no effect on the financial statements of the group.

2.5 Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the group:

- *IFRS 3 Business Combinations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 1 Presentation of Financial Statements*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IFRIC 13 Customer Loyalty Programmes*

The group, however, expects no impact from the adoption of the amendments on its financial position or performance.

2.6 Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in the consolidated income statement
- Reclassifies the parent company's share of components previously recognised in other comprehensive income to the consolidated income statement or retained earnings, as appropriate.

Details of subsidiaries are listed in Note 23.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent company's shareholders.
- Upon loss of control, the group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying values of such investments at 1 January 2010 have not been restated.

2.7 Summary of significant accounting policies

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, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognized:

- Murabaha and ijara income are recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.
- Placement and arrangement fees are recognised when securities are sold or when specific advisory services are rendered.
- Management fees relating to portfolios and fund management, custody and on-going advisory services are recognised as earned.
- Dividend income is recognised when the group's right to receive the payment is established.

Share based payment transactions

The group operates an equity-settled, share-based Employee Stock Option Plan (ESOP). The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the market value of the parent company's shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date, reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

Financial instruments - initial recognition and subsequent measurement

Financial assets – initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through income statement", "loans and receivables" (murabaha and ijara receivables) and "financial assets available-for-sale". The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

Financial instruments - initial recognition and subsequent measurement (continued)

Financial assets at fair value through income statement

These are financial assets that are either financial assets held for trading or those designated as investments at fair value through income statement upon initial recognition. A financial asset is classified in this category only if they are acquired principally for the purpose of generating profit from short-term fluctuation in price or if so designated by the management in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis. Financial assets classified as investments at fair value through income statement are subsequently measured and carried at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated income statement.

Financial assets available-for-sale

Financial assets available-for-sale are those financial assets that are not classified as financial assets at fair value through income statement, held to maturity investments or loans and receivables.

After initial recognition, financial assets available-for-sale are measured at fair value with unrealised gains and losses recognised in the consolidated statement of other comprehensive income until the investment is derecognised or until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement and removed from the available-for-sale reserve. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Murabaha and ijara receivables

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis.

Ijara is an Islamic transaction involving purchase and immediate lease of an asset where the lessor conveys to the lessee the right to use the asset for an agreed period of time in return for a payment or a series of payments. At the end of the lease term, the lessee has the option to purchase the asset.

Murabaha and ijara receivables arising from the group's financing of transactions on an Islamic basis are stated at amortised cost. Third party expenses such as legal fees, incurred in granting a murabaha or ijara are treated as part of the cost of the transaction.

All murabaha and ijara receivables are recognized when the legal right to control the use of the underlying asset is transferred to the customer.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either
 - (a) the group has transferred substantially all of the risks and rewards of the asset, or
 - (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is any objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets are impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of comprehensive income;
- (b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Reversal, of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal of impairment losses are recognised in the consolidated income statement except for available-for-sale equity investments which are recognised in the statement of other comprehensive income.

Financial liabilities – initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through income statement and loans and borrowings, as appropriate. The group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Murabaha payable

Murabaha payable represents the amount payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payable is stated at the gross amount of the payable, net of deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

Investment in associates

An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture. The group’s investments in its associates are accounted for under the equity method.

Under the equity method, investment in associates is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group’s share of net assets of the associate. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commenced until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group’s share in the associate arising from changes in the associate’s equity that have not been recognised in the associate’s income statement. The group’s share of those changes is recognised in statement of comprehensive income. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The reporting dates of the associates and the group are identical and in case of different reporting date of associate from that of the group, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group’s consolidated financial statements. The associate’s accounting policies conform to those used by the group for the like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the group and its associate are eliminated to the extent of the group’s interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

Upon loss of significant influence over the associate, the group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in the consolidated income statement.

Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at reporting date. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the period in which they arise.

Investment properties are derecognized when either they has been disposed of or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated statement of income in the year of derecognition.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Properties under development

Properties under development are stated at lower of cost and net realizable value determined on an individual basis. Such properties will be reclassified, after completion of construction and development, as trading properties.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs). Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. Under this method, the acquirer recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other expenses.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the cost of an acquisition over the group's share of the acquiree's fair value of the net identifiable assets as at the date of the acquisition. Any excess, at the date of acquisition, of the group's share in the acquiree's fair value of the net identifiable assets over the cost of the acquisition is recognised in the consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Employees' end of service benefits

The group provides end of service benefits to its expatriate employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the group also makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in 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 the group's voluntary reserve and statutory reserve. 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 treasury shares reserve 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. Part of the reserves created or appropriated and retained earnings equivalent to the cost of treasury shares is not available for distribution throughout the holding period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

Foreign currency translation

The group's consolidated financial statements are presented in Kuwaiti Dinars, which is also the parent company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at reporting date. All differences are taken to consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies

Assets and liabilities of foreign entities are translated into Kuwaiti Dinars at the year end rates of exchange and the results of these entities are translated into Kuwaiti Dinars at the average rates of exchange for the year. On equity accounting, the carrying value of the associates is translated into Kuwaiti Dinars at the year end rates of exchange and the results of the associates are translated into Kuwaiti Dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign currency translation reserve until disposal at which time they are recognised in the consolidated income statement.

Fiduciary assets

The group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly are not included in these consolidated financial statements.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The parent company calculates the contribution to KFAS at 1% of taxable profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)

The parent company calculates NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year.

Zakat

Effective from 10 December 2007, the parent company provided for Zakat in accordance with the requirements of Law No. 46 of 2006 at 1% of profit for the year. The Zakat charge calculated in accordance with these requirements is charged to the consolidated income statement.

For the year ended 31 December 2010, the parent company has no liability towards KFAS, NLST and Zakat due to losses incurred. Under the KFAS, NLST and Zakat regulations no carry forward of losses to the future years nor any carry back to prior years is permitted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

The most significant use of judgments and estimates are as follows:

Classification of investments

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

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

All other financial assets are classified as available-for-sale.

Impairment of investments

The group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Valuation of unquoted 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; and
- Other valuation models

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

Valuation of investment properties

Fair value of investment properties is determined based on valuations by independent registered real estate assessors which have relevant experience in the local and international property market.

3 EMPLOYEE STOCK OPTION PLAN

The parent company operates an employee stock option plan. Under this plan, the parent company may issue shares for cash to eligible employees by increasing its share capital.

No share option were issued or exercised during the current year (2009: Nil). Accordingly no charge was recorded in the consolidated income statement (2009: Nil).

4 LOSS FOR THE YEAR

The loss for the year is stated after charging:

	2010 KD	2009 KD
Staff costs	1,046,200	1,459,020
Rent – Operating leases	105,723	101,148

5 REALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2010 KD	2009 KD
Held for trading	1,407,840	98,246
Designated	-	76,578
	1,407,840	174,824

6 UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2010 KD	2009 KD
Held for trading	475,652	240,480
Designated	1,823,419	39,278
	2,299,071	279,758

7 DIVIDEND INCOME

	2010 KD	2009 KD
Financial assets at fair value through income statement	701,574	-
Financial assets available-for-sale	317,759	1,167,594
	1,019,333	1,167,594

8 REVERSAL OF OTHER LIABILITIES

On 3 September 2001, the parent company signed an agreement with a government owned entity to purchase certain investment securities at a value of KD 10,070,333 and also signed another agreement (the "sale agreement") to resell these investment securities to a counterparty on the same terms and value. The counterparty failed to fulfil its obligation under the terms of the sale agreement. Consequently, the parent company initiated legal proceedings against the counterparty and obtained judgments for payment of the sale consideration. Through the judicial procedures for enforcement of the judgments, the parent company recovered a part of the purchase consideration amounting to KD 2.4 million by selling the portfolio investments maintained by the counterparty with the parent company.

The counterparty filed a claim against the parent company to transfer the ownership of all the investment securities, which were the subject of the sale agreement, but this was rejected by the Court of Appeal. On 11 May 2010, the Court of Cassation upheld the Court of Appeals decision on the basis that the counterparty's claim should be preceded by the payment of the total sale consideration which represents the undivided sale of all the investment securities under the sale agreement. Accordingly, this judgment confirmed the parent company's ownership of the investment securities (purchased from the government owned entity).

The parent company also filed a suit against the counterparty, claiming compensation for damages sustained from the breach of the sale agreement. While the final decision of the Court of Appeal is awaited; management of the parent company, based on the opinion of its legal counsel and previous court judgments issued to date in its favour, is confident that a favourable decision will be issued by the Court of Appeal. Accordingly, an amount of KD 1.3 million, representing the difference between partial recovery by the parent company and the agreed sale value of certain investments, has been reversed and recorded as income in the current year.

9 BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

Basic and diluted loss per share are computed by dividing the loss for the year attributable to owners of the parent company by the weighted average number of shares outstanding during the year after adjusting for treasury shares as follows:

	<i>2010</i>	<i>2009</i>
Loss attributable to owners of the parent company (KD)	(10,540,023)	(22,899,303)
Total weighted average number of shares outstanding during the year	651,070,551	651,070,551
Less: weighted average number of treasury shares	-	(602,247)
Weighted average number of shares outstanding during the year	651,070,551	650,468,304
Basic and diluted loss per share attributable to owners of the parent company	(16.19) fils	(35.20) fils

10 BANK BALANCES AND CASH

	2010 KD	2009 KD
Cash	400	400
Bank balances	9,053,770	2,591,065
	9,054,170	2,591,465

Bank balances include KD 4,754,636 (2009: KD 1,514,666), held with portfolio managers, which can only be used for trading in securities listed on the Saudi Stock Exchange.

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2010 KD	2009 KD
Held for trading		
Quoted equity securities	124,707	4,811,587
Managed funds	657,223	774,646
Designated		
Real estate portfolio	20,014,750	22,242,502
Unquoted equity securities	196,558	196,558
	20,993,238	28,025,293

Quoted equity securities of KD 124,707 (2009: Nil) are listed on the Kuwait Stock Exchange and Nil (2009: KD 4,811,587) are listed on the Saudi Stock Exchange.

Managed funds have primarily invested in money market instruments.

Real estate portfolio's are stated at fair values which have been determined based on valuations performed by accredited independent valuers as at 31 December 2010 and 31 December 2009.

12 MURABAHA AND IJARA RECEIVABLES

	<i>Murabaha</i>		<i>Ijara</i>		<i>Total</i>	
	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Gross amount	4,200,193	4,777,443	769,878	696,844	4,970,071	5,474,287
Less: deferred income	(11,182)	(86,406)	-	-	(11,182)	(86,406)
	4,189,011	4,691,037	769,878	696,844	4,958,889	5,387,881
Less: provision	(1,193,794)	(1,062,929)	(769,878)	(696,844)	(1,963,672)	(1,759,773)
	2,995,217	3,628,108	-	-	2,995,217	3,628,108

Average profit rate attributable to murabaha receivables during the year was 5.60% (2009: 7.92%) per annum and attributable to ijara receivables during the year was Nil% (2009: 12.51%) per annum.

Movement in provision on murabaha and ijara receivables is as follows:

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
At 1 January	1,759,773	1,112,995
Provision for the year	203,899	977,438
Provision reversed during the year	-	(330,660)
At 31 December	1,963,672	1,759,773

13 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2010	2009
	KD	KD
Unquoted equity securities	47,321,330	34,460,648
Quoted equity securities	18,132,385	35,368,587
Sukuk	23,831,238	24,333,360
Real estate portfolio	-	4,823,708
Unquoted funds	583,676	652,085
Managed funds	318,879	151,945
	90,187,508	99,790,333

Certain unquoted equity investments amounting to KD 13,865,729 (2009: KD 35,913) are carried at cost as the acquisition price of these investments is determined to be the fair value and these securities relate to either recently formed or acquired companies.

Certain unquoted equity securities amounting to KD 33,455,601 (2009: KD 34,424,735) are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the group intends to hold them for the long term. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments and recorded an impairment loss of KD Nil (2009: KD 5,363,250) in the consolidated income statement. Based on the latest available financial information, management is of the view that no further impairment provision is required as at 31 December 2010 in respect of these investments.

Certain investments in unquoted equity securities amounting to KD 8,621,979 (2009: Nil) and quoted equity securities amounting to Nil (2009: KD 9,414,317) are registered in the names of nominees, as nominees for the parent company. These nominees have confirmed in writing that the parent company is the beneficial owner of these quoted equity securities.

During the year, the group has recorded impairment loss of KD 632,332 (2009: KD 3,498,253) on quoted equity investments where there has been a significant or prolonged decline in fair value.

Sukuk are carried at cost as their fair values cannot be measured reliably. Management is of the opinion that there has been no impairment in value of these sukuk and given the difficulty in arriving at a reliable valuation, it is more appropriate to carry these at cost. During the current year, the issuer of the sukuk's has confirmed its commitment to buy back these sukuks.

14 INVESTMENT IN ASSOCIATES

Classification of an investment as an investment in associate where the group holds less than 20 percent of the voting power of the investee is based on the existence of significant influence exercised by the group. This is evidenced by the group's representation on the board of directors and participation in the policy and decision making process of the investee to a sufficient degree for the group to demonstrate that it has significant influence over the associate.

14 INVESTMENT IN ASSOCIATES (continued)

The movement in the carrying amount of investment in associates during the year is as follows:

	2010 KD	2009 KD
At 1 January	53,472,104	56,234,602
Additions	-	5,701
Transfer from other assets	-	1,965,837
Disposals	(389,332)	(460,240)
Transfer to financial assets available-for-sale	(165,232)	(162,295)
Dividend received	-	(173,813)
Foreign currency translation adjustment	(383,699)	908,983
Cumulative change in fair value	(540,571)	785,204
Share of results	(2,784,308)	(5,631,875)
At 31 December	49,208,962	53,472,104

For list of associates refer to Note 23.

The following table illustrates summarised financial information of the group's investment in associates:

	2010 KD	2009 KD
Share of associate's statement of financial position:		
Assets	52,159,286	56,654,248
Liabilities	(5,875,442)	(6,110,453)
Net assets	46,283,844	50,543,795
Goodwill arising on acquisition of associate	2,925,118	2,928,309
	49,208,962	53,472,104
Share of associate's revenue and results:		
Revenue	3,203,668	(19,081,964)
Loss	(2,784,308)	(5,631,875)

Investment in associates include quoted associates with a carrying value of KD 9,879,337 (2009: KD 10,571,268) having a market value of KD 3,894,138 (2009: KD 3,957,976).

During the current year, the parent company sold 24.55% of its ownership interest in First Arabian Equity 2000 Fund for KD 389,332. No gain or loss arose on this partial disposal. As a result of this partial disposal, the parent company's equity interest in First Arabian Equity 2000 Fund decreased from 42.73% as at 31 December 2009 to 18.18% as at 31 December

14 INVESTMENT IN ASSOCIATES (continued)

2010. Accordingly, the remaining interest in the investee was transferred to financial assets available-for-sale and accounted for in accordance with IAS 39 from the date First Arabian Equity 2000 Fund ceased to be an associate on account of loss of significant influence.

The reporting dates of certain associates are not more than three months from that of the group. In the opinion of management, there were no significant events or transactions between the date of accounts of associates and 31 December 2010.

15 PROPERTIES UNDER DEVELOPMENT

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
At 1 January	34,725,180	31,488,260
Additions	2,792,450	1,951,324
Foreign currency adjustment	(746,279)	1,285,596
At 31 December	36,771,351	34,725,180

16 OTHER ASSETS

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Advance paid for acquisition of real estate portfolio	3,520,024	3,530,070
Due from related parties (Note 22)	3,319,503	3,319,503
Other receivables	5,247,278	4,691,550
Management fees receivable	97,248	60,796
Provision	12,184,053 (4,449,976)	11,601,919 (2,310,799)
	7,734,077	9,291,120

Movement in provision for other assets is as follows:

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
At 1 January	2,310,799	-
Charge for the year	2,246,076	2,310,799
Utilised	(106,899)	-
At 31 December	4,449,976	2,310,799

17 SHARE CAPITAL, SHARE PREMIUM AND ACCUMULATED LOSSES

The authorised, issued and fully paid up capital of the parent company amounted to 651,070,551 shares (2009: 651,070,551 shares) of 100 fils each.

Share premium is not available for distribution.

On 27 April 2010, the Annual General Assembly of the shareholders of the parent company approved no cash dividends or bonus shares for the year ended 31 December 2009. It was also approved to write-off accumulated losses of KD 18,465,425 as of 31 December 2009 against general reserve and share premium amounting to KD 7,046,396 and KD 11,419,029 respectively.

18 PROPOSED DIVIDEND

During the board meeting held on 4 April 2011, the Board of Directors of the parent company has recommended no cash dividends or bonus shares for the year ended 31 December 2010. This proposal is subject to approval by the shareholders' Annual General Assembly meeting.

19 RESERVES

a) Statutory reserve

As required by the Law of Commercial Companies and the parent company's Articles of Association, 10% of the profit for the year attributable to owners of the parent company before contribution to KFAS, NLST, Zakat, and directors' remuneration is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. No transfer has been made to statutory reserve, since losses have been incurred during the year.

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

b) General reserve

In accordance with Article 50 of the parent company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and directors' remuneration is appropriated to the general reserve. The ordinary general meeting may upon a recommendation by the board of directors increase the percentage as it deems appropriate, and may resolve to discontinue such annual transfers.

No transfer has been made to general reserve, since losses have been incurred during the year. In the current year, accumulated losses of KD 7,046,396 as on 31 December 2009 (Note 17) have been written-off against the general reserve balance.

20 MURABAHA AND SUKUK PAYABLES

	<i>2010</i> <i>KD</i>	<i>2009</i> <i>KD</i>
Murabaha payables	66,206,095	111,849,011
Sukuk payable	42,097,000	-
	108,303,095	111,849,011

20 MURABAHA AND SUKUK PAYABLES (continued)

Murabaha payables represent murabaha contracts with various financial institutions which includes KD 5,700,000 (2009: KD 49,383,000) from a related party. The average effective cost attributable to these contracts ranges from 3.13% to 7.75% (2009: 3.65% to 7.75%) per annum.

Murabaha facility amounting to KD 5,245,872 (2009: KD 6,504,200) is for a period of one year. The terms of the financing agreement restrict the use of the facility to trading in Tadawul listed Shariah compliant shares.

On 16 September 2010, the parent company entered into a restructuring agreement with one financial institution, a related party, which settled its entire obligations and liabilities under murabaha payables amounting to KD 42,097,000 by issuing a sukuk certificate by FIC Sukuk Company Limited, a Cayman Island special purpose vehicle ("SPV"). The SPV has been established by the parent company to hold on trust all rights, title interests and benefits of the sukuk assets for the sukuk holders pro rata according to the principal amount of certificates held by each sukuk holder under the terms of the restructuring agreement with the financial institutions. As part of the restructuring agreement, the parent company will transfer the beneficial interest of certain assets (includes financial assets at fair value through income statement, financial assets available-for-sale and investment in associates) ("Sukuk Assets") to the SPV which will hold these assets in trust for the sukuk held by the financial institution.

As at 31 December 2010, murabaha payables amounting to KD 52,760,742 matured but were not settled. Subsequent to the reporting date, on 20 February 2011, the parent company entered into a revised restructuring agreement (which included the financial institution referred to above), with a group of financial institutions ("Sukuk Holders"), that settled the parent company's entire obligations and liabilities under murabaha payables with an additional amount of KD 50,093,000 through issuance of sukuk certificates by the SPV. Under the terms of the revised restructuring agreement, the parent company is required to transfer the beneficial interest of certain assets in addition to the Sukuk Assets ("Total Sukuk Assets"). Repayment of the sukuk payables will be after every six months with the first payment due on 31 March 2012 and the last payment due on 30 September 2015. The average profit rate of the sukuk payables is 6 month CBK discount rate plus 250 basis points per annum.

The proceeds from sale of the Total Sukuk Assets will be used by the SPV for repayment of the sukuk payables on the due dates. In accordance with the revised restructuring agreement, the parent company is required to transfer all Kuwaiti Sukuk Assets to the SPV within 90 days and 80% of Total Sukuk Assets within 180 days of the agreement date. The revised agreement also requires that the value of Sukuk Assets shall not be less than 150% of the sukuk payables. The terms of the revised restructuring agreement include, among other things, certain restrictions on the payment of dividends and a requirement to maintain a minimum ratio of total liabilities to total equity of 1.5:1 of the group.

21 OTHER LIABILITIES

	2010 KD	<i>2009</i> <i>KD</i>
Advance received for sale of properties under development	8,498,309	-
Other payables	4,735,986	10,410,121
Accrued expenses	3,455,167	2,480,456
	16,689,462	12,890,577

22 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, managed funds, 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 with related parties are as follows:

	2010			2009
	<i>Associates</i>	<i>Other related parties</i>	<i>Total</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Consolidated income statement				
Management fees	32,195	134,195	166,390	218,485
Impairment of other receivables	1,659,752	-	1,659,752	-
Finance costs	239,634	2,288,097	2,527,731	2,942,260
Consolidated statement of financial position				
Murabaha payables (Note 20)	5,700,000	-	5,700,000	49,383,000
Sukuk payable (Note 20)	-	42,097,000	42,097,000	-
Management fees receivable	-	25,441	25,441	19,118
Due from related parties (Note 16)	3,319,503	-	3,319,503	3,319,503
Provision for due from related parties (Note 16)	(1,659,752)	-	(1,659,752)	-
Key management personnel compensation				
			2010	2009
			KD	KD
Salaries and other short term benefits			199,696	309,600
Terminal benefits			21,376	32,042
			221,072	341,642

Other transactions

The group also manages portfolios on behalf of associate companies amounting to KD 41,575,048 (2009: KD 48,606,939) which are not reflected in the group's consolidated statement of financial position.

23 SUBSIDIARY AND ASSOCIATED COMPANIES

Details of subsidiaries are set out below:

<i>Name</i>	<i>Country of Incorporation</i>	<i>% equity interest</i>		<i>Principal activity</i>
		<i>2010</i>	<i>2009</i>	
Yasmeen Al Kuwait Real Estate Company W.L.L.	Kuwait	97%	97%	Real estate trading
First Investment Fund E.C.	Bahrain	100%	100%	Special purpose company for fiduciary assets
Al Marwa Holding Company K.S.C. (Closed)	Kuwait	99.22%	99.22%	Real estate development
Masadar Energy Company for General Trading W.L.L.	Kuwait	98%	98%	General trading
Deema Real Estate Investment Company L.L.C.	Saudi Arabia	100%	100%	Realestate investment
Atyaf Taiba Company	Cayman Islands	100%	100%	Real estate investment
Shomoul Real Estate Company L.L.C.	Saudi Arabia	50%	100%	Real estate investment
FIC Sukuk Company Limited	Cayman Island	100%	-	Hold assets on trust of sukuk holders

The parent company holds voting capital in First Investment Fund E.C to manage the funds and fiduciary assets and does not have a beneficial interest in the underlying assets in its capacity as a holding company.

23 SUBSIDIARY AND ASSOCIATED COMPANIES (continued)

Details of associates are set out below:

<i>Name</i>	<i>Country of incorporation</i>	<i>% equity interest</i>		<i>Principal activity</i>
		<i>2010</i>	<i>2009</i>	
First Arabian Equity 2000 Fund	Bahrain	-	42.73%	Equity based fund
First Real Estate Investment Company K.S.C. (Closed)	Kuwait	19.79%	19.79%	Real estate investment
First Education Company K.S.C. (Closed)	Kuwait	16.49%	16.49%	Investments in educational sector
Mashair Al-Ola L.L.C.	Saudi Arabia	30.00%	30.00%	Real estate services
Taameer Investment Company (O.L.L.C)	Oman	37.40%	37.40%	Real estate investment
First Energy Resource Company K.S.C.(Closed)	Kuwait	33.21%	33.21%	Investment in energy Sector
Arkan Al-Kuwait Real Estate Company K.S.C.(Closed)	Kuwait	28.86%	28.86%	Real estate financing and leasing
First Investment Bank B.S.C.(Closed)	Bahrain	26.66%	26.66%	Investment bank
Sahab Al-Khalij Real Estate Company B.S.C.(Closed)	Bahrain	35.29%	35.29%	Real estate investment
Q80 Valve Industries Factory	Kuwait	50.00%	50.00%	Manufacturing
Asian Petroleum Facilities Maintenance Company W.L.L.	Kuwait	50.00%	50.00%	Investment in energy sector
Adeem Capital (Saudi Closed Joint Stock Company)	Saudi Arabia	40.00%	40.00%	Asset management

24 PARTIAL DISPOSAL OF SUBSIDIARY

<i>Name of the subsidiary</i>	<i>% of ownership sold</i>	<i>Sales proceeds</i>	<i>Gain on disposal</i>	
		<i>2010 KD</i>	<i>2010 KD</i>	<i>2009 KD</i>
Shomoul Real Estate Investment Company L.L.C.	50%	959,380	23,814	-
		959,380	23,814	-

On 30 October 2010, the parent company disposed of its 50% equity interest in Shomoul Real Estate Investment Company L.L.C. (Shomoul). As a result of this disposal the parent company's equity interest in Shomoul decreased to 50%. Upon partial disposal of Shomoul the parent company has adjusted non-controlling interests in Shomoul by KD 935,566 and recorded the difference of KD 23,814 in equity attributable to the parent company. The parent company controls Shomoul through majority representation on its board of directors.

First Investment Company K.S.C. (Closed) and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

25 SEGMENT INFORMATION

For management purposes, the group is organised into three major geographical segments:

- Kuwait
- Saudi Arabia
- Others

Management monitors the operating results of its geographical segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on return on investments. The group does not have any inter-segment transactions.

	Kuwait		Saudi Arabia		Others		Total	
	2010 KD	2009 KD	2010 KD	2009 KD	2010 KD	2009 KD	2010 KD	2009 KD
Year ended 31 December								
Segment revenue	1,523,804	(464,421)	(754,143)	171,005	(447,192)	(1,833,226)	322,469	(2,126,642)
Segment expenses	(8,594,137)	(10,629,317)	(2,256,939)	(9,926,482)	-	(220,127)	(10,851,076)	(20,775,926)
Segment results	(7,070,333)	(11,093,738)	(3,011,082)	(9,755,477)	(447,192)	(2,053,353)	(10,528,607)	(22,902,568)
At 31 December								
Segment assets	48,950,459	54,541,178	128,052,825	135,029,656	41,970,535	44,028,944	218,973,819	233,599,778
Segment liabilities	101,293,392	103,253,590	17,999,165	15,785,998	5,700,000	5,700,000	124,992,557	124,739,588
Other segmental information:								
Investment in associates	22,076,362	24,593,962	6,340,068	6,621,108	20,792,532	22,257,034	49,208,962	53,472,104
Provision against murabaha receivables	203,899	977,438	-	-	-	-	203,899	977,438
Impairment of other assets	586,324	300,000	1,659,752	-	-	2,010,799	2,246,076	2,310,799
Impairment of financial assets available-for-sale	192,426	994,022	439,906	7,647,353	-	220,128	632,332	8,861,503

26 FINANCIAL RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into profit rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the group's strategic planning process. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

26.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The group's policy is to enter into murabaha and ijara arrangements only with recognised, creditworthy third parties. The maximum exposure equals the carrying amount as disclosed below. In addition, these receivable balances are monitored on an ongoing basis to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

With respect to credit risk arising from other financial assets of the group, which comprise bank balance and other receivables, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, without taking account of any collateral and other credit enhancements.

BY CLASS OF FINANCIAL ASSETS

	2010 KD	<i>2009</i> <i>KD</i>
Bank balances (excluding cash in hand)	9,053,770	2,591,065
Murabaha and ijara receivables	2,995,217	3,628,108
Other assets	7,734,077	9,291,120
Total credit risk exposure	19,783,064	15,510,293

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The maximum exposure to a single counterparty is KD 4,754,636 (2009: KD 3,319,503).

Collateral and other credit enhancements

The murabaha and ijara receivables from non-financial institutions are secured against real estate properties and unquoted securities. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the provision for credit losses.

26 FINANCIAL RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

The group can sell the collateral in case of default by the borrower in accordance with the agreements entered with the borrowers. The group has an obligation to return the collateral on settlement of the receivable.

The fair value of collateral that the group holds relating to murabaha and ijara receivables at 31 December 2010 amounts to KD 1,636,906 (2009: KD 748,000).

Risk concentration of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The group's assets, before taking into account any collateral held or credit enhancements can be analysed by the industry sectors as follows:

Industry sector:	2010 KD	2009 KD
Banks and financial institutions	10,611,703	2,591,065
Construction and real estate	4,217,099	7,850,101
Individuals	4,954,262	5,069,127
	19,783,064	15,510,293

Credit quality of financial assets that are neither past due nor impaired

For murabaha and ijara receivables, neither internal credit grading system nor external credit grades are used by the group. Murabaha and ijara transactions are granted only to credit worthy customers.

The group manages the credit quality by ensuring that adequate collaterals are available for all the individual facilities granted, which the management reviews on a regular basis.

The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of financing and investing activities.

26 FINANCIAL RISK MANAGEMENT (continued)**26.1 CREDIT RISK (continued)***Financial asset by class that are individually determined to be impaired*

	<i>Gross exposure KD</i>	<i>Impairment provision KD</i>
At 31 December 2010		
Ijara receivables	769,878	(769,878)
Murabaha receivables	2,643,006	(1,150,890)
Other assets	8,823,880	(4,449,976)
	<i>Gross exposure KD</i>	<i>Impairment Provision KD</i>
At 31 December 2009		
Ijara receivables	696,844	(696,844)
Murabaha receivables	946,991	(946,991)
Other assets	5,048,623	(2,310,799)

Analysis of past due but not impaired

The group does not have any past due but not impaired financial assets at 31 December 2010 and 31 December 2009.

26 FINANCIAL RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the group's assets and liabilities. The maturity profile of bank balances and cash, murabaha and ijara receivables and murabaha payables at the reporting date is based on contractual repayment arrangements. The maturity profile for the remaining assets and liabilities is determined based on management's estimate of liquidation of those financial assets. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of assets and liabilities at 31 December was as follows:

2010	Maturing within one year					
	Within 3 months KD	3 to 6 months KD	6 to 12 months KD	Sub- total KD	Over 1 year KD	Total KD
ASSETS						
Bank balances and cash	9,054,170	-	-	9,054,170	-	9,054,170
Financial assets at fair value through income statement	-	5,576,735	657,223	6,233,958	14,759,280	20,993,238
Murabaha and ijara receivables	1,546,007	-	-	1,546,007	1,449,210	2,995,217
Financial assets available-for-sale	-	24,831,238	-	24,831,238	65,356,270	90,187,508
Investment in associates	-	4,554,008	8,449,886	13,003,894	36,205,068	49,208,962
Properties under development	-	10,524,469	15,285,671	25,810,140	10,961,211	36,771,351
Investment properties	-	-	-	-	1,950,803	1,950,803
Other assets	560,494	591,416	2,028,473	3,180,383	4,553,694	7,734,077
Furniture and equipment	-	-	-	-	78,493	78,493
TOTAL ASSETS	11,160,671	46,077,866	26,421,253	83,659,790	135,314,029	218,973,819
LIABILITIES						
Murabaha and sukuk payables	60,960,224	-	5,245,871	66,206,095	42,097,000	108,303,095
Other liabilities	1,870,311	8,722,784	916,475	11,509,570	5,179,892	16,689,462
TOTAL LIABILITIES	62,830,535	8,722,784	6,162,346	77,715,665	47,276,892	124,992,557
NET LIQUIDITY GAP	(51,669,864)	37,355,082	20,258,907	5,944,125	88,037,137	93,981,262

26 FINANCIAL RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK (continued)

	Maturing within one year				Over 1 year	Total
	Within 3 months	3 to 6 Months	6 to 12 months	Sub- total		
2009	KD	KD	KD	KD	KD	KD
ASSETS						
Bank balances and cash	2,591,465	-	-	2,591,465	-	2,591,465
Financial assets at fair value through income statement	4,811,587	-	15,787,122	20,598,709	7,426,584	28,025,293
Murabaha and ijara receivables	2,001,908	714,293	911,907	3,628,108	-	3,628,108
Financial assets available -for-sale	8,360,567	7,073,717	31,619,954	47,054,238	52,736,095	99,790,333
Investment in associates	-	-	-	-	53,472,104	53,472,104
Properties under development	-	10,791,879	8,225,591	19,017,470	15,707,710	34,725,180
Investment properties	-	-	-	-	1,964,018	1,964,018
Other assets	399,858	-	-	399,858	8,891,262	9,291,120
Furniture and equipment	-	-	-	-	112,157	112,157
TOTAL ASSETS	18,165,385	18,579,889	56,544,574	93,289,848	140,309,930	233,599,778
LIABILITIES						
Murabaha payables	49,436,782	39,183,000	20,754,200	109,373,982	2,475,029	111,849,011
Other liabilities	3,254,509	-	3,206,579	6,461,088	6,429,489	12,890,577
TOTAL LIABILITIES	52,691,291	39,183,000	23,960,779	115,835,070	8,904,518	124,739,588
NET LIQUIDITY GAP	(34,525,906)	(20,603,111)	32,583,795	(22,545,222)	131,405,412	108,860,190

As disclosed in the table above, the group's liabilities (due within three months) exceeded its assets by KD 51,669,864 (2009: KD 34,525,906). The group is dependent on availability of continued support from the financial institutions. Subsequent to the reporting date, murabaha payables amounting to KD 8,199,482 have matured and management is able to renew these.

Subsequent to the reporting date, management has entered into a restructuring agreement for overdue murabaha payables as of 31 December 2010 amounting to KD 50,093,000 with the financial institutions - refer Note 20 for details. Management is in process of negotiating the terms of settlement of other murabaha payables amounting to KD 3,260,742.

The table below summarises the maturity profile of the group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

26 FINANCIAL RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK (continued)

	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>1 to 3 years KD</i>	<i>Total KD</i>
2010					
Financial Liabilities					
Murabaha and sukuk payables	60,960,224	-	5,245,871	32,266,500	98,472,595
Other liabilities	1,870,311	8,722,784	3,221,225	13,361,755	27,176,075
	62,830,535	8,722,784	8,467,096	45,628,255	125,648,670

	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>1 to 3 years KD</i>	<i>Total KD</i>
2009					
Financial Liabilities					
Murabaha payables	50,099,828	40,573,200	21,287,222	2,475,029	114,435,279
Other liabilities	2,239,311	-	2,968,242	6,401,778	11,609,331
	52,339,139	40,573,200	24,255,464	8,876,807	126,044,610

26.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as profit rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

26.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The group is not exposed to profit rate risk on its profit bearing assets and liabilities as a result of reasonably possible changes in profit rates since the group is not exposed to any floating rate profit bearing assets and liabilities.

26 FINANCIAL RISK MANAGEMENT (continued)

26.3 MARKET RISK (continued)

26.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency risk is managed by the Investment Department of the parent company on the basis of limits determined by the group's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposures.

The group had the following net foreign currency exposures at 31 December:

	2010 KD Equivalent	2009 KD Equivalent
Saudi Riyal	111,903,820	118,135,214
Qatari Riyal	14,016,626	14,597,476
Omani Riyal	11,963,738	12,531,719
Bahraini Dinar	1,904,157	2,037,693
US Dollar	4,767,502	(19,201,257)
UAE Dirham	2,882,040	2,945,184
Pound Sterling	940,844	1,009,088
Euro	19,528	21,680
	148,398,255	132,076,797

The table below analyses the effect on loss and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant.

Currency	2010			Change in currency rate in %	2009	
	Change in currency rate in %	Effect on consolidated income statement KD	Effect on consolidated comprehensive income statement KD		Effect on consolidated income statement KD	Effect on consolidated comprehensive income statement KD
Saudi Riyals	+5	1,713,228	3,881,964	+5	4,294,797	2,059,300
Qatari Riyals	+5	7,545	693,286	+5	182	729,692
US Dollars	+5	(274,781)	513,157	+5	(1,505,452)	545,389
Omani Riyals	+5	75,462	522,725	+5	75,964	550,622
Others	+5	1,028	286,300	+5	1,137	299,545

26.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the Investment Department of the parent company. The group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the group's quoted investments are listed on GCC Stock Exchanges.

26 FINANCIAL RISK MANAGEMENT (continued)

26.3 MARKET RISK (continued)

26.3.3 Equity price risk (continued)

The effect on group's loss (as a result of a change in the fair value of financial assets at fair value through income statement at 31 December) and equity (as a result of a change in the fair value of financial assets available-for-sale at 31 December) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

<i>Market indices</i>	<i>2010</i>			<i>2009</i>		
	<i>Change in equity price %</i>	<i>Effect on consolidated income statement KD</i>	<i>Effect on consolidated comprehensive income statement KD</i>	<i>Change in equity price %</i>	<i>Effect on consolidated income statement KD</i>	<i>Effect on consolidated comprehensive income statement KD</i>
Kuwait	+5	59,407	394,169	+5	-	551,940
Saudi Arabia	+5	-	228,975	+5	245,226	281,404
Qatar	+5	-	-	+5	-	554,566

26.3.4 Prepayment risk

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

26.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes.

27 FIDUCIARY ACCOUNTS

The group manages portfolios on behalf of customers and maintains cash balances and securities in fiduciary accounts which are not reflected in the group's statement of financial position. Assets under management at 31 December 2010 amounted to KD 170,348,000 (2009: KD 209,162,000). The total income earned from fiduciary activities amounted to KD 486,529 (2009: KD 686,519).

28 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances, financial assets at fair value through income statement, financial assets available-for-sale and receivables. Financial liabilities consist of murabaha and sukuk payables and other liabilities.

The fair values of financial instruments, with the exception of certain financial assets available-for-sale carried at cost (see note 13) are not materially different from their carrying values.

28 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy:

The group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: quoted prices in active market for the same instrument.

Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data ; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2010	Level : 1 KD	Level : 2 KD	Level : 3 KD	Total fair value KD
Investment securities				
Financial assets at fair value through income statement				
• Equity	124,707	-	196,558	321,265
• Others	-	-	20,671,973	20,671,973
Financial assets available-for-sale				
• Equity	18,132,385	-	47,321,330	65,453,715
• Others	-	-	24,733,793	24,733,793
 31 December 2009	 Level : 1 KD	 Level : 2 KD	 Level : 3 KD	 Total fair value KD
Investment securities				
Financial assets at fair value through income statement				
• Equity	4,811,587	-	196,558	5,008,145
• Others	-	-	23,017,148	23,017,148
Financial assets available-for-sale				
• Equity	35,368,587	-	34,460,648	69,829,235
• Others	-	-	29,961,098	29,961,098

During the reporting period ended 31 December 2010, there were no transfers between level 1 and level 2 fair value measurements.

28 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value.

	<i>At 1 January 2010</i>	<i>Gain / (Loss) recorded in the consolidated income statement</i>	<i>Gain / (loss) recorded in equity</i>	<i>Net purchases, sales and settlements</i>	<i>At 31 December 2010</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Financial assets at fair value through income statement					
• Equity	196,558	-	-	-	196,558
• Others	23,017,148	(2,206,180)	-	(138,995)	20,671,973
Financial assets available-for-sale					
• Equity	34,460,648	-	(1,012,547)	13,873,229	47,321,330
• Others	29,961,098	826,283	(1,771,775)	(4,281,813)	24,733,793

29 COMMITMENTS AND CONTINGENCIES

Commitments

	<i>2010 KD</i>	2009 KD
Uncalled capital of financial assets available-for-sale	250,000	375,000
Uncalled capital of investments in associates	-	9,482,000
Capital commitments for properties under development	-	8,340,680
Operating lease rentals due within one year	72,330	109,596
	322,330	18,307,276

Contingencies

At 31 December 2010, the group had bank guarantees amounting to KD 1,364,769 (2009: KD 1,916,237) for which the management anticipates that no material liabilities will arise. These expire within a period of 12 months from the reporting date.

30 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group's policy is to keep the gearing ratio less than 100%. The group includes within net debt, Islamic borrowings less bank balances. Capital includes equity attributable to owners of the parent company less cumulative changes in fair values.

	2010 KD	2009 KD
Islamic borrowings	108,303,095	111,849,011
Less: Bank balances and cash	(9,054,170)	(2,591,465)
Net debt	99,248,925	109,257,546
Equity attributable to owners of the parent company	85,049,362	99,465,450
Less: Cumulative changes in fair values	2,735,106	821,862
Total capital	87,784,468	100,287,312
Capital and net debt	187,033,393	209,544,858
Gearing ratio	53%	52%