

**First Investment Company K.S.C.  
(Closed) and its Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

## **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 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

The management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 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 Companies Law No 25 of 2012, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, nor of the Parent Company's Articles of Association have occurred during the year ended 31 December 2012 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 2012.



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



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

20 March 2013  
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
<b>INCOME</b>			
Murabaha and ijara income		68,431	84,777
Rental income		634,399	-
Realised gain on financial assets at fair value through statement of income	4	54,009	750,064
Unrealised loss on financial assets at fair value through statement of income	4	(125,959)	(48,875)
Gain on disposal of financial assets available-for-sale		2,821,193	4,211,269
Gain on disposal of properties under development	12	153,277	3,055,552
Gain on disposal of investment properties		92,113	202,423
Gain on revaluation of investment properties	13	137,324	467,458
Management fees		988,115	814,775
Dividend income	5	110,533	188,723
Gain on disposal of associates	11	772,299	2,416,626
Share of results of associates	11	896,278	(87,598)
Gain on settlement of murabaha payables	17	1,110,365	2,278,000
Other income		501,243	40,169
		<u>8,213,620</u>	<u>14,373,363</u>
<b>EXPENSES</b>			
Reversal (provision) of murabaha and ijara receivables – net	9	453,980	(432,859)
Impairment of financial assets available-for-sale	10	(1,439,964)	(1,144,319)
Provision and write off of other assets	14	(192,161)	(1,659,751)
Staff costs		(2,133,210)	(1,796,815)
Foreign exchange gain (loss)		949,906	(378,859)
Depreciation		(136,333)	(99,811)
Finance costs		(1,680,876)	(4,833,582)
Other expenses		(956,633)	(1,086,809)
		<u>(5,135,291)</u>	<u>(11,432,805)</u>
<b>PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (“KFAS”), NATIONAL LABOUR SUPPORT TAX (“NLST”), ZAKAT AND DIRECTORS’ REMUNERATION</b>			
		3,078,329	2,940,558
Contribution to KFAS		(16,799)	(12,691)
Contribution to NLST		(64,600)	(56,861)
Zakat		(24,805)	(19,902)
Directors’ remuneration			(7,000)
<b>PROFIT FOR THE YEAR</b>		<u>2,972,125</u>	<u>2,844,104</u>
<b>Attributable to:</b>			
Owners of the Parent Company		2,909,976	2,066,288
Non-controlling interests		62,149	777,816
		<u>2,972,125</u>	<u>2,844,104</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY</b>			
	6	<u>4.5 fils</u>	<u>3.2 fils</u>

The attached notes 1 to 26 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	<i>Note</i>	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
<b>Profit for the year</b>		<b>2,972,125</b>	<b>2,844,104</b>
<b>Other comprehensive income</b>			
Financial assets available-for-sale:			
Unrealised (loss) gain		<b>(1,920,672)</b>	1,640,864
Transferred to consolidated statement of income on impairment	10	<b>1,439,964</b>	1,144,319
Net unrealised (loss) gain on financial assets available-for-sale		<b>(480,708)</b>	2,785,183
Share of other comprehensive income of associates		<b>47,351</b>	578,147
Exchange differences on translation of foreign operations		<b>(406,842)</b>	433,646
<b>Other comprehensive (loss) income for the year</b>		<b>(840,199)</b>	<b>3,796,976</b>
<b>Total comprehensive income for the year</b>		<b>2,131,926</b>	<b>6,641,080</b>
<b>Attributable to:</b>			
Owners of the Parent Company		<b>1,987,405</b>	6,094,538
Non-controlling interests		<b>144,521</b>	546,542
		<b>2,131,926</b>	<b>6,641,080</b>


The attached notes 1 to 26 form part of these consolidated financial statements.

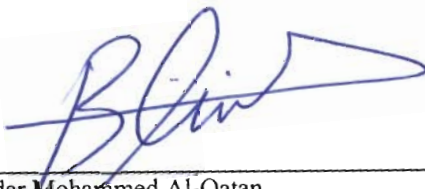
First Investment Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>Notes</i>	<b>2012 KD</b>	<b>2011 KD</b>
<b>ASSETS</b>			
Bank balances and cash	7	8,116,741	9,314,660
Financial assets at fair value through statement of income	8	1,351,240	1,804,747
Murabaha and ijara receivables	9	2,116,007	2,383,916
Financial assets available-for-sale	10	32,266,092	65,062,640
Investment in associates	11	53,000,509	55,293,202
Properties under development	12	17,383,621	17,857,359
Investment properties	13	26,816,298	6,383,054
Other assets	14	4,372,229	5,521,857
Property and equipment		1,198,768	1,193,129
<b>TOTAL ASSETS</b>		<b>146,621,505</b>	<b>164,814,564</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	65,107,055	65,107,055
Share premium	15	18,250,362	18,250,362
Treasury share	15	(104,693)	-
Statutory reserve	16	517,892	216,274
Share options reserve	3	3,016,890	3,016,890
Treasury shares reserve	15	1,090,539	1,090,539
Cumulative changes in fair values		134,667	632,864
Foreign currency translation reserve		555,528	979,902
Retained earnings		4,458,372	1,850,014
<b>Equity attributable to owners of the Parent Company</b>		<b>93,026,612</b>	<b>91,143,900</b>
Non-controlling interests		19,750,500	19,873,439
<b>Total equity</b>		<b>112,777,112</b>	<b>111,017,339</b>
<b>Liabilities</b>			
Murabaha and sukuk payables	17	29,560,317	48,939,220
Other liabilities	18	4,284,076	4,858,005
<b>Total liabilities</b>		<b>33,844,393</b>	<b>53,797,225</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>146,621,505</b>	<b>164,814,564</b>

  
Khalid S. Al-Sanaousi  
Chairman and Managing Director

  
Badar Mohammed Al-Qatan  
Vice Chairman

The attached notes 1 to 26 form part of these consolidated financial statements.

First Investment Company K.S.C. (Closed) and its Subsidiaries  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2012

	Attributable to owners of the Parent Company										Non- controlling interests	Total equity
	Share capital KD	Share premium KD	Treasury share KD	Statutory reserve KD	Share options reserve KD	Treasury shares reserve KD	Cumulative changes in fair values KD	Foreign currency translation reserve KD	Retained earnings (accumulated losses) KD	Sub- total KD		
As at 1 January 2012	65,107,055	18,250,362	-	216,274	3,016,890	1,090,539	632,864	979,902	1,850,014	91,143,900	19,873,439	111,017,339
Profit for the year	-	-	-	-	-	-	-	-	2,909,976	2,909,976	62,149	2,972,125
Other comprehensive (loss) income for the year	-	-	-	-	-	-	(498,197)	(424,374)	-	(922,571)	82,372	(840,199)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(498,197)	(424,374)	2,909,976	1,987,405	144,521	2,131,926
Purchase treasury share	-	-	(104,693)	-	-	-	-	-	-	(104,693)	-	(104,693)
Transfer to reserve	-	-	-	301,618	-	-	-	-	(301,618)	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(267,460)	(267,460)
<b>At 31 December 2012</b>	<b>65,107,055</b>	<b>18,250,362</b>	<b>(104,693)</b>	<b>517,892</b>	<b>3,016,890</b>	<b>1,090,539</b>	<b>134,667</b>	<b>555,528</b>	<b>4,458,372</b>	<b>93,026,612</b>	<b>19,750,500</b>	<b>112,777,112</b>
As at 1 January 2011	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
Profit for the year	-	-	-	-	-	-	-	-	2,066,288	2,066,288	777,816	2,844,104
Other comprehensive income (loss) for the year	-	-	-	-	-	-	3,367,970	660,280	-	4,028,250	(231,274)	3,796,976
Total comprehensive income for the year	-	-	-	-	-	-	3,367,970	660,280	2,066,288	6,094,538	546,542	6,641,080
Write-off of accumulated losses (Note 15)	-	(3,240,221)	-	(7,275,988)	-	-	-	-	10,516,209	-	-	-
Transfer to reserve	-	-	-	216,274	-	-	-	-	(216,274)	-	-	-
Arising on business combination	-	-	-	-	-	-	-	-	-	-	13,965,288	13,965,288
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,570,291)	(3,570,291)
<b>At 31 December 2011</b>	<b>65,107,055</b>	<b>18,250,362</b>	<b>-</b>	<b>216,274</b>	<b>3,016,890</b>	<b>1,090,539</b>	<b>632,864</b>	<b>979,902</b>	<b>1,850,014</b>	<b>91,143,900</b>	<b>19,873,439</b>	<b>111,017,339</b>

The attached notes 1 to 26 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	<i>Notes</i>	<b>2012</b> <b>KD</b>	<b>2011</b> <b>KD</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		2,972,125	2,844,104
Adjustments for:			
Depreciation		136,333	99,811
Finance costs		1,680,876	4,833,582
Murabaha and ijara income		(68,431)	(84,777)
Gain on disposal of financial assets available-for-sale		(2,821,193)	(4,211,269)
Gain on revaluation on investment properties		(137,324)	(467,458)
Gain on disposal of properties under development	12	(153,277)	(3,055,552)
Gain on disposal of investment properties		(92,113)	(202,423)
Dividend income	5	(110,533)	(188,723)
Gain on disposal of associates	11	(772,299)	(2,416,626)
Share of results of associates	11	(896,278)	87,598
Gain on settlement of murabaha and sukuk payables	17	(1,110,365)	(2,278,000)
( Reversal) provision against murabaha and ijara receivables – net	9	(453,980)	432,859
Impairment of financial assets available-for-sale	10	1,439,964	1,144,319
Provision and write-off of other assets	14	192,161	1,659,751
Foreign exchange (gain) loss		(949,906)	378,859
		<u>(1,144,240)</u>	<u>(1,423,945)</u>
Changes in operating assets and liabilities:			
Financial assets at fair value through statement of income		416,123	(1,100,694)
Murabaha and ijara receivables		452,430	2,802,571
Other assets		1,194,563	51,542
Other liabilities		89,033	536,052
		<u>1,007,909</u>	<u>865,526</u>
Murabaha and ijara income received		62,911	33,830
Finance costs paid		(2,337,133)	(5,758,082)
		<u>(1,266,313)</u>	<u>(4,858,726)</u>
<b>INVESTING ACTIVITIES</b>			
Arising on acquisition of a subsidiary		-	1,500,103
Dividend income received	5	110,533	188,723
Purchase of financial assets available-for-sale		-	(914,388)
Proceeds from disposal of financial assets available-for-sale		970,444	270,611
Purchase of investment properties		(807,096)	-
Proceeds from disposal of investment properties		6,117,856	1,856,801
Purchase of investment in associates		(2,123,062)	(5,595)
Proceeds from disposal of investment in associates		1,936,000	11,160,567
Dividends received from associates		319,992	-
Purchase of properties under development		(543,217)	(876,239)
Proceeds from sale of properties under development		1,213,877	12,235,066
Purchase of property and equipment		(141,972)	(114,525)
		<u>7,053,355</u>	<u>25,301,124</u>

The attached notes 1 to 26 form part of these consolidated financial statements.



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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2012

	<i>Note</i>	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
<b>FINANCING ACTIVITIES</b>			
Proceeds from increase in murabaha and sukuk payables		356,700	1,229,320
Repayment of murabaha and sukuk payables		(6,969,508)	(17,840,937)
Purchase of treasury shares		(104,693)	-
Distribution to non-controlling interests		(267,460)	(3,570,291)
Net cash flows used in financing activities		<u>(6,984,961)</u>	<u>(20,181,908)</u>
<b>NET (DECREASE) INCREASE IN BANK BALANCES AND CASH</b>		<b>(1,197,919)</b>	<b>260,490</b>
Bank balances and cash at 1 January		<u>9,314,660</u>	<u>9,054,170</u>
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>	<b>7</b>	<b><u>8,116,741</u></b>	<b><u>9,314,660</u></b>

The attached notes 1 to 26 form part of these consolidated financial statements.

# First Investment Company K.S.C. (Closed) and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

### 1 CORPORATE INFORMATION

The consolidated financial statements of First Investment Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors of the Parent Company on 20 March 2013. The shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

The Parent Company is a Kuwaiti 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 ("CBK") and Capital Market Authority ("CMA") as an investment company. The Parent Company's shares are listed on Kuwait Stock Exchange. 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 and all activities are carried out in compliance with the memorandum of association, the article of association and the Islamic Sharia.

#### 2.1 BASIS OF PREPARATION

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 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.

The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through statement of income, 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.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. According to article 2 of the Decree, the Company has a period of 6 months from 29 November 2012 to regularize its affairs in accordance with the Companies Law.

#### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2012.

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. Control is achieved where the Group has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities. This occurs when the Group has more than 50% voting power through ownership or agreements, except where minority rights are such that a minority shareholder is able to prevent the Group from exercising control. In addition control may exist without having more than 50% voting power through ownership or agreements, or in the circumstances of enhanced minority rights, as a consequence of *de facto* control. *De facto* control is control without the legal right to exercise unilateral control, and involves decision making ability that is not shared with others and the ability to give directions with respect to the operating and financial policies of the entity concerned.

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.

Total comprehensive income/loss within a subsidiary is 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 other comprehensive income
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in statement of income
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to statement of income or retained earnings, as appropriate.

# First Investment Company K.S.C. (Closed) and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

### 2.2 BASIS OF CONSOLIDATION (continued)

Details of subsidiaries are set out below:

Name	Country of Incorporation	% equity interest		Principal activity
		2012	2011	
Al Marwa Holding Company K.S.C. (Closed)	Kuwait	99.22%	99.22%	Holding company
FIC Projects Development Company	Cayman Islands	100%	100%	Real estate investment
Deema Real Estate Investment Company L.L.C.	Saudi Arabia	95%	95%	Real estate investment
First Energy Resource Company K.S.C.(Closed)	Kuwait	33.21%	33.21%	Investment in energy sector
First Investment Fund E.C. (1)	Bahrain	100%	100%	Special purpose company for fiduciary assets
FIC Sukuk Company Limited	Cayman Islands	100%	100%	Holding assets on trust of sukuk holders
Masadar Energy Company for General Trading W.L.L.	Kuwait	98%	98%	General trading
Shomoul Real Estate Company L.L.C.	Saudi Arabia	50%	50%	Real estate investment
Yasmeen Al Kuwait Real Estate Company W.L.L.	Kuwait	97%	97%	Real estate trading
Q80 Valve Industries Factory	Kuwait	66.6%	66.6%	Manufacturing
Asian Petroleum Facilities Maintenance Company W.L.L.	Kuwait	66.6%	66.6%	Investment in energy sector

- 1) 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.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. 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.

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.

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 the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 statement of income.

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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) Business Combinations and Goodwill (continued)**

Where goodwill forms part of a CGU 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. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

**b) 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 Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

- Sale of properties is recognised when the risk and rewards of ownership have passed to the buyer usually evidenced by transfer of title of the properties.
- 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.
- Rental income arising from operating leases of investment properties is accounted for on an accrual basis on contract terms.
- 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.

**c) 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 statement of income.

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 Board of Directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

**d) Financial instruments - initial recognition and subsequent measurement**

**i) Financial assets**

**Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as "financial assets at fair value through statement of income", "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 transaction costs, except in the case of financial assets recorded at fair value through statement of income.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**Subsequent measurement**

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

**Financial assets at fair value through statement of income**

These are financial assets that are either financial assets held for trading or those designated as at fair value through statement of income 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 only if criteria under IAS 39 are satisfied.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Financial instruments - initial recognition and subsequent measurement (continued)**

**i) Financial assets (continued)**

**Subsequent measurement (continued)**

**Financial assets at fair value through statement of income (continued)**

Financial assets at fair value through statement of income are carried in the statement of financial position at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated statement of income.

The Group evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through statement of income using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

**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 statement of income or held for trading.

After initial recognition, financial assets available-for-sale are subsequently measured at fair value with unrealised gains and losses recognised in the consolidated statement of other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in consolidated statement of income, or determined to be impaired, is reclassified to the consolidated statement of income 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.

The Group evaluates whether the ability and intention to sell its financial assets available-for-sale in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated statement of income over the remaining life of the investment using the effective interest rate (EIR) method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Reclassification from financial assets available-for-sale to investment in associates is made upon acquisition of significant influence over the investment. Such transfer is made at original cost and any gain or loss previously classified in cumulative changes in fair value reserve is reversed to bring the carrying value to its original cost.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Loans and receivables comprises of following:

**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.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Financial instruments - initial recognition and subsequent measurement (continued)**

**i) Financial assets (continued)**

**Loans and receivables (continued)**

*Murabaha and ijara receivables (continued)*

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 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.

When 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, the asset is recognised to the extent of the Group's continuing involvement in the assets. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**ii) Impairment of financial assets**

An assessment is made at each reporting date to determine whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is 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 the group of financial assets that can be reliably estimated. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the debtors 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 when 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 statement of income.

**Loans and receivables**

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the contractual interest rate. The amount of loss arising from impairment is taken to the consolidated statement of income.

In addition, in accordance with CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non cash facilities is made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Financial instruments - initial recognition and subsequent measurement (continued)**

**ii) Impairment of financial assets (continued)**

*Financial assets available-for-sale*

For financial assets available-for-sale, the Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets available-for-sale is impaired.

In the case of equity investments classified as financial assets available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets available-for-sale previously recognised in the consolidated statement of income, is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment is recognised directly in other comprehensive income.

**iii) Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through statement of income and loans and borrowings ('murabaha payables' and 'other liabilities'), as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

*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.

*Other liabilities*

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

*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 statement of income.

**iv) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**v) 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 24.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) 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 using 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 statement of income 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 statement of income. 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.

The consolidated statement of income reflects the Group's share of results of operations of the associates. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss' in the consolidated statement of income.

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 statement of income.

**f) Investment properties**

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

Investment properties are derecognized either when they have 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 period of derecognition.

Transfers are made to investment properties 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 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.

**g) Properties under development**

Properties under development are developed for future sale in the ordinary course of business, rather than to be held for rental or capital appreciation and are stated at lower of cost and net realizable value. Cost includes freehold rights for land, amounts paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs. Net realizable value is based on estimated selling price in the ordinary course of the business, based on market prices at the statement of financial position date, less costs to completion and the estimated cost of sale.



**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) 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 CGU's 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. When 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 whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**i) Employees' end of service benefits**

Provision is made for amounts payable to employees under the Kuwaiti Labour Law for private sector, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of termination of the reporting date.

**j) Treasury shares**

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Parent Company 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.

**k) 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.

**i) Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group entities at their respective 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 statement of income.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**k) Foreign currency translation (continued)**

*i) Transactions and balances (continued)*

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 is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of income is also recognised in other comprehensive income or consolidated statement of income, respectively).

*ii) 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 exchange differences are taken to the foreign currency translation reserve until disposal at which time they are recognised in the consolidated statement of income.

**l) Fiduciary assets**

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

**m) 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.

**n) 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 and 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 Board of Directors' remuneration 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*

Zakat is calculated at 1% of the profit of the Parent Company in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007.

**2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's 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 future periods.

**2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Judgments**

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

*Classification of investments*

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

Classification of investments as fair value through statement of income 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 statement of income in the management accounts, they are classified as fair value through statement of income.

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

*Classification of real estate*

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

The Group classifies property as property under development if it is acquired with the intention of development and for future sale in the ordinary course of business.

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

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Impairment of investment in associates*

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

*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.

## 2.5 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

### **New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended to IFRS and IFRIC interpretation effective as of 1 January 2012:

#### *IAS 12 Income Taxes – Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It implies the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

#### *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

## 2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

#### *IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

#### *IAS 19 Employee Benefits (Revised)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. These amendments are not expected to impact the Group's financial position or performance and become effective on 1 January 2013.

#### *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

#### *IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

#### *IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

**2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

*IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

*IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a Parent Company, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This new standard will have no impact on the Group's financial statements and become effective for annual periods beginning on or after 1 January 2013.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**3 EMPLOYEE STOCK OPTION PLAN**

The Parent Company operates share option plan to reward the performance of its employees. Under this plan, the Parent Company may issue shares for cash to eligible employees by increasing its share capital. This scheme is in operation for a period from 1 January 2003. The total capital increase to meet the requirements of the scheme should not exceed 10% of the Parent Company's share capital at 31 December 2002.

No share option were issued or exercised during the current year (2011: Nil). Accordingly no charge was recorded in the consolidated statement of income (2011: Nil).

**4 GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME**

	<i>Realised gain (loss)</i>		<i>Unrealised loss</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Held for trading	54,009	(965,042)	(125,959)	(48,875)
Designated	-	1,715,106	-	-
	<u>54,009</u>	<u>750,064</u>	<u>(125,959)</u>	<u>(48,875)</u>

**5 DIVIDEND INCOME**

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Financial assets at fair value through statement of income	9,012	95,770
Financial assets available-for-sale	101,521	92,953
	<u>110,533</u>	<u>188,723</u>

**6 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY**

Basic and diluted earnings per share are computed by dividing the profit 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>2012</i>	<i>2011</i>
Profit attributable to owners of the Parent Company (KD)	2,909,976	2,066,288
Weighted average number of outstanding shares	651,070,551	651,070,551
Less: weighted average number of treasury shares	(66,082)	-
Weighted average number of shares	<u>651,004,469</u>	<u>651,070,551</u>
Basic and diluted earnings per share attributable to owners of the Parent Company	<u>4.5 fils</u>	<u>3.2 fils</u>

The Parent Company had no outstanding dilutive potential shares.

**7 BANK BALANCES AND CASH**

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Cash	400	400
Bank balances	8,116,341	9,314,260
	<u>8,116,741</u>	<u>9,314,660</u>

Bank balances include KD nil (2011: KD 2,199,333), held with portfolio managers, which can only be used for trading in securities listed on the Saudi Stock Exchange (Tadawul).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2012 KD	2011 KD
<b>Held for trading</b>		
Quoted equity securities	-	158,627
Managed funds and portfolio	1,029,976	1,449,562
<b>Designated</b>		
Unquoted equity securities	321,264	196,558
	<u>1,351,240</u>	<u>1,804,747</u>

Managed funds and portfolios are primarily invested in money market instruments and certain equity securities. .

9 MURABAHA AND IJARA RECEIVABLES

	<i>Murabaha</i>		<i>Ijara</i>		<i>Total</i>	
	2012 KD	2011 KD	2012 KD	2011 KD	2012 KD	2011 KD
Gross amount	3,158,582	5,657,834	176,162	724,453	3,334,744	6,382,287
Less: deferred income	-	(4,590)	-	-	-	(4,590)
	<u>3,158,582</u>	<u>5,653,244</u>	<u>176,162</u>	<u>724,453</u>	<u>3,334,744</u>	<u>6,377,697</u>
Less: general provision	(546,783)	(550,783)	-	-	(546,783)	(550,783)
Less: specific provision	(495,792)	(2,718,545)	(176,162)	(724,453)	(671,954)	(3,442,998)
Total provision	<u>(1,042,575)</u>	<u>(3,269,328)</u>	<u>(176,162)</u>	<u>(724,453)</u>	<u>(1,218,737)</u>	<u>(3,993,781)</u>
	<u>2,116,007</u>	<u>2,383,916</u>	<u>-</u>	<u>-</u>	<u>2,116,007</u>	<u>2,383,916</u>

Murabaha receivables amounting to KD 1,363,575 have been fully settled subsequent to the year end. Average profit rate attributable to murabaha receivables during the year was 2.75% (2011: 4.16%) per annum.

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

	2012 KD	2011 KD
At 1 January	3,993,781	1,963,672
(Reversal) provision for the year – net	(453,980)	432,859
Written off during the year	(2,321,064)	-
Specific provision arising on business combination	-	1,597,250
At 31 December	<u>1,218,737</u>	<u>3,993,781</u>

10 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2012 KD	2011 KD
Unquoted equity securities	31,906,889	33,884,881
Quoted equity securities	198,646	6,905,703
Sukuk	-	23,655,161
Unquoted managed funds	160,557	264,172
Real estate portfolios	-	352,723
	<u>32,266,092</u>	<u>65,062,640</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**10 FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)**

Unquoted equity securities are stated 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 1,434,935 (2011: KD 600,000) in the consolidated statement of income. Based on the latest available financial information, management is of the view that no further impairment provision is required as at 31 December 2012 in respect of these investments.

During the year, the Group has recorded impairment loss of KD 5,029 (2011: KD 447,912) on quoted equity investments and KD nil (2011: KD 96,407) on unquoted managed funds where there has been a significant or prolonged decline in fair value.

During the current year, a quoted equity security with a carrying value of KD 6,593,439 and acquisition cost of KD 6,060,911 has been transferred to a financial institution against settlement of murabaha payables of KD 7,617,661 (Note 17) resulting in a gain of KD 1,556,750 which is recognised in the consolidated statement of income.

During the current year, the Parent Company has disposed its investment in sukuks in exchange of portfolio of investment properties with a fair value of KD 25,144,156 determined by two independent valuers and recognised a gain of KD 1,130,997 in the consolidated statement of income. This portfolio has been classified as investment properties (Note 13).

**11 INVESTMENT IN ASSOCIATES**

Details of associates are as follows:

Name	Country of incorporation	% equity interest		Principal activity
		2012	2011	
First Real Estate Investment Company K.S.C. (Closed) (a)	Kuwait	-	19.79%	Real estate investment
First Education Company K.S.C. (Closed)	Kuwait	17.16%	16.49%	Investments in educational sector
Taameer Investment Company (O.L.L.C)	Oman	37.40%	37.40%	Real estate investment
Arkan Al-Kuwait Real Estate Company K.S.C.(Closed)	Kuwait	29.03%	28.86%	Real estate financing and leasing
First Investment Bank B.S.C. (Closed) (b)	Bahrain	-	26.66%	Investment bank
Sahab Al-Khalij Real Estate Company B.S.C. (Closed)	Bahrain	35.29%	35.29%	Real estate investment
Adeem Capital (Saudi Closed Joint Stock Company)	Saudi Arabia	40%	40%	Asset management
Al Jazeera Al Oula Real Estate (W.L.L) (c)	Saudi Arabia	20.90%	-	Real estate investment
Burgan Company for Well Drilling K.S.C. (Closed) ("BCWD") (d)	Kuwait	20.46%	20.07%	Investment in energy Sector

a) During the year, the Parent Company has transferred its entire stake in First Real Estate Company K.S.C. (Closed) with a carrying value of KD 3,240,286 to a financial institution against settlement of a murabaha payable amounting to KD 3,938,662 (Note 17) and accrued profit amounting to KD 69,549 resulting in a gain of KD 767,925 which is recognised in the consolidated statement of income.

b) During the year, First Investment Bank B.S.C. (Closed) has been liquidated. Accordingly, the Group has received final payment of KD 1,624,309 as its proportionate share in the net assets on its liquidation and recorded a gain of KD 4,374 in the consolidated statement of income.

c) During the year, the Parent Company has invested in Al Jazeera Al Oula Real Estate W.L.L. ("JORE") of KD 1,412,667 which represents 20.90% of the net assets of JORE. Currently, the Parent Company also holds 79.10% of the net assets of JORE in a fiduciary capacity which is not reflected in the Group's consolidated statement of financial position.



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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

11 INVESTMENT IN ASSOCIATES (continued)

- d) During the year, the Group finalised the purchase price allocation (PPA) exercise of BCWD, and the provisional values of assets acquired and liabilities assumed at acquisition date have been adjusted to reflect the fair values determined through PPA. Effect of PPA is as follows:

	<i>Total KD</i>
Total assets at acquisition date	171,175,238
<i>Effect of PPA:</i>	
Fair value adjustment to property, plant and equipment (i)	330,626
Intangible assets (ii)	48,094,501
Other adjustments (iii)	(9,303,147)
	<u>210,297,218</u>
Total liabilities at acquisition date	(118,574,793)
Fair value of total net assets	<u>91,722,425</u>
Group' share in fair value of total net assets (20.07%)	18,408,690
Less: Cost of 20.07% interest	(24,303,578)
Goodwill	<u>5,894,888</u>

- i) Management has estimated that the remaining useful life of property, plant and equipment is same as stated in BCWD financial statements.
- ii) Intangible assets represent fair value of customer related contracts amounting to KD 23,077,846, fair value of license and brand name amounting to KD 22,766,655 and rights of utilization of land amounting to KD 2,250,000. Management estimated that the useful life of these intangible assets is indefinite.
- iii) Other adjustments represent adjustments to 'Prepayments and other receivable' amounting to KD 9,303,147 in relation to deferred penalties from a customer for certain contracts.

Classification of an investment as an investment in associate where the Group holds less than 20% ownership 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.

The movement in the carrying value of investment in associates is as follows:

	<i>2012 KD</i>	<i>2011 KD</i>
At 1 January	55,293,202	49,208,962
Additions	2,255,609	5,595
Arising on acquisition of a subsidiary (Note 19)	-	10,528,716
Disposals	(5,944,238)	(13,788,694)
Dividend received	(319,992)	-
Gain on disposal	772,299	2,416,626
Transfer from financial assets available-for-sale	-	13,774,862
Transfer to subsidiaries (Note 19)	-	(7,082,356)
Foreign currency translation adjustment	64,841	(265,698)
Cumulative change in fair value	565	582,787
Share of results	896,278	(87,598)
Treasury shares reserve	(18,055)	-
At 31 December	<u>53,000,509</u>	<u>55,293,202</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

11 INVESTMENT IN ASSOCIATES (continued)

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

	2012 KD	2011 KD
<b>Share of associate's statement of financial position:</b>		
Assets	71,742,384	74,943,802
Liabilities	(27,169,385)	(28,245,603)
Net assets	44,572,999	46,698,199
Goodwill	8,427,510	8,595,003
	<u>53,000,509</u>	<u>55,293,202</u>
<b>Share of associate's revenue and results:</b>		
Revenue	8,945,044	3,479,848
Result – Profit (Loss)	896,278	(87,598)

Investment in associates include quoted associates with a carrying value of KD 35,401,811 (2011: KD 34,568,583) having a market value of KD 13,604,310 (2011: KD 13,260,995).

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 reporting dates of associates and 31 December 2012.

12 PROPERTIES UNDER DEVELOPMENT

	2012 KD	2011 KD
At 1 January	17,857,359	36,771,351
Additions	543,217	2,654,010
Disposals	(1,352,302)	(21,294,454)
Foreign currency adjustment	335,347	(273,548)
At 31 December	<u>17,383,621</u>	<u>17,857,359</u>

During the year the Group has disposed off certain of its properties under development, which resulted in a gain of KD 153,277 (2011: 3,055,552).

13 INVESTMENT PROPERTIES

	2012 KD	2011 KD
At 1 January	6,383,054	1,950,803
Addition	25,951,251	-
Transfers	352,723	8,785,795
Disposals	(6,117,856)	(4,784,863)
Gain on disposal	92,113	-
Revaluation gain	137,324	467,458
Foreign currency adjustment	17,689	(36,139)
At 31 December	<u>26,816,298</u>	<u>6,383,054</u>

Investment properties are stated at fair values which have been determined based on valuations performed by accredited independent valuers as at 31 December 2012. The fair values of the properties have been determined based on transactions observable in the market.

Additions during the year includes share in real estate portfolio with a fair value of KD 25,144,156 which have been received in exchange of the Parent Company's investment in sukuks (Note 10). Legal ownership of this share in portfolio is in the process of being registered in the name of the Parent Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**14 OTHER ASSETS**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Receivable from sale of property under development	1,216,651	2,383,474
Other receivables	3,111,402	7,131,375
Management fees receivable	111,423	105,937
	<u>4,439,476</u>	<u>9,620,786</u>
Less: provision	(67,247)	(4,098,929)
	<u>4,372,229</u>	<u>5,521,857</u>

Movement in provision against other assets is as follows:

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
At 1 January	4,098,929	4,449,976
Charge for the year	192,161	1,659,751
Written off	(4,223,843)	(2,010,798)
	<u>67,247</u>	<u>4,098,929</u>

**15 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES**

a) Share capital and share premium;

The authorised, issued and fully paid up in cash, capital of the Parent Company amounted to 651,070,551 shares (2011: 651,070,551 shares) of 100 fils each.

Share premium is not available for distribution.

The Board of Directors of the Parent Company has recommended no cash dividends or bonus shares for the year ended 31 December 2012. This proposal is subject to approval by the shareholders' Annual General Assembly meeting.

On 8 May 2012, the Annual General Assembly of the shareholders of the Parent Company approved no cash dividends or bonus shares for the year ended 31 December 2011.

On 9 May 2011, the Annual General Assembly of the shareholders of the Parent Company approved no cash dividends or bonus shares for the year ended 31 December 2010. It approved the write-off of accumulated losses of KD 10,516,209 as of 31 December 2010, against share premium of KD 3,240,221 and statutory reserve of KD 7,275,988.

b) Treasury shares;

	<i>2012</i>	<i>2011</i>
Number of treasury shares	860,000	-
Percentage of issued shares	0.13%	-
Cost of treasury shares in KD	104,693	-
Market value in KD	104,920	-

Treasury shares reserve equivalent to the cost of treasury shares have been earmarked as non-distributable.

**16 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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**16 RESERVES (continued)**

**b) Voluntary reserve**

In accordance with Article 49 of the Parent Company's Articles of Association, a percentage of the profit for the year attributable to Parent Company's shareholders proposed by the board of directors to be allocated to voluntary reserve. The Annual General Assembly of shareholders may, upon a recommendation by the Board of Directors, resolve to discontinue such annual transfers.

The Board of Directors have not recommended any transfer to voluntary reserve for the current year.

**17 MURABAHA AND SUKUK PAYABLES**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Murabaha payables	2,360,317	21,672,220
Sukuk payable	27,200,000	27,267,000
	<u>29,560,317</u>	<u>48,939,220</u>

During the current year, the management of the Parent Company has settled its murabaha payables amounting to KD 12,666,688 with certain banks and financial institutions by transfer of certain assets (which includes financial assets available-for-sale (Note 10) and investment in associates (Note 11)) resulting in total gain on transfer of assets of KD 2,324,675 which has been recognised in the consolidated financial statements. On settlement of murabaha payables, the Parent Company received a discount of KD 1,110,365 which has been recognised in the consolidated statement of income.

***Murabaha payables***

Murabaha payables represent murabaha contracts with various financial institutions. The average effective cost attributable to these contracts are 5 % (2011: 3.58% to 5.00%) per annum.

The terms of the financing agreement of murabaha facility amounting to KD nil (2011: KD 3,719,365) restrict the use of the facility to trading in Tadawul listed Shariah compliant shares.

***Sukuk payable***

On 16 September 2010, the Parent Company entered into a restructuring agreement with a financial institution, a related party, which settled its entire obligations and liabilities under the original 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 had been established by the Parent Company to hold on trust all rights, title interests and benefits of the sukuk assets for the sukuk holder under the terms of the restructuring agreement with the financial institution. As part of the restructuring agreement, the Parent Company will transfer the beneficial interest of certain assets (which may include financial assets at fair value through statement of income, 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. During the prior year, the sukuk liability of KD 14,830,000 was settled by transferring a financial asset available-for-sale.

Repayment of the remaining sukuk payables will be in four semi-annual instalments starting from 31 March 2014. The profit rate of the sukuk payables is 6 months CBK discount rate plus 250 basis points per annum. It also requires, 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.

**18 OTHER LIABILITIES**

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Other payables	2,308,801	2,307,431
Accrued expenses	1,975,275	2,550,574
	<u>4,284,076</u>	<u>4,858,005</u>

# First Investment Company K.S.C. (Closed) and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

### 19 BUSINESS COMBINATION

#### *Business combinations in 2011*

On 1 July 2011, the Parent Company entered into an agreement with a shareholder of FERCO (an associate at the time), whereby the shareholder had transferred only its members voting rights in FERCO's Board of Directors to the Parent Company. As a result of this agreement, the Parent Company controls FERCO through majority of representation (4 out of total 7) on the Board of Directors of FERCO. Accordingly, FERCO had become a subsidiary of the Group and had been consolidated from the date of exercise of control. The Parent Company holds an effective equity interest of 33.21% in FERCO which was previously classified as "investment in associates".

As a result of the business combination of FERCO, the following subsidiary companies of FERCO also became subsidiaries of the Group:

	<i>Previously held equity interest</i>	<i>Additional interest through FERCO</i>	<i>Post acquisition equity interest</i>
Asian Petroleum Facilities Maintenance Company W.L.L.	50%	50%	100%
Q80 Valve Industries Factory	50%	50%	100%

These business combinations have been accounted for in accordance with IFRS 3 *Business Combinations*. As the business combinations were achieved in stages, the Group re-measured its previously held equity interests in FERCO and its subsidiaries at the business combination date fair value which is not materially different from the carrying value of previously held equity interest. Accordingly, no gain or loss was recorded in the consolidated statement of income.

### 20 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:

	<u>2012</u>			<u>2011</u>
	<i>Associates KD</i>	<i>Major shareholder KD</i>	<i>Total KD</i>	<i>Total KD</i>
<b>Consolidated statement of income</b>				
Gain on disposal of investment properties	92,113	-	92,113	4,319,246
Management fees	-	41,402	41,402	123,030
Finance costs	-	1,400,458	1,400,458	2,152,086
<b>Consolidated statement of financial position</b>				
Sukuk payable (Note 17)	-	27,200,000	27,200,000	27,267,000
Management fees receivable	-	25,162	25,162	13,429
<b>Key management personnel compensation</b>				
			<u>2012 KD</u>	<u>2011 KD</u>
Salaries and other short term benefits			368,650	307,651
Terminal benefits			132,223	53,467
			<u>500,873</u>	<u>361,118</u>

#### **Other transactions**

The Group also manages portfolios on behalf of related parties amounting to KD 5,985,105 (2011: KD 65,372,152) which are not reflected in the Group's consolidated statement of financial position.

First Investment Company K.S.C. (Closed) and its Subsidiaries  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 At 31 December 2012

**21 SEGMENT INFORMATION**

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

- Kuwait
- Saudi Arabia
- Others

The Group does not have any inter-segment transactions.

	Kuwait		Saudi Arabia		Others		Total	
	2012 KD	2011 KD	2012 KD	2011 KD	2012 KD	2011 KD	2012 KD	2011 KD
<b>Year ended 31 December</b>								
Revenue	3,412,366	3,200,611	4,566,976	7,120,645	234,278	4,052,107	8,213,620	14,373,363
Expenses	(3,943,998)	(7,805,254)	(536,993)	(2,875,439)	(654,300)	(752,112)	(5,135,291)	(11,432,805)
<b>Results -- Profit (loss)</b>	<b>(531,632)</b>	<b>(4,604,643)</b>	<b>4,029,983</b>	<b>4,245,206</b>	<b>(420,022)</b>	<b>3,299,995</b>	<b>3,078,329</b>	<b>2,940,558</b>
<b>At 31 December</b>								
Operating assets	54,160,312	57,849,806	74,049,681	85,381,677	18,411,512	21,583,081	146,621,505	164,814,564
Operating liabilities	32,032,894	48,047,829	1,811,499	5,460,485	-	288,911	33,844,393	53,797,225
<b>Other disclosures:</b>								
Investment in associates (Note 11)	37,942,819	40,199,692	3,049,381	1,643,592	12,008,309	13,449,918	53,000,509	55,293,202
(Reversal) provision against murabaha receivables – net (Note 9)	(453,980)	432,859	-	-	-	-	(453,980)	432,859
Provision against other assets (Note 14)	192,161	-	-	1,659,751	-	-	192,161	1,659,751
Impairment of financial assets available-for-sale (Note 10)	785,664	37,718	-	410,194	654,300	696,407	1,439,964	1,144,319

## 22 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.

### 22.1 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 assets, 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 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

	2012 KD	2011 KD
Bank balances (excluding cash on hand)	8,116,341	9,314,260
Murabaha and ijara receivables	2,116,007	2,383,916
Other assets	4,372,229	5,521,857
<b>Total credit risk exposure</b>	<b>14,604,577</b>	<b>17,220,033</b>

The maximum exposure to a single counterparty is KD 3,402,834 (2011: KD 2,199,333).

#### *Collateral and other credit enhancements*

The murabaha and ijara receivables from non-financial institutions are secured against real estate 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.

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 receivables at 31 December 2012 amounted to KD 1,117,776 (2011: KD 1,357,064).

22 FINANCIAL RISK MANAGEMENT (continued)

22.1 CREDIT RISK (continued)

***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:

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Banks and financial institutions	8,985,934	11,195,592
Construction and real estate	3,052,149	3,678,773
Individuals	2,566,494	2,345,668
	<u>14,604,577</u>	<u>17,220,033</u>

***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. Currently, the Group is limiting the Islamic financing activities to certain credit worth customers only. During the year no major new financing is granted by the Group.

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.

***Financial asset by class that are individually determined to be impaired***

	<i>Gross exposure</i> <i>KD</i>	<i>Impairment provision</i> <i>KD</i>
<b>At 31 December 2012</b>		
Ijara receivables	176,162	(176,162)
Murabaha receivables	1,795,346	(1,042,575)
Other assets	67,247	(67,247)
	<i>Gross exposure</i> <i>KD</i>	<i>Impairment provision</i> <i>KD</i>
<b>At 31 December 2011</b>		
Ijara receivables	724,453	(724,453)
Murabaha receivables	4,200,099	(2,718,545)
Other assets	4,098,929	(4,098,929)

***Analysis of past due but not impaired***

The Group does not have any past due but not impaired financial assets at 31 December 2012 and 31 December 2011.



**22 FINANCIAL RISK MANAGEMENT (continued)**

**22.2 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 and settlement of financial liabilities. 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:

2012	Maturing within one year					Total KD
	Within 3 months KD	3 to 6 months KD	6 to 12 Months KD	Sub- Total KD	Over 1 year KD	
<b>ASSETS</b>						
Bank balances and cash	8,116,741	-	-	8,116,741	-	8,116,741
Financial assets at fair value through statement of income	819,692	-	-	819,692	531,548	1,351,240
Murabaha and ijara receivables	864,556	-	-	864,556	1,251,451	2,116,007
Financial assets available-for-sale	-	1,482,793	1,596,120	3,078,913	29,187,179	32,266,092
Investment in associates	-	-	474,428	474,428	52,526,081	53,000,509
Properties under development	-	7,668,020	7,668,020	15,336,040	2,047,581	17,383,621
Investment properties	-	-	-	-	26,816,298	26,816,298
Other assets	3,384,030	325,040	413,364	4,122,434	249,795	4,372,229
Property and equipment	-	-	-	-	1,198,768	1,198,768
<b>TOTAL ASSETS</b>	<b>13,185,019</b>	<b>9,475,853</b>	<b>10,151,932</b>	<b>32,812,804</b>	<b>113,808,701</b>	<b>146,621,505</b>
<b>LIABILITIES</b>						
Murabaha and sukuk payables	300,000	1,703,617	356,700	2,360,317	27,200,000	29,560,317
Other liabilities	1,598,263	957,064	129,000	2,684,327	1,599,749	4,284,076
<b>TOTAL LIABILITIES</b>	<b>1,898,263</b>	<b>2,660,681</b>	<b>485,700</b>	<b>5,044,644</b>	<b>28,799,749</b>	<b>33,844,393</b>
<b>NET LIQUIDITY GAP</b>	<b>11,286,756</b>	<b>6,815,172</b>	<b>9,666,232</b>	<b>27,768,160</b>	<b>85,008,952</b>	<b>112,777,112</b>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

22 FINANCIAL RISK MANAGEMENT (continued)

22.2 LIQUIDITY RISK (continued)

2011	<i>Maturing within one year</i>					Total KD
	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 Months KD</i>	<i>Sub- total KD</i>	<i>Over 1 year KD</i>	
<b>ASSETS</b>						
Bank balances and cash	9,314,660	-	-	9,314,660	-	9,314,660
Financial assets at fair value through statement of income	-	-	974,903	974,903	829,844	1,804,747
Murabaha and ijara receivables	1,383,716	33,000	36,430	1,453,146	930,770	2,383,916
Financial assets available- for-sale	6,593,439	1,288,756	1,200,242	9,082,437	55,980,203	65,062,640
Investment in associates	4,860,349	-	-	4,860,349	50,432,853	55,293,202
Properties under development	-	876,239	15,019,421	15,895,660	1,961,699	17,857,359
Investment properties	3,604,846	-	375,000	3,979,846	2,403,208	6,383,054
Other assets	593,699	718,522	3,201,728	4,513,949	1,007,908	5,521,857
Property and equipment	-	-	-	-	1,193,129	1,193,129
<b>TOTAL ASSETS</b>	<b>26,350,709</b>	<b>2,916,517</b>	<b>20,807,724</b>	<b>50,074,950</b>	<b>114,739,614</b>	<b>164,814,564</b>
<b>LIABILITIES</b>						
Murabaha and sukuk payables	20,231,365	1,290,855	150,000	21,672,220	27,267,000	48,939,220
Other liabilities	2,575,945	36,822	86,068	2,698,835	2,159,170	4,858,005
<b>TOTAL LIABILITIES</b>	<b>22,807,310</b>	<b>1,327,677</b>	<b>236,068</b>	<b>24,371,055</b>	<b>29,426,170</b>	<b>53,797,225</b>
<b>NET LIQUIDITY GAP</b>	<b>3,543,399</b>	<b>1,588,840</b>	<b>20,571,656</b>	<b>25,703,895</b>	<b>85,313,444</b>	<b>111,017,339</b>

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

	<i>Within 3 months KD</i>	<i>3 to 6 months KD</i>	<i>6 to 12 months KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>2012</b>					
<b>Financial liabilities</b>					
Murabaha and sukuk payables	631,853	1,710,864	981,420	29,090,187	32,414,324
Other liabilities	1,598,263	957,064	129,000	1,599,749	4,284,076
	<b>2,230,116</b>	<b>2,667,928</b>	<b>1,110,420</b>	<b>30,689,936</b>	<b>36,698,400</b>
<b>2011</b>					
<b>Financial liabilities</b>					
Murabaha and sukuk payables	20,774,835	1,292,340	833,543	31,301,022	54,201,740
Other liabilities	2,575,945	36,822	86,068	2,159,170	4,858,005
	<b>23,350,780</b>	<b>1,329,162</b>	<b>919,611</b>	<b>33,460,192</b>	<b>59,059,745</b>

**22 FINANCIAL RISK MANAGEMENT (continued)**

**22.3 MARKET RISK**

Market risk is the risk that the fair 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.

**22.3.1 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.

**22.3.2 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 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 exposure at 31 December:

	<i>2012</i> <i>KD</i> <i>Equivalent</i>	<i>2011</i> <i>KD</i> <i>Equivalent</i>
Saudi Riyal	8,405,895	36,044,900
Qatari Riyal	135,445	638,186
Omani Riyal	11,091,086	10,155,670
Bahraini Dinar	948,857	1,385,402
US Dollar	181,393	2,237,273
UAE Dirham	24,674	18,090
Euro	-	18,934
	<u>20,787,350</u>	<u>50,498,455</u>

At 31 December 2012

**22 FINANCIAL RISK MANAGEMENT (continued)****22.3 MARKET RISK (continued)****22.3.2 Foreign Currency risk (continued)**

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

Currency	2012			2011		
	Change in currency rate in %	Effect on consolidated statement of income KD	Effect on equity KD	Change in currency rate in %	Effect on consolidated statement of income KD	Effect on equity KD
Saudi Riyal	±5	+156,018	+264,277	±5	+1,216,107	+589,378
Qatari Riyal	±5	+6,772	-	±5	+46	+31,863
Omani Riyal	±5	+1,582	+552,973	±5	+14,446	+522,229
US Dollars	±5	+1,042	+8,028	±5	+879	+110,984
UAE Dirham	±5	+1,234	-	±5	+904	-
EURO	±5	-	-	±5	+946	-
Bahraini Dinar	±5	-	+47,443	±5	-	+69,270

**22.3.3 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.

The effect on the Group's profit (loss) (as a result of a change in the fair value of financial assets at fair value through statement of income 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:

Market indices	2012			2011		
	Change in equity price %	Effect on consolidated statement of income KD	Effect on equity KD	Change in equity price %	Effect on consolidated statement of income KD	Effect on equity KD
Kuwait	±5	-	+3,874	±5	+13,781	+2,139
Saudi Arabia	±5	-	-	±5	-	+243,958

**22.3.4 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.

**22.4 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.

**23 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 consolidated statement of financial position. Assets under management at 31 December 2012 amounted to KD 107,716,806 (2011: KD 178,204,566). The total income earned from fiduciary activities amounted to KD 549,344 (2011: KD 555,997).

**24 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 statement of income, 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 (Note 10) are not materially different from their carrying values.

**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 assets recorded at fair value by level of the fair value hierarchy:

<b>31 December 2012</b>	<b>Level 1 KD</b>	<b>Level 2 KD</b>	<b>Level 3 KD</b>	<b>Total KD</b>
<b>Investment securities</b>				
Financial assets at fair value through statement of income				
- Equity securities	-	-	-	-
- Managed funds and portfolios	-	-	1,029,976	1,029,976
Financial assets available-for-sale				
- Equity securities	198,646	-	-	198,646
- Managed funds and portfolios	-	-	160,557	160,557
<b>31 December 2011</b>	<b>Level 1 KD</b>	<b>Level 2 KD</b>	<b>Level 3 KD</b>	<b>Total KD</b>
<b>Investment securities</b>				
Financial assets at fair value through statement of income				
- Equity securities	158,627	-	-	158,627
- Managed funds and portfolios	-	-	1,449,562	1,449,562
Financial assets available-for-sale				
- Equity securities	6,905,703	-	-	6,905,703
- Managed funds and portfolios	-	-	616,895	616,895

During the reporting period ended 31 December 2012, there were no transfers between level 1 and level 2 fair value measurements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**24 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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

	<i>At 1 January 2012 KD</i>	<i>Loss recorded in the consolidated statement of income KD</i>	<i>Gain / (loss) recorded in equity KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>At 31 December 2012 KD</i>
Financial assets at fair value through statement of income					
- Managed funds and portfolios	1,449,562	(71,950)	-	(347,636)	<b>1,029,976</b>
Financial assets available-for-sale					
- Managed funds and portfolios	616,895	(25,379)	34,975	(465,934)	<b>160,557</b>

	<i>At 1 January 2011 KD</i>	<i>Gain / (loss) recorded in the consolidated statement of income KD</i>	<i>Gain / (loss) recorded in equity KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>At 31 December 2011 KD</i>
Financial assets at fair value through statement of income					
- Managed funds and portfolios	20,671,973	1,681,712	-	(20,904,123)	1,449,562
Financial assets available-for-sale					
- Managed funds and portfolios	902,555	(149,766)	4,619	(140,513)	616,895

**25 COMMITMENTS AND CONTINGENCIES**

**Commitments**

	<i>2012 KD</i>	<i>2011 KD</i>
Capital commitments for properties under development	<b>11,941,202</b>	11,827,581
Operating lease rentals due within one year	<b>72,330</b>	72,330
	<b><u>12,013,532</u></b>	<b><u>11,899,911</u></b>

**Contingencies**

At 31 December 2012, the Group had provided bank guarantees amounting to KD 1,364,769 (2011: KD 1,364,769) and corporate guarantees amounting to KD 1,454,873 for which the management anticipates that no material liabilities will arise. These expire within a period of 3 months from the reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

26 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 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to the owners of the Parent Company. The Group's policy is to keep the gearing ratio less than 1. The Group includes within net debt, Islamic borrowings less bank balances and cash. Capital represents equity attributable to owners of the Parent Company.

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Islamic borrowings	29,560,317	48,939,220
Less: Bank balances and cash	<u>(8,116,741)</u>	<u>(9,314,660)</u>
Net debt	<u>21,443,576</u>	<u>39,624,560</u>
Equity attributable to owners of the Parent Company	<u>93,026,612</u>	<u>91,143,900</u>
Gearing ratio	<u>0.23</u>	<u>0.43</u>