نــــور للإستثمار

Noor Investment

Annual Report
2010

Noor Financial Investment Company KSC (Closed) and Subsidiaries

بِسۡمِ ٱللَّهِ ٱلرَّحۡمَٰنِ ٱلرَّحِيمِ

His Highness
Sheikh Sabah Al Ahmed Al Jaber Al Sabah
Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al Ahmad Al Jaber Al Sabah
Crown Prince of the State of Kuwait

Contents

Board of Directors

New board as of 17 April 2011

Abdullatif A. Al-Asfour
Chairman & Managing Director

Abdulghani M. Behbehani
Deputy Chairman

Sheikh Khalifah A. K. Al-Sabah
Member

Gururaj Rao
Member

Raj Nandlal Dvivedi
Member

Executive Management

Abdullatif A. Al-Asfour
Chairman & Managing Director

Gururaj Rao
Chief Investment Officer

Nauman S. Sehgal
Chief Operating Officer

Catherine Pfeiffer
General Manager - Business Development

Board Message

Dear Shareholders,

The Board of Directors of Noor Financial Investment Company is pleased to present to you the annual report for the financial year ended 2010.

Portfolio Performance and Strategy

2010 was a year where the equity markets continued to recover from the global financial crisis. The central banks around the world kept interest rates at low levels to aid this recovery. However, with the advent of a new sovereign debt crisis in Europe, markets continued to be very volatile. We positioned ourselves on taking advantage of this volatility with a major emphasis on conservation of capital. Both our local and international portfolios outperformed their respective benchmarks and provided us with positive returns. This is also reflected in our fund products' performance, with our Noor GCC Islamic Fund achieving 11.81% growth and our Noor Local & GCC Equity Fund achieving 9.89% growth, ranking second and tenth, respectively, amongst top GCC Islamic and conventional fund competitors according to a Markaz funds performance report for December 31, 2010. In addition, we focused on realizing our gains internationally so that capital could be used towards rebalancing our portfolio and meeting our obligations.

In 2011, Noor will continue to invest in promising opportunities conservatively across different markets both locally and internationally with a major focus on diversifying across different asset classes.

Private Equity and Real Estate 2010 Performance

Private equity faced another tough year in 2010 in terms of capital raising, where investor appetite in the private sector remained cautious with clients criteria focusing on investments close to home with short-term horizons. Even in this environment, Noor managed to close the first rounds of two new funds: the Indian Infrastructure Development Fund (IIDF) in partnership with UTI Asset Management, one of the largest, oldest and well-respected houses in India, and the Noor Real Estate Income Fund (NREIF). Through these products Noor continued its commitment to share opportunities with clients that Noor, itself, believes in, and IIDF's initial investment in 2010 has increased significantly in value to date, and NREIF has achieved its mandate making investments into attractive yielding residential projects in Kuwait.

Meezan Bank, Noor's largest direct investment, continues its strong growth trajectory maintaining its status as the largest Islamic bank in Pakistan, with over 222 branches in 63 cities and towns across the country, and the only AA rated Islamic bank in Pakistan. Profitability continues to be impressive with 61% growth year on year in fiscal 2010. Meezan Bank also received the award of 'Best Islamic Bank in Pakistan' for 2010 by Islamic Finance News of REDmoney Group in a ceremony held in Kuala Lumpur, Malaysia.

Noor continues to build on its strong international relationships to manage existing investments and establish partnerships for Noor and its clients to capitalize on regional opportunities, especially the declared infrastructure spend in Kuwait. We have advised clients on profitable exits in 2010 and for Noor's existing investments in MENA, India and China have begun preparation for exits, and we expect to see some profitable ones in 2011.

Board Message

Financial Performance

Noor incurred a net loss of KD 31.5 million in the year 2010 as compared to a loss of KD 28.8 million for the year 2009. Gross operating income of KD 6.1 million declined by 16% versus KD 7.3 million in the year 2009. As the overall financial crisis continued for the third year globally, and in particular in Kuwait, the management of Noor decided to take further provisions amounting to KD 19.8 million on various investments and accounts receivable balances. The company made gains on equities classified as available for sale investments amounting to KD 2 million, and the comprehensive loss for the year 2010 amounted to KD 29.5 million compared to a loss of KD 21 million a year before. The loss per share increased to 42 fils in 2010 versus 38 fils in 2009, while the book value per share declined to 73 fils from 111 fils a year earlier.

Management continues to focus on liquidity management, and Noor has continued to service all of its debt obligations on time and maintain its solid relationships with financial institutions.

2011 Vision for a Shared Future

2010 was a difficult year, but we believe that we have valued assets on a conservative basis and been aggressive with provisioning and Noor can move towards a healthier balance sheet structure and improving performance in 2011. As part of our balance sheet restructuring plan, we are exiting non-yielding assets and redeploying proceeds towards debt reduction, as well as cash yielding assets. We hope to rebalance our investment portfolio on a geographic basis, ensuring a more diversified exposure. To increase revenue generation, the focus will be on profitable exits, real estate and trading opportunities during these sideways and uncertain markets. We believe that Noor's business should benefit from the Kuwaiti government's economic development plan, both its impact on the local stock market and generation of investment and advisory opportunities in Kuwait. Finally, we will strive to make our existing dinar work harder for our shareholders.

In conclusion, we would like to present our sincere thanks and appreciation to the Central Bank of Kuwait, Ministry of Commerce and Industry and all official and regulatory bodies, as well as our valued shareholders for their continuous support and our employees for their dedication to achieve our targets.

The Board Members

Noor Financial Investment Company KSC (Closed)
and Subsidiaries
Kuwait

Consolidated Financial Statements
and Independent Auditors' Report
31 December 2010

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Independant Auditor's Report To The Shareholders

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Noor Financial Investment Company KSC (Closed) ("the Parent Company") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2010, and the related consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as applied in the State of Kuwait.

Report on Other Legal and Regulatory Requirements

In our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, and by the Parent Company's Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of the Commercial Companies Law, or of the Parent Company's Articles of Association, as amended, have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Group or on its financial position, except as disclosed in note 12c. Further we draw attention to note 20c to the consolidated financial statements on the matter related to the Parent Company's capital and its accumulated losses at end of the year.

We further report that, during the course of our audit we have not become aware of any material violation of the provisions of Law 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2010.

Bader A. Al-Wazzan
Licence No. 62-A
Deloitte & Touche
Al-Fahad, Al-Wazzan & Co.

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

Date: 21st July 2011
Kuwait

Consolidated Statement of Income – Year ended 31 December 2010

	Note	Kuwaiti Dinars Year ended 31 December 2010	2009
Income			
Realised gain on investments at fair value through profit or loss		**3,028,205**	5,761,434
Unrealised loss on investments at fair value through profit or loss	6	**(2,535,795)**	(4,596,103)
Realised gain on sale of available for sale investments		**1,661,339**	4,092,005
Changes in fair value of investment properties	17	**(3,455,155)**	(2,048,355)
Dividend income		**1,879,914**	1,663,933
Management and placement fees		**2,817,486**	2,783,050
Interest and other income	7	**1,084,976**	2,289,856
Share of profit/ (loss) of associates	16	**1,980,431**	(1,718,004)
Foreign exchange loss		**(351,530)**	(915,267)
		6,109,871	7,312,549
Expenses and other charges			
General, administrative and other expenses	8	**6,688,428**	6,197,704
Finance costs	10	**9,309,589**	11,322,723
Impairment in value of investments and wakala	12(b) &15(c)	**4,632,187**	18,595,445
Impairment in value of accounts receivables & other assets	14	**15,252,874**	-
Effect of discounting of accounts receivable	14	**1,753,171**	-
		37,636,249	36,115,872
Loss for the year		**(31,526,378)**	(28,803,323)
Attributable to:			
Owners of the Parent Company		**(30,623,757)**	(27,591,783)
Non-controlling interests		**(902,621)**	(1,211,540)
		(31,526,378)	(28,803,323)
Basic and diluted loss per share (Fils)	11	**(42)**	(38)

The notes 1 to 32 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income – Year ended 31 December 2010

	Kuwaiti Dinars Year ended 31 December 2010	2009
Loss for the year	**(31,526,378)**	(28,803,323)
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**(1,104,909)**	(479,825)
Available for sale investments:		
Net changes in fair value arising during the year	**2,893,476**	(3,461,106)
Transferred to consolidated statement of income on sale	**(2,237,704)**	(1,811,919)
Transferred to consolidated statement of income on impairment	**4,632,187**	9,661,944
Share of other comprehensive (loss)/ income of associates	**(2,165,811)**	3,725,752
Total other comprehensive income for the year	**2,017,239**	7,634,846
Total comprehensive loss for the year	**(29,509,139)**	(21,168,477)
Total comprehensive loss attributable to:		
Owners of the Parent Company	**(28,668,163)**	(19,956,937)
Non-controlling interests	**(840,976)**	(1,211,540)
	(29,509,139)	(21,168,477)

The notes 1 to 32 form an integral part of these consolidated financial statements.

Noor Financial Investment Company KSC (Closed) and Subsidiaries
Kuwait

Consolidated Statement of Financial Position – as at 31 December 2010

	Notes	2010 (Kuwaiti Dinars, As at 31 December)	2009
ASSETS			
Cash and bank balances	12	**15,095,294**	6,784,866
Short term deposits	12	**1,533,264**	10,782,923
Murabaha and Wakala investments	12	**14,763,268**	2,700,671
Investments at fair value through profit or loss	13	**39,732,237**	40,695,963
Accounts receivable and other assets	14	**31,768,602**	63,514,718
Available for sale investments	15	**95,051,543**	77,383,089
Investment in associates	16	**45,911,382**	62,882,307
Investment properties	17	**23,838,977**	21,398,576
Equipment		**3,235,027**	4,401,790
Total assets		**270,929,594**	290,544,903
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	12	**3,450,493**	4,399,134
Accounts payable and other liabilities	18	**4,706,649**	3,653,654
Short term borrowings	19	**159,262,241**	181,065,360
Provision for end of service indemnity		**369,721**	248,335
Total liabilities		**167,789,104**	189,366,483
Equity			
Equity attributable to the owners of the Parent Company			
Share capital	20	**75,000,000**	75,000,000
Share premium	20	**41,728,788**	41,728,788
Treasury shares	21	**(5,896,598)**	(5,873,287)
Gain on sale of treasury shares		**109,397**	109,397
Cumulative changes in fair value		**8,523,542**	5,463,039
Foreign currency translation reserve		**(6,465,009)**	(5,360,100)
Accumulated losses		**(58,215,540)**	(27,591,783)
Total equity attributable to the owners of the Parent Company		**54,784,580**	83,476,054
Non-controlling interests		**48,355,910**	17,702,366
Total equity		**103,140,490**	101,178,420
Total liabilities and equity		**270,929,594**	290,544,903

Abdullatif A. Al-Asfour
Chairman & Managing Director

Abdulghani M.S. Behbehani
Vice Chairman

The notes from 1 to 32 form an integral part of these consolidated financial statements.

Noor Financial Investment Company KSC (Closed) and Subsidiaries
Kuwait

Consolidated Statement of Changes in Equity – Year ended 31 December 2010

Kuwaiti Dinars

	Share capital	Share premium	Treasury shares	Gain on sale of treasury shares	Cumulative changes in fair value	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total
Balance as at 1 January 2010	75,000,000	41,728,788	(5,873,287)	109,397	5,463,039	(5,360,100)	(27,591,783)	83,476,054	17,702,366	101,178,420
Dividend paid to non-controlling interests by a subsidiary	-	-	-	-	-	-	-	-	(390,705)	(390,705)
Net increase in non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	-	-	31,885,225	31,885,225
Increase in treasury shares	-	-	(23,311)	-	-	-	-	(23,311)	-	(23,311)
Transactions with owners	-	-	(23,311)	-	-	-	-	(23,311)	31,494,520	31,471,209
Loss for the year	-	-	-	-	-	-	(30,623,757)	(30,623,757)	(902,621)	(31,526,378)
Total other comprehensive income for the year	-	-	-	-	3,060,503	(1,104,909)	-	1,955,594	61,645	2,017,239
Total comprehensive income for the year	-	-	-	-	3,060,503	(1,104,909)	(30,623,757)	(28,668,163)	(840,976)	(29,509,139)
Balance as at 31 December 2010	75,000,000	41,728,788	(5,896,598)	109,397	8,523,542	(6,465,009)	(58,215,540)	54,784,580	48,355,910	103,140,490

The notes 1 to 32 form an integral part of these consolidated financial statements.

Noor Financial Investment Company KSC (Closed) and Subsidiaries
Kuwait

Consolidated Statement of Changes in Equity – Year ended 31 December 2010

	Kuwaiti Dinars											
	Share capital	**Share premium**	**Treasury Shares**	**Gain on sale of treasury shares**	**Legal reserve**	**Voluntary reserve**	**Cumulative changes in fair value**	**Foreign currency translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
Balance as at 1 January 2009	75,000,000	125,000,000	(5,834,206)	109,397	6,699,281	5,943,481	(2,651,632)	(4,880,275)	(95,913,974)	103,472,072	18,383,349	121,855,421
Dividend paid to non-controlling interest by a subsidiary	-	-	-	-	-	-	-	-	-	-	(651,943)	(651,943)
Purchase of treasury shares	-	-	(39,081)	-	-	-	-	-	-	(39,081)	-	(39,081)
Set off of losses (note 20b)	-	(83,271,212)	-	-	(6,699,281)	(5,943,481)	-	-	95,913,974	-	-	-
Investment by non-controlling interest holders	-	-	-	-	-	-	-	-	-	-	1,182,500	1,182,500
Transactions with owners	-	(83,271,212)	(39,081)	-	(6,699,281)	(5,943,481)	-	-	95,913,974	(39,081)	530,557	491,476
Loss for the year	-	-	-	-	-	-	-	-	(27,591,783)	(27,591,783)	(1,211,540)	(28,803,323)
Total other comprehensive Income for the year	-	-	-	-	-	-	8,114,671	(479,825)	-	7,634,846	-	7,634,846
Total comprehensive Income for the year	-	-	-	-	-	-	8,114,671	(479,825)	(27,591,783)	(19,956,937)	(1,211,540)	(21,168,477)
Balance as at 31 December 2009	75,000,000	41,728,788	(5,873,287)	109,397	-	-	5,463,039	(5,360,100)	(27,591,783)	83,476,054	17,702,366	101,178,420

The notes 1 to 32 form an integral part of these consolidated financial statements.

Noor Financial Investment Company KSC (Closed) and Subsidiaries
Kuwait

Consolidated Statement of Cash Flows – Year ended 31 December 2010

	Kuwaiti Dinars	
	Year ended 31 December	
	2010	**2009**
OPERATING ACTIVITIES		
Loss for the year	**(31,526,378)**	(28,803,323)
Adjustments:		
Realised gain on sale of available for sale investments	**(1,661,339)**	(4,092,005)
Changes in fair value of investment in properties	**3,455,155**	2,048,355
Dividend income	**(1,879,914)**	(1,663,933)
Interest income	**(304,949)**	(2,002,935)
Negative goodwill on acquisition of a subsidiary	**(507,826)**	-
Share of (profit)/ loss of associate	**(1,980,431)**	1,718,004
Depreciation	**1,255,155**	961,541
Provision for end of service indemnity	**114,676**	111,713
Finance costs	**9,309,589**	11,322,723
Impairment in value of accounts receivable and other assets	**15,252,874**	-
Effect of discounting of accounts receivable	**1,753,171**	-
Impairment in value of available for sale investments and wakala	**4,632,187**	18,595,445
	(2,088,030)	(1,804,415)
Changes in operating assets and liabilities:		
Investments at fair value through statement of income	**7,652,421**	(1,638,543)
Accounts receivable and other assets	**4,614,441**	(11,117,499)
Accounts payable and other liabilities	**(1,700,574)**	(1,079,048)
Net cash from/ (used in) operating activities	**8,478,258**	(15,639,505)
INVESTING ACTIVITIES		
Change in blocked deposits	**1,150,000**	(660,000)
Wakala investments placed	**(4,343,380)**	(4,383,920)
Purchase of available for sale investments	**-**	(7,009,653)
Proceeds from sale of available for sale investments	**9,317,831**	31,083,306
Investment in associates	**(451,905)**	(2,789,665)
Acquisition of investment properties	**(5,895,556)**	(802,143)
Purchase of equipment	**(240,263)**	(4,876,252)
Dividend income received	**2,078,625**	1,671,052
Interest income received	**311,514**	2,063,415
Net cash from investing activities	**1,926,866**	14,296,140
FINANCING ACTIVITIES		
Repayment of short term borrowings (net)	**(1,346,218)**	(58,652)
Acquisition of treasury shares	**(23,311)**	(39,081)
Investment by non-controlling interest holders of subsidiaries	**1,973,228**	1,182,500
Dividend paid	**(390,705)**	(651,943)
Finance costs paid	**(9,458,708)**	(10,991,199)
Net cash used in financing activities	**(9,245,714)**	(10,558,375)
Net increase/ (decrease) in cash and cash equivalents	**1,159,410**	(11,901,740)
Cash and cash equivalents at beginning of the year	**12,008,655**	23,910,395
Cash and cash equivalents at end of the year (Note 12)	**13,168,065**	12,008,655

The notes 1 to 32 form an integral part of these consolidated financial statements.

1. Incorporation and activities

Noor Financial Investment Company KSC (Closed) ("the Parent Company") was incorporated in Kuwait on 1 February 1997 and in May 2006 its shares were listed on the Kuwait Stock Exchange. The Parent Company and its subsidiaries (Note 5) are together referred to as "the Group". The Parent Company is regulated by the Central Bank of Kuwait as an investment company and is a subsidiary of National Industries Group Holding SAK ("the Ultimate Parent Company").

The principal objectives of the Parent Company are as follows:

– Investment in various economic sectors through participating in establishing specialised companies or purchasing securities or shares in those companies;
– Act as investment trustees and manage different investment portfolios for others and
– Act as intermediary in borrowing operations in return for commission.

The Parent Company also has the right to participate and subscribe, in any way in other firms which operate in the same field or those which would assist in achieving its objectives in Kuwait and abroad and to purchase those firms or participate in their equity.

The Parent Company's registered office is at 10th and 11th Floors, Mohammed Abdul Mohsin Al-Kharafi Complex, Building 6, Block – 14, Qibla, Kuwait (PO Box 3311, Safat 13034, State of Kuwait).

The Board of Directors of the Parent Company approved these consolidated financial statements for issuance on 21st July 2011. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

2. New and revised International Financial Reporting Standards and Interpretations

During the year, the Group has adopted the following new and revised International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB).

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'

These are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 7 Statement of Cash Flows (Revised)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset. This change has been applied retrospectively.

IAS 27 Consolidated and Separate Financial Statements (Revised)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity.

IAS 28 Investments in Associates (Revised)

The revised standard introduces changes to the accounting requirements for the loss of significant influence of an associate and for changes in the group's interest in associates. These changes will be applicable for future acquisitions and disposals.

IAS 36 Impairment of Assets

The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, 'Financial instruments: Recognition and measurement', effective 1 July 2009.

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

IFRIC 16 Hedges of a net investment in a foreign operation, effective 1 July 2009

This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

IFRIC 17 Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its owners. The interpretation has no effect on either, the financial position or performance of the Group.

Annual Improvements 2009

The Improvements to IFRSs 2009 made several minor amendments to IFRSs and have lead to a number of changes in the detail of the Group's accounting policies and some of which are changes in terminology only - some of which are substantive but have no material effect on amounts reported.

The adoption of the new and revised standards did not have a material impact on the consolidated financial statement of the Group.

The following IASB Standards and International Financial Reporting Interpretation Committee (IFRIC) Interpretation have been issued but are not yet effective and have not been early adopted by the Group:

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

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Although early application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided during December 2009, to postpone this allowed early application until further notice.

Management has yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

IAS 24 (Revised) "Related party disclosures"

The revised standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

IAS 32 Financial Instruments: Presentation

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010.

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

Annual Improvements 2010

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

The application of these Standards/ Interpretations will be made in the consolidated financial statements when these standards and interpretations become effective and are not expected to have a material impact on the consolidated financial statements of the Group.

3. Significant accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2009 except as noted in note 2 above. The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirements for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are prepared under the historical cost basis of measurement modified to include the measurement at fair value of investments at fair value through profit or loss, available for sale investments and investment properties.

Basis of consolidation

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

Subsidiaries are those enterprises controlled by the Group and are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any significant intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the equity attributable to the owners of the Parent Company.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at re-valued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Parent Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. The acquirer's identifiable assets, liabilities and contingent liabilities are recognised initially at their fair values at the acquisition date.

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Recognition of income

Income is recognised to the extent it is probable that the economic benefits will flow to the Group and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Dividend income

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

Fee income

Management fees relating to portfolio management services and other fee income are recognised as revenue as the services are provided.

Interest income

Interest income is recognised using the effective interest method.

Finance costs

Finance costs are calculated and recognised on a time proportion basis taking into account the principal loan balance outstanding and the interest rate applicable.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances, and short-term deposits maturing within three months from the date of inception net of balances due to banks and blocked deposits.

Financial instruments

Classification

The Group classifies financial assets upon initial recognition into the following categories:

i. Investments at fair value through profit or loss
ii. Loans and receivables
iii. Available for sale investments

Investments at fair value through profit or loss are either "held for trading" or "designated" as such on initial recognition.

The Group classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Investments are classified as designated at fair value through profit or loss at inception if they have readily available reliable fair values and the changes in fair values are reported as part of the statement of income in the management accounts, according to a documented investment strategy.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables are classified under "accounts receivable and other assets", "short term deposits", "Murabaha and wakala investments" and "cash and bank balances" in the consolidated statement of financial position.

Financial assets which are not classified as above are classified as available for sale investments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of these financial instruments at initial recognition.

Measurement

Investments at fair value through profit or loss

Investments at fair value through profit or loss are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs.

Subsequent to initial recognition, investments at fair value through profit or loss are re-measured at fair value and changes in fair value are recognised in the consolidated statement of income.

Loans and receivables

Loans and receivables are stated at amortised cost using the effective interest method.

Available for sale investments

Available for sale investments are initially recognised at cost, being the fair value of the consideration given, plus transaction costs that are directly attributable to the acquisition.

Subsequent to initial recognition, available for sale investments are re-measured at fair value unless fair value cannot be reliably measured, in which case they are measured at cost less impairment, if any.

Changes in fair value of available for sale investments are recognised in other comprehensive income under "cumulative changes in fair value" account until the investment is either derecognised or determined to

be impaired. On de-recognition or impairment, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of income.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the consolidated statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated statement of financial position date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Financial liabilities

Financial liabilities are classified as "non trading financial liabilities". The Group's non trading financial liabilities are classified under "due to banks", "accounts payable and other liabilities" and "borrowings" in the consolidated statement of financial position.

Borrowings

Borrowings are stated at their principal amount. Interest is charged as an expense as it accrues, with unpaid amounts included in other liabilities.

All other non-trading financial liabilities are stated at amortised cost using the effective interest method.

Recognition and de-recognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

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 or 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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Trade or settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place concerned.

Investment in associates

An associate is a company over which the Group has significant influence usually evidenced by holding of 20% to 50% of the voting power of the investee company. The consolidated financial statements include the Group's share of the associates' results using the equity method of accounting.

Under the equity method, investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of net assets of the investee. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date the 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 directly in consolidated statement of changes in equity. The financial statements of the associates are prepared either to the reporting date of the Parent Company or to a date not earlier than three months of the Parent Company's reporting date, using consistent accounting policies.

Unrealised gains on transactions with associates are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

Investment properties

Investment properties are initially recorded at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property. Subsequent to initial recognition, investment properties are re-measured at fair value on an individual basis based on valuations by independent real estate valuers. Changes in fair value are taken to the consolidated statement of income.

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

Transfers are made to investment property when, 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 property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Impairment of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

a. For financial assets carried at fair value, impairment is the difference between cost and fair value.
b. For financial assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
c. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision (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.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for reversal of impairment losses related to equity instruments classified as available for sale, all other impairment reversals are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairment reversals in respect of equity instruments classified as available for sale are recognised in the other comprehensive income in the cumulative changes in fair value account.

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 such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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 and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognising impairment loss in the consolidated statement of income. 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 (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

Equipment and depreciation

Equipment are stated at cost less accumulated depreciation and any impairment in value. The Group depreciates its equipment using the straight-line method at rates sufficient to write off the assets over their estimated useful economic lives.

Treasury shares

The Group's holding in the Parent Company's shares is accounted for as treasury shares. Such shares are stated at cost as a deduction within equity and no cash dividends are distributed on these shares. The issue of bonus shares increase the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Gains resulting from the sale of treasury shares are taken directly to equity under "gain on sale of treasury shares reserve". Should the reserve fall short of any losses from the sale of treasury shares, the difference is charged to retained profits then reserves. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves then retained profits equal to the loss previously charged to these accounts.

Provisions

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

Employees' end of service benefits

End of service benefits are calculated on the basis of accumulated periods of service of employees as at the consolidated statement of financial position date in accordance with the Kuwait labour law for the private sector. The defined benefit plan is unfunded and is computed as the amount payable as a result of involuntary termination on the consolidated statement of financial position date. This basis is considered to be a reliable appropriation of the present value of final obligation.

Fiduciary assets

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

Foreign currencies

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange 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 the consolidated statement of financial position date. All differences are taken to "foreign exchange gain/loss" in the consolidated statement of income.

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

Translation difference on non-monetary asset classified as, "fair value through profit or loss" are reported

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as part of the fair value gain or loss in the consolidated statement of income and "available for sale" are reported as part of the cumulative change in fair value reserve in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the Parent Company's presentation currency (the Kuwaiti Dinar) at the rate of exchange ruling at the consolidated statement of financial position date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to the particular foreign operation is recognised in the consolidated statement of income.

Contingencies

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

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

Judgments

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

Classification of financial assets

Management decides on acquisition of an investment whether it should be classified as held for trading, designated at fair value through profit or loss, loans and receivables or available for sale. In making that judgement the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of income or directly in other comprehensive income.

Classification of real estate property

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

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

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

Impairment of available for sale investments

The Group treats certain financial assets as available for sale and recognises movements in their fair value in other comprehensive income. When fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the consolidated statement of income. During the year ended 31 December 2010 impairment losses recognised for available for sale investments amounted to KD 4,632,187 (2009: KD 11,112,695) (note 15c).

Impairment of loans and receivables

The Group's management reviews periodically items classified as loans and receivables (including wakala investments) to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty. During the year ended 31 December 2010 impairment losses recognised for wakala investments and account receivable and other assets amounted to KD 15,252,874 (2009: KD 7,482,750) (note 12b and 14).

Estimation uncertainty

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

Valuation of unquoted equity investments

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

- recent arm's length market transactions;
- current fair value of another instruments that is substantially the same;
- an earnings multiple;
- the expected cash flow discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

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

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Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying value of the above assets.

5. Subsidiary companies

Significant consolidated subsidiaries of the Group are as follows:

Subsidiary	Percentage ownership		Principal activity
	2010	2009	
Noor Kuwait for Economic & Management Consulting KSCC (previously D&B Kuwait for Economic & Management Consulting KSCC)	**100%**	100%	Administrative & economic consulting & related activities
Kuwaiti Indian Holding Company KSCC	**57%**	57%	Investment & related activities
Plexus Information Systems & Computers KSCC (51% direct and 25% indirect holding)	**76%**	51%	Information technology
Noor Jordanian Kuwaiti Financial Investment Co. Ltd, Jordan	**100%**	100%	Investment & related activities
Noor Salihiya Real Estate Co. KSCC	**100%**	100%	Real estate development
Noor Jordan Kuwait Transport Company JSCC, Jordan	**100%**	100%	Transport & related activities
Noor Real Estate Income Fund	**65.6%**	-	Real Estate Investments
Noor Telecommunication Company KSCC (refer note below)	**51%**	-	Telecommunications

All the above subsidiaries are incorporated in the State of Kuwait, unless otherwise stated.

During the year, the Parent Company acquired additional 25.15% of the issued share capital of Noor Telecommunication Company KSCC ("NoorTel") from related parties (refer note 29). Consequently the Group's holding in Plexus Information Systems & Computers KSCC, which is an associate of NoorTel, increased by 25.15%.

In December 2010, the Parent Company disposed of its entire investment in Noor Capital Markets Brokerage Company KSCC (NCM) and BOT Kuwait General Trading and Contracting WLL (BOT) to a related party for KD 1,229,522 and KD 99,116 respectively. These transactions are subject to shareholder approval. There were no profit/loss from these transactions. The legal formalities for the transfer of ownership of NCM and BOT are not yet completed.

6. Unrealised loss on investments at fair value through profit or loss

This represents the difference between closing market value and carrying value at the beginning of the year and/or cost of investments acquired during the year. Local funds are valued on the basis of their net asset values.

7. Interest and other income

	Kuwaiti Dinars	
	2010	**2009**
Interest income (from call accounts included under bank balances and short term deposits)	**247,349**	1,960,547
Realised gain on dealing in foreign currencies	**1,052,555**	700,207
Income from murabaha and wakala investment	**57,600**	42,388
(Expenses)/income from transportation business of a foreign subsidiary (net)	**(1,099,320)**	(1,132,829)
Negative goodwill on acquisition of a subsidiary (refer note 29)	**507,826**	-
Income from financing future trade by customers	**237,874**	107,988
Other income	**81,092**	611,555
	1,084,976	2,289,856

(Expenses)/ income from transportation business relates to a foreign subsidiary

	Kuwaiti Dinars	
	2010	**2009**
Revenue from services	**1,146,149**	1,114,350
Less: Direct operating costs	**(2,245,469)**	(2,247,179)
	(1,099,320)	(1,132,829)

8. General, administrative and other expenses

General, administrative and other expenses include the following:

	Kuwaiti Dinars	
	2010	**2009**
Staff costs	**3,393,627**	2,908,438
Depreciation	**1,255,155**	961,541
Unrealised fee on managed portfolios for clients	**-**	404,672

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9. Net gain/ (loss) on financial assets

Net gain/ (loss) on financial assets, analysed by category, is as follows:

	Kuwaiti Dinars	
	2010	**2009**
Loans and receivables		
- cash and bank balances and short term deposits	**247,349**	1,960,547
- realized gains on dealing in foreign currencies	**1,052,555**	700,207
- wakala investment (net of impairment loss of KD Nil (2009: KD 7,482,750)	**57,600**	(7,440,362)
- accounts receivables and other assets (income from financing future trade by customers)	**237,874**	107,988
- impairment in value of account receivable and other assets	**(15,252,874)**	-
- effect of discounting of accounts receivable	**(1,753,171)**	-
Investments at fair value through profit or loss		
- held for trading	**66,967**	2,035,145
- designated as such on initial recognition	**1,215,397**	(232,908)
Available for sale investments		
- recognised directly in consolidated statement of comprehensive income (net)	**5,287,959**	4,388,919
- recognised directly in consolidated statement of income		
on impairment	**(3,215,139)**	(1,450,751)
on sale and dividend income	**513,595**	3,307,114
- recycled from equity to consolidated statement of income		
on impairment	**(1,417,048)**	(8,211,193)
on sale	**2,237,704**	1,811,919
	(10,721,232)	(3,023,375)

Distributed as follows:

	Kuwaiti Dinars	
	2010	**2009**
Net loss recognised in the consolidated statement of income	**(16,009,191)**	(7,412,294)
Net gain recognised in the consolidated statement of comprehensive income	**5,287,959**	4,388,919
	(10,721,232)	(3,023,375)

10. Finance costs

Finance costs relate to due to banks and short term borrowings which are financial liabilities stated at amortised cost.

11. Basic and diluted loss per share

Loss per share is calculated by dividing the loss for the year attributable to the owners of the Parent Company by the weighted average number of shares outstanding during the year as follows:

	Kuwaiti Dinars	
	2010	**2009**
Loss for the year attributable to the owners of the Parent Company	**(30,623,757)**	(27,591,783)
Weighted average number of shares outstanding during the year	**750,000,000**	750,000,000
Less: Weighted average number of treasury shares	**(15,745,695)**	(15,545,225)
	734,254,305	734,454,775
Basic and diluted loss per share (Fils)	**(42)**	(38)

12. Cash and cash equivalents and murabaha & wakala investments

a. Cash and cash equivalents

Cash and cash equivalents for the purpose of consolidated statement of cash flows are made up as follows:

	Effective interest/ profit rate % (per annum)		Kuwaiti Dinars	
	2010	**2009**	**2010**	**2009**
Cash and bank balances	**0.25%-0.50%**	0.25%-0.50%	**15,095,294**	6,784,866
Short term deposits	**0.22%-4.80%**	0.26%-6.12%	**1,533,264**	10,782,923
Due to banks	**5.00%-5.50%**	6.20%-6.70%	**(3,450,493)**	(4,399,134)
			13,178,065	13,168,655
Less: Blocked balances			**(10,000)**	(1,160,000)
Cash and cash equivalents as per cash flow statement			**13,168,065**	12,008,655

Cash and bank balances include call accounts which earn interest. The short term deposits mature within one month and are placed with local and foreign banks.

Due to banks represent bank overdraft facilities obtained and utilized by the Group.

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b. Murabaha and wakala investments

	Effective interest/ profit rate % (per annum)		Kuwaiti Dinars	
	2010	2009	**2010**	**2009**
Due from a local Islamic investment company/ due from related parties	-	-	**14,968,250**	9,968,250
Provision for impairment in value			**(14,968,250)**	(9,968,250)
			-	-
Placed with local Islamic banks	**0.625%-2.315%**	1%	**14,763,268**	2,700,671
			14,763,268	2,700,671

No profit was recognised on impaired wakala investment during the current year (2009: Nil).

Wakala investments of KD 9,968,250 and KD 5,000,000 (2009: KD 9,968,250) placed with a local Islamic investment company matured in October 2008 and November 2008 respectively. The investee company defaulted on settlement of these balances on the maturity date. Of the above KD 5,000,000 relates to the subsidiary acquired during the year (refer note 29). Full provision has been made for these receivables in accordance with the Central Bank of Kuwait credit provisioning rules.

c. In 2008 and 2009 the Group violated Articles 148 and 151 of the Commercial Companies Law of 1960 when it assumed the financial and legal obligations on these wakala investments of KD 9,968,250 that the Group had placed with the above investment company in a fiduciary capacity under a wakala agreement with certain related parties, despite having no such obligation under the wakala agreement. The regulator has notified the Group of the above violation of Articles 148 and 151 of the Commercial Companies Law of 1960 and Articles of Association of the Parent Company. Accordingly, the Group is initiating legal proceedings against the parties to recover KD 9,968,250 including profits thereon.

13. Investments at fair value through profit or loss

	Kuwaiti Dinars	
	2010	**2009**
Held for trading:		
Quoted shares	**36,548,987**	37,396,195
Designated on initial recognition:		
Local funds	**3,183,250**	3,299,768
	39,732,237	40,695,963

a. Effect of reclassification due to adoption of amendment to IAS 39:

In 2008 as a result of significant developments in the global financial markets, the Group reclassified investments with a fair value of KD 138,694,153 as at 1 July 2008 from "fair value through profit or loss" category to "available for sale" category. The fair value of the remaining re-classified investments as of 31 December 2010 was KD 48,331,884 (2009: KD 50,397,920) (note 15d).

b. Quoted shares with a fair value of KD 17,457,613 (2009: KD 16,769,583) are secured against bank loans (refer note 19).

14. Accounts receivable and other assets

	Kuwaiti Dinars	
	2010	2009
Financial assets:		
Due from the Ultimate Parent Company (net of discount & provision)	11,313,176	18,254,415
Due from other related parties	2,926,219	340,567
Due from investment brokerage companies	9,370,645	2,759,916
Due from Kuwait Clearing Company	-	2,071,881
Due from Kuwait Clearing Company (future trade)	2,749,895	1,060,843
Due from sale of investments – related parties (net of provision)	-	25,005,500
Advance payments to acquire investments (net of provision)	1,393,420	7,205,998
Accrued income	2,532,316	2,943,092
Other financial assets	431,381	1,653,494
	30,717,052	61,295,706
Non-financial assets:		
Advance payments to acquire properties	-	1,549,803
Other assets	1,051,550	669,209
	31,768,602	63,514,718

During the current year, the Group recognised an impairment loss of KD 2,177,569 (31 December 2009: Nil) for certain projects under progress and a full impairment provision on the balance due from related parties on account of sale of investments amounting to KD 8,751,373 based on Central Bank of Kuwait's instructions.

Due from the Ultimate Parent Company represents management fee and other receivables of KD 1,033,279 and KD 16,357,000 paid by the Parent Company for the purpose of acquiring certain investments on behalf of the Parent Company. As this transaction could not be concluded, the Ultimate Parent Company has agreed to repay KD 17,250,000 over twenty six months and has provided collateral in the form of shares of an unlisted local entity whose fair value as of 31 December 2010 approximates the amount due. Based on an effective interest rate of 5.5%, a charge of KD 1,753,171 has been recognised in the consolidated statement of income, to give effect to the deferred payment terms. Further during the year, the group has recognised as impairment provision of 25% on the balance due from the Ultimate Parent Company amounting to KD 4, 323, 932 (2009: Nil) based on Central Bank of Kuwait's instructions.

During the current year 'due from sale of investments – related parties' was adjusted by KD 16,250,000 being the consideration payable on the buy-back of 25.15% of Noor Tel's shares (refer note 29).

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15. Available for sale investments

	Kuwaiti Dinars	
	2010	2009
Quoted shares	70,341,814	56,411,589
Unquoted shares	19,383,872	15,330,241
Funds:		
Local	-	2,194,180
Foreign	5,325,857	3,447,079
	95,051,543	77,383,089

a. Available for sale investments include investments in unquoted shares, local and foreign funds where their fair values cannot be reliably determined and as a result investments with a carrying value of KD 732,834 (2009: KD 4,448,584) are carried at cost or cost less impairments. The Group's management is not aware of any circumstance that would indicate impairment/ further impairments in value of these investments.

b. Quoted shares with a fair value of KD 16,090,151 (2009: KD 13,931,168) are secured against a bank loan (refer note 19).

c. During the year, the Group recognised an impairment loss of KD 1,231,144 (2009: KD 8,482,625) for certain local and foreign quoted shares, as the market value of these shares at consolidated statement of financial position date declined significantly below their costs. Further the Group also recognised an impairment loss of KD 3,401,043 (2009: KD 2,630,070) against certain unquoted shares, local and foreign funds based on estimates, made by management as per information available to them and the net asset values reported by the investment managers at the consolidated statement of financial position date.

d. Quoted shares with a carrying value of KD 48,331,884 at 31 December 2010 (2009: KD 50,397,920) represents investments which were transferred from investments at fair value through profit or loss as of 1 July 2008 (refer note 13).

16. Investment in associates

Details of the Group's significant associates are set out below:

Associates	Country of incorporation	Percentage of ownership		Principal activity
		2010	2009	
Meezan Bank Ltd.	Pakistan	49.10%	45.50%	Islamic Banking
Hotel Global Group PSC	Jordan	38.71%	38.71%	Hospitality
Al Raya Global Real Estate Company JSCC	Jordan	50.00%	50.00%	Real Estate
Noor Telecommunication Company KSCC (refer note 29)	Kuwait	-	25.84%	Telecommunications

Aggregate share of associates' assets and liabilities of the Group:

	Kuwaiti Dinars	
	2010	**2009**
Assets	**271,736,067**	232,214,035
Liabilities	**235,992,165**	180,153,203

Aggregate share of associates' revenue and profit/(loss) of the Group:

	2010	**2009**
Revenue	**12,189,232**	9,470,686
Profit / (loss)	**1,980,431**	(1,718,004)

Investment in Meezan Bank Ltd. with a carrying value of KD 29,756,271 (2009: KD 26,188,617) has a fair value of KD 18,959,180 (2009: KD 16,234,797) based on price quoted on the Karachi Stock Exchange on 31 December 2010. Management is confident that the carrying value of this investment is not impaired.

Share of profit of the current year is net of share of loss from Noor Telecommunication Company KSCC.

17. Investment properties

The movement in investment properties is as follows:

	Kuwaiti Dinars	
	2010	**2009**
Fair value as at 1 January	**21,398,576**	22,644,788
Additions during the year	**5,895,556**	802,143
Changes in fair value	**(3,455,155)**	(2,048,355)
	23,838,977	21,398,576

Investment properties comprise of land and buildings in the following countries:

	Kuwaiti Dinars	
	2010	**2009**
Kuwait	**9,353,000**	7,350,000
Saudi Arabia	**14,105,434**	13,630,348
Jordan	**380,543**	418,228
	23,838,977	21,398,576

At 31 December 2010, the Group re-valued its properties based on valuations provided by independent valuers and recorded a valuation loss of KD 3,455,155 (2009: KD 2,048,355) in the consolidated statement of income.

The property in Saudi Arabia is held through a special purpose entity (SPE) created specifically for this purpose and co-owned by the Parent Company with joint owners. The registered owner of the property has issued a letter confirming the co-ownership.

18. Accounts payable and other liabilities

	Kuwaiti Dinars	
	2010	**2009**
Financial liabilities:		
Accrued interest	**1,125,828**	1,274,949
Accrued expenses	**1,469,875**	305,438
Dividend payable	**143,266**	184,985
Due to an associate	**-**	20,366
Due to other related parties	**-**	7,875
Due to investment brokerage companies	**3,131**	-
Other payables	**1,782,005**	1,677,497
	4,524,105	3,471,110
Non-financial liabilities:		
Other payables	**182,544**	182,544
	4,706,649	3,653,654

All above financial liabilities are non-interest bearing.

19. Short term borrowings

	Effective interest/ cost rate (p.a.%)		Security	Kuwaiti Dinars	
	2010	**2009**		**2010**	**2009**
Loans from local banks and financial institutions:					
Loans payable – Kuwaiti Dinar	**5.00 - 5.50**	5.50 - 6.25	Unsecured	**59,500,000**	59,500,000
Loans payable – Kuwaiti Dinar	**5.00 - 5.50**	5.50 - 6.25	Secured	**23,540,000**	23,700,000
Loans payable – US Dollars	**4.33 - 5.04**	4.33 - 4.71	Unsecured	**28,100,000**	28,720,000
Wakala payable – Kuwaiti Dinar	**3.00 - 6.50**	3.50 - 8.00	Unsecured	**44,000,000**	44,000,000
Loans payable – Jordanian Dinar	**3.90 - 8.75**	3.90 - 5.90	Secured	**4,122,241**	5,429,510
				159,262,241	161,349,510
Loan from foreign financial institution:					
Wakala payable – Kuwaiti Dinar (Eliminated on consolidation of NoorTel – note 29)				**-**	19,715,850
				159,262,241	181,065,360

Loans amounting to KD 23,540,000 (2009: KD 23,700,000) are secured by investments at fair value through profit or loss (refer note 13) and available for sale investments (refer note 15). All loans are repayable within one year.

Loans amounting to KD 4,122,241 (2009: KD 5,429,510) are secured by equipment of Noor Jordan Kuwait Transport Company JSCC.

20. Share capital and share premium

a. The authorized and issued share capital of the Parent Company comprises of 750,000,000 shares of 100 fils each (31 December 2009: 750,000,000 shares of 100 fils each) fully paid in cash.

b. The shareholders in the annual general assembly meeting held on 11 June 2009 approved setting off of the accumulated deficit as at 31 December 2008 of KD 95,913,974 against legal reserve, voluntary reserve and share premium as follows:
Legal reserve KD 6,699,281
Voluntary reserve KD 5,943,481
Share premium KD 83,271,212

c. Although the accumulated losses attributable to the Parent Company as at 31 December 2010 exceeded 75% of its paid up capital, its balances in share premium can be set off against accumulated losses. The Board of Directors will raise this matter at the sharholders general assembly.

d. Share premium is not available for distribution.

21. Treasury shares

The Group holds treasury shares as follows:

	Kuwaiti Dinars	
	2010	2009
Number of shares	16,149,211	15,609,211
Percentage of issued shares	2.153%	2.081%
Market value	670,192	1,326,783
Cost	5,896,598	5,873,287

Reserves equivalent to the cost of treasury shares held are not distributable.

22. Legal and voluntary reserves

In accordance with the Commercial Companies Law and the Parent Company's articles of association, 10% of the Parent Company's profit before KFAS, Zakat, NLST and directors' remuneration for the year is to be transferred to legal reserve. The Parent Company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital. No transfer is required in a year in which the Parent Company has incurred a loss or where accumulated losses exist.

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

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In accordance with Parent Company's articles of association, a certain percentage of the Parent Company's profit before KFAS, Zakat, NLST and directors' remuneration, is to be transferred to the voluntary reserve at the discretion of the board of directors which is to be approved at the general assembly. No transfer is required in a year in which the Parent Company has incurred a loss or where accumulated losses exist. There are no restrictions on distribution of general reserve.

23. Dividend distribution

The Board of Directors propose not to distribute any dividend for the year ended 31 December 2010 (2009: Nil).

24. Segment analysis

The Group is organised into segments that engage in business activities which earns revenue and incurs expenses. These segments are regularly reviewed by the Chief Operating Decision Maker (CODM) for resource allocation and performance assessment. For the purposes of segment reporting the management has grouped the business units into the following operating segments:

Domestic & GCC investments	-	Comprising of investment activities in the State of Kuwait and GCC
International investments	-	Comprising of investment activities outside the GCC and State of Kuwait

Segment results include operating revenue and expenses directly attributable to a segment. Net operating income includes operating revenue directly attributable to a segment. Segment results include revenue and expense directly attributable to each reporting segment as the Group does not have any inter segment charges. Segment assets comprise those operating assets that are directly attributable to the segment.

Segmental information for the years ended 31 December 2010 and 31 December 2009 are as follows:

31 December 2010

	Kuwaiti Dinars		
	Domestic & GCC	**International**	**Total**
Income	**2,303,151**	**3,806,720**	**6,109,871**
Loss for the year	**(28,627,408)**	**(2,898,970)**	**(31,526,378)**
Impairment in the value of investments & receivables	**14,677,408**	**5,207,653**	**19,885,061**
Effect of discounting of receivables	**1,753,171**	**-**	**1,753,171**
Share of (losses)/ profit of associates	**(890,312)**	**2,870,743**	**1,980,431**
Interest revenue	**247,349**	**-**	**247,349**
Finance costs	**9,257,422**	**52,167**	**9,309,589**
Total assets	**180,033,819**	**90,895,775**	**270,929,594**
Total liabilities	**(163,139,176)**	**(4,649,928)**	**(167,789,104)**
Net assets	**16,894,643**	**86,245,847**	**103,140,490**

31 December 2009

	Kuwaiti Dinars		
	Domestic & GCC	**International**	**Total**
Income	4,031,863	3,280,686	7,312,549
Loss for the year	(29,964,520)	1,161,197	(28,803,323)
Impairment in the value of investments	17,592,442	1,003,003	18,595,445
Share of (losses)/ profit of associates	(4,087,321)	2,369,317	(1,718,004)
Interest revenue	1,960,547	-	1,960,547
Finance costs	11,322,723	-	11,322,723
Total assets	216,467,987	74,076,916	290,544,903
Total liabilities	(182,969,130)	(6,397,353)	(189,366,483)
Net assets	33,498,857	67,679,563	101,178,420

The Group's income from transactions with a single customer does not exceed 10% of the total income of the Group.

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25. Related party transactions

Related parties represent the Ultimate Parent Company, associates, directors and key management personnel of the Group, and other related parties such as subsidiaries of the Ultimate Parent Company (fellow subsidiaries), major shareholders and companies in which directors and key management personnel of the Group are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Group's management.

Significant related party transactions and balances included in the consolidated financial statement are as follows:

	Kuwaiti Dinars	
	2010	**2009**
Consolidated statement of financial position:		
Due from related parties (refer note 14)	**15,874,033**	43,600,482
Due from related parties on sale of subsidiaries	**1,328,638**	-
Due to related parties (refer note 18)	**-**	28,241
Short term borrowing	**-**	19,715,850

	Kuwaiti Dinars	
Consolidated statement of income:	**2010**	2009
Management and placement fees		
- earned from Ultimate Parent Company	**577,117**	412,190
- earned from other related parties	**1,994,025**	1,591,165
Interest income	**-**	1,088,890
Finance cost on wakala	**(615,511)**	(351,645)
Provision for impairment on receivable	**(13,075,305)**	-
Effect of discounting of accounts receivable (refer note 14)	**(1,753,171)**	
Unrealised fee paid on managed portfolios for clients included in general, administrative and other expenses – earned from other related parties	**-**	(404,672)

	Kuwaiti Dinars	
	2010	2009
Compensation of key management personnel of the Group:		
Short term employee benefits	**167,700**	167,700
End of service benefits	**386,777**	15,166
	554,477	182,866

26. Summary of financial assets and liabilities by category

26.1 Categories of financial assets and liabilities

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

	Kuwaiti Dinars	
	2010	**2009**
Loans and receivables:		
Cash and bank balances	**15,095,294**	6,784,866
Short term deposits	**1,533,264**	10,782,923
Murabaha and wakala investment	**14,763,268**	2,700,671
Accounts receivable and other assets (note 14)	**30,717,052**	61,295,706
Investments at fair value through profit or loss: (note 13)		
Trading securities	**36,548,987**	37,396,195
Investments designated as carried at fair value through profit or loss	**3,183,250**	3,299,768
Available for sale investments (note 15)	**95,051,543**	77,383,089
	196,892,658	199,643,218
Other financial liabilities:		
Due to banks (note 12)	**3,450,493**	4,399,134
Accounts payable and other liabilities (note 18)	**4,524,105**	3,471,110
Short term borrowings (note 19)	**159,262,241**	181,065,360
Provision for end of service indemnity	**369,721**	248,335
	167,606,560	189,183,939

Fair value represents amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In the opinion of the Group's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 15 to the consolidated financial statements the carrying amounts of financial assets and liabilities as at 31 December 2010 and 2009 approximate their fair values.

26.2 Fair value hierarchy for financial instruments measured at fair value

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

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

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

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

31 December 2010

	Kuwaiti Dinars			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value:				
Investments at fair value through profit or loss				
- Quoted shares	**36,548,987**	**-**	**-**	**36,548,987**
- Local funds	**-**	**3,183,250**	**-**	**3,183,250**
Available for sale investments				
- Quoted shares	**70,341,814**	**-**	**-**	**70,341,814**
- Unquoted shares	**-**	**-**	**18,983,512**	**18,983,512**
- Foreign funds	**-**	**4,993,383**	**-**	**4,993,383**
Total assets	**106,890,801**	**8,176,633**	**18,983,512**	**134,050,946**

31 December 2009

	Kuwaiti Dinars			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value:				
Investments at fair value through profit or loss				
- Quoted shares	40,206,550	-	-	40,206,550
- Local funds	-	489,413	-	489,413
Available for sale investments				
- Quoted shares	56,411,589	-	-	56,411,589
- Unquoted shares	-	-	10,881,657	10,881,657
- Local funds	-	2,194,180	-	2,194,180
- Foreign funds	-	3,447,079	-	3,447,079
Total assets	96,618,139	6,130,672	10,881,657	113,630,468

Measurement at fair value

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

a. Quoted shares

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b. Local funds

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

c. Foreign funds

The underlying investments of foreign funds primarily comprise of foreign quoted and unquoted securities. Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

d. Unquoted shares

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using a discounted cash flow model or other valuation technique which includes some assumptions that are not supportable by observable market prices or rates.

Level 3 Fair value measurements

The Group's financial assets classified in level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Kuwaiti Dinars
31 December 2010	**Available for sale investments**
As at 31 December 2009	**10,881,657**
Additions during the year	**13,274,281**
Changes in fair value during the year recognised in other comprehensive income	**(4,986,522)**
Impairment on investments recognised in the statement of income	**(185,904)**
As at 31 December 2010	**18,983,512**

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

27. Risk management objectives and policies

The Group's principal financial liabilities comprise due to banks, borrowings and accounts payable. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable and other assets, cash and bank balances, short term deposits, murabaha & wakala investments and investment securities which arise directly from operations.

The Group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Parent Company's Board of Directors sets out policies for reducing each of the risks discussed below.

The Group does not use derivative financial instruments.

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

27.1 Market risk

a. Foreign currency risk

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

The Group mainly operates in the Middle East countries and USA and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, Saudi Riyals and UAE Dirhams. The Parent Company's consolidated statement of financial position can be significantly affected by the movement in these currencies. To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Foreign currency risk is managed on the basis of limits determined by the Parent Company's board of directors and a continuous assessment of the Groups' open positions.

The Group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the consolidated statement of financial position date, translated into Kuwaiti Dinars at the closing rates are as follows:

	Equivalent Kuwaiti Dinars	
	2010	**2009**
US Dollar	**1,052,384**	2,566,999
Saudi Riyal	**2,246,662**	1,193,026
UAE Dirham	**3,928,153**	2,313,950
Qatari Riyal	**4,163,012**	8,113,960

If the Kuwaiti Dinar had strengthened against the foreign currencies by 5%, then this would have the following impact on the (loss)/ profit for the year. There is no other direct impact on the Group's equity.

	Equivalent Kuwaiti Dinars	
	2010	2009
US Dollar	(52,619)	(128,350)
Saudi Riyal	(112,333)	(59,651)
UAE Dirham	(196,408)	(115,697)
Qatari Riyal	(208,151)	(405,698)
Total profit/ (loss)	(569,511)	(709,396)

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity (5%), then there would be an equal and opposite impact on the (loss) for the year, and the balances shown above would be positive.

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to the foreign currency risk.

b. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to its short term deposits at fixed rate and due to banks and borrowings which are at floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate short term deposits and borrowings.

Positions are monitored regularly to ensure positions are maintained within established limits.

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The Group's interest rate risk sensitivity position, based on the contractual re-pricing or maturity dates of assets and liabilities, whichever dates are earlier, is as follows:

	Kuwaiti Dinars				
	Up to 1 month	1-3 months	3-12 months	Non-interest bearing items	Total
At 31 December 2010					
ASSETS					
Cash and bank balances	2,991,218	-	-	12,104,076	15,095,294
Short term deposits	1,533,264	-	-	-	1,533,264
Murabaha and wakala investments	14,763,268	-	-	-	14,763,268
Investments at fair value through profit or loss	-	-	-	39,732,237	39,732,237
Accounts receivable and other assets	-	-	-	31,768,602	31,768,602
Available for sale investments	-	-	-	95,051,543	95,051,543
Investment in associates	-	-	-	45,911,382	45,911,382
Investment properties	-	-	-	23,838,977	23,838,977
Equipment	-	-	-	3,235,027	3,235,027
	19,287,750			251,641,844	270,929,594
LIABILITIES					
Due to banks	1,453,463	1,997,030	-	-	3,450,493
Accounts payable and other liabilities	-	-	-	4,706,649	4,706,649
Short term borrowings	24,040,000	116,100,000	19,122,241	-	159,262,241
Provision for end of service indemnity	-	-	-	369,721	369,721
	25,493,463	118,097,030	19,122,241	5,076,370	167,789,104
Total interest rate sensitivity gap	(6,205,713)	(118,097,030)	(19,122,241)	246,566,474	103,140,490
Cumulative interest rate sensitivity gap	(6,205,713)	(124,302,743)	(143,424,984)	-	-

	Kuwaiti Dinars				
	Up to 1 month	1-3 months	3-12 months	Non-interest bearing items	Total
At 31 December 2009					
ASSETS					
Cash and bank balances	621,903	-	-	6,162,963	6,784,866
Short term deposits	10,782,923	-	-	-	10,782,923
Murabaha and wakala investments	2,700,671	-	-	-	2,700,671
Investments at fair value through statement of income	-	-	-	40,695,963	40,695,963
Accounts receivable and other assets	-	-	-	63,514,718	63,514,718
Available for sale Investments	-	-	-	77,383,089	77,383,089
Investment in associates	-	-	-	62,882,307	62,882,307
Investment properties	-	-	-	21,398,576	21,398,576
Equipment	-	-	-	4,401,790	4,401,790
	14,105,497	-	-	276,439,406	290,544,903
LIABILITIES					
Due to banks	1,985,817	2,413,317	-	-	4,399,134
Accounts payable and other liabilities	-	-	-	3,653,654	3,653,654
Short term borrowings	29,500,000	111,649,510	39,915,850	-	181,065,360
Provision for end of service indemnity	-	-	-	248,335	248,335
	31,485,817	114,062,827	39,915,850	3,901,989	189,366,483
Total interest rate sensitivity gap	(17,380,320)	(114,062,827)	(39,915,850)	272,537,417	101,178,420
Cumulative interest rate sensitivity gap	(17,380,320)	(131,443,147)	(171,358,997)	-	-

The Group does not have any off balance sheet financial instrument which are used to manage the interest rate risk. The following table illustrates the sensitivity of the profit for the year to a reasonable possible change in interest rates with effect from the beginning of the year. Based on observation of current market conditions it has been assumed that a reasonable possible change in the interest rates would be +25 and -25 basis points for LIBOR and +25 and -25 basis points for KIBOR interest rates for the current year (2009: Interest rate +25 and – 25 basis point for LIBOR and +25 and -25 for basis point for KIBOR). The calculation is based on the Group's financial instruments held at each statement of financial position date. All other variables are held constant. There is no other direct impact on Group's equity.

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	Kuwaiti Dinars			
	Increase in interest rates		Decrease in interest rates	
	2010	2009	**2010**	2009
Loss for the year	**(358,562)**	(428,397)	**370,379**	428,397

c. Price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, Jordan, Bahrain and USA. Equity investments are classified either as investments carried at fair value through statement of income (including trading securities) or available for sale securities.

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

The equity price risk sensitivity is determined on the following percentages for the years 2010 and 2009:

	2010	**2009**
Kuwait market	**10%**	10%
Jordan market	**10%**	10%
Bahrain market	**10%**	10%
USA market	**10%**	10%

The price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been higher/lower as disclosed in the above table, the effect on the loss for the year and equity for the year ended 31 December would have been as follows:

A positive number below indicates a decrease in loss or an increase in profit and equity, where the equity prices increase by the above mentioned percentages. All other variables are held constant.

	Kuwaiti Dinars			
	Loss for the year		Equity	
	2010	**2009**	**2010**	**2009**
Investments at fair value through profit or loss	**3,973,223**	4,069,596	**-**	-
Available for sale investments	**-**			
- Impaired investments (refer *)	**1,093,619**	5,037,128	**-**	-
- Un-impaired investments	**-**	-	**141,704**	604,031
	5,066,842	9,106,724	**141,704**	604,031

* Had equity prices been higher by the above mentioned percentages, the impairment loss which was recognised in the consolidated statement of income would be reduced and consequently the loss for the years 2010 and 2009 would be lower.

For a 10% decrease in the equity prices there would be an equal and opposite impact on the (loss)/profit for the year and equity and the amounts shown would be negative.

27.2 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 credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the consolidated statement of financial position date, as summarized below:

	Kuwaiti Dinars	
	2010	2009
Cash and bank balances	15,095,294	6,784,866
Short term deposits	1,533,264	10,782,923
Murabaha and wakala investments	14,763,268	2,700,671
Investments carried at fair value through profit or loss	39,732,237	40,695,963
Accounts receivable and other assets (refer note 14)	30,717,052	61,295,706
Available for sale investments	95,051,543	77,383,089
	196,892,658	199,643,218

Except for the wakala investment referred to in note 12, accounts receivable and other assets referred to in note 14, and available for sale investments referred to in note 15, none of the above financial assets are past due or impaired. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by Group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

None of the Group's financial assets are secured by collateral or other credit enhancements except as disclosed in Note 13 & 15.

In respect of receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for cash and bank balance and short term deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality. Information on other significant concentrations of credit risk is set out in note 27.3.

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27.3 Concentration of assets

The distribution of financial assets and financial liabilities by geographic region for 2010 and 2009 is as follows:

	Kuwaiti Dinars				
	Kuwait	Middle East	Asia & Africa	Europe & USA	Total
At 31 December 2010					
Cash and bank balances	12,497,829	2,059,636	407,245	130,584	15,095,294
Short term deposits	1,533,264	-	-	-	1,533,264
Murabaha and wakala investments	14,763,268	-	-	-	14,763,268
Investments at fair value through profit or loss	30,100,160	5,483,278	3,971,091	177,708	39,732,237
Accounts receivable and other assets (note 14)	19,724,198	2,733,165	135,007	8,124,682	30,717,052
Available for sale investments	66,205,906	17,765,955	2,644,048	8,435,634	95,051,543
	144,824,625	28,042,034	7,157,391	16,868,608	196,892,658
Due to banks	3,450,493	-	-	-	3,450,493
Accounts payable and other liabilities	4,520,974	-	3,131	-	4,524,105
Short term borrowings	155,140,000	4,122,241	-	-	159,262,241
Provision for end of service indemnity	369,721	-	-	-	369,721
	163,481,188	4,122,241	3,131	-	167,606,560

	Kuwaiti Dinars				
	Kuwait	Middle East	Asia & Africa	Europe & USA	Total
At 31 December 2009					
Cash and bank balances	5,214,824	1,190,828	196,366	182,848	6,784,866
Short term deposits	5,649,001	5,133,922	-	-	10,782,923
Murabaha and wakala investments	2,700,671	-	-	-	2,700,671
Investments at fair value through profit or loss	30,952,522	5,457,968	3,354,829	930,644	40,695,963
Accounts receivable and other assets (refer note 14)	55,712,359	4,034,242	80,062	1,469,043	61,295,706
Available for sale investments	48,942,139	10,192,654	3,820,836	14,427,460	77,383,089
	149,171,516	26,009,614	7,452,093	17,009,995	199,643,218

Due to banks	4,399,134	-	-	-	4,399,134
Accounts payable and other liabilities	2,503,699	956,475	3,256	7,680	3,471,110
Short term borrowings	175,635,850	5,429,510	-	-	181,065,360
Provision for end of service indemnity	247,903	432	-	-	248,335
	182,786,586	6,386,417	3,256	7,680	189,183,939

27.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the Group's assets and liabilities. Except for investments carried at fair value through profit or loss and available for sale investments, the maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date.

The maturity profile for investments carried at fair value through profit or loss and available for sale investments is determined based on management's estimate of liquidation of those investments.

Maturity profile of assets and liabilities are as follows:

	Kuwaiti Dinars		
At 31 December 2010	**1 year**	**1-5 years**	**Total**
ASSETS			
Cash and bank balances	**15,095,294**	**-**	**15,095,294**
Short term deposits	**1,533,264**	**-**	**1,533,264**
Murabaha and wakala investments	**14,763,268**	**-**	**14,763,268**
Investment at fair value through profit or loss	**39,732,237**	**-**	**39,732,237**
Accounts receivable and other assets	**21,705,427**	**10,063,175**	**31,768,602**
Available for sale investments	**-**	**95,051,543**	**95,051,543**
Investment in associates	-	**45,911,382**	**45,911,382**
Investment properties	-	**23,838,977**	**23,838,977**
Equipment	-	**3,235,027**	**3,235,027**
	92,829,490	**178,100,104**	**270,929,594**

LIABILITIES			
Due to banks	**3,450,493**	**-**	**3,450,493**
Accounts payable and other liabilities	**4,706,649**	**-**	**4,706,649**
Short term borrowings	**159,262,241**	**-**	**159,262,241**
Provision for end of service indemnity	**-**	**369,721**	**369,721**
	167,419,383	**369,721**	**167,789,104**

	Kuwaiti Dinars		
At 31 December 2009	**1 year**	**1-5 years**	**Total**
ASSETS			
Cash and bank balances	6,784,866	-	6,784,866
Short term deposits	10,782,923	-	10,782,923
Wakala investments	2,700,671	-	2,700,671
Investment at fair value through profit or loss	40,695,963	-	40,695,963
Accounts receivable and other assets	38,509,218	25,005,500	63,514,718
Available for sale investments	-	77,383,089	77,383,089
Investment in associate companies	-	62,882,307	62,882,307
Investment property	-	21,398,576	21,398,576
Equipment	-	4,401,790	4,401,790
	99,473,641	191,071,262	290,544,903
LIABILITIES			
Due to banks	4,399,134	-	4,399,134
Accounts payable and other liabilities	3,653,654	-	3,653,654
Short term borrowings	181,065,360	-	181,065,360
Provision for end of service indemnity	-	248,335	248,335
	189,118,148	248,335	189,366,483

The contractual maturity of financial liabilities based on undiscounted cash flows is as follows:

31 December 2010	Kuwaiti Dinars Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Financial liabilities					
Due to banks	973,943	2,507,595	-	-	3,481,538
Accounts payable and other liabilities	57,740	1,068,088	3,580,821	-	4,706,649
Short term borrowings	24,065,101	117,146,317	19,644,488	-	160,855,906
Provision for end of services indemnity	-	-	-	369,721	369,721
	25,096,784	120,722,000	23,225,309	369,721	169,413,814

31 December 2009	Kuwaiti Dinars Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Financial liabilities					
Due to banks	1,995,134	2,431,000	-	-	4,426,134
Accounts payable and other liabilities	215,611	2,045,128	1,392,916	-	3,653,655
Short term borrowings	29,561,000	136,501,985	16,944,000	-	183,006,985
Provision for end of services indemnity	-	-	-	248,335	248,335
	31,771,745	140,978,113	18,336,916	248,335	191,335,109

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28. Capital risk management

The Group's capital management objectives are to ensure that the Group maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

The Parent Company is required to maintain a minimum share capital of KD 15 million as it is registered as an investment company regulated by the Central Bank of Kuwait.

The capital structure of the Group consists of the following:

	Kuwaiti Dinars 2010	2009
Short term borrowings (refer note 19)	159,262,241	181,065,360
Less: Cash and cash equivalents (refer note 12)	(13,168,065)	(12,008,655)
Net debt	146,094,176	169,056,705
Total equity	103,140,490	101,178,420

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total equity as follows:

	Kuwaiti Dinars 2010	2009
Net debt	146,094,176	169,056,705
Total equity	103,140,490	101,178,420
Net debt to total equity ratio	142%	167%

29. Business combination

In December 2010 the Group acquired control over NoorTel an associate (25.8%) through a step up acquisition of an additional 25.15% equity interest in NoorTel. These shares were bought back from related parties to whom these shares were sold by the Parent Company in 2008. This transaction is subject to the approval of shareholders. This is accounted in accordance with the revised IFRS 3 as follows:

	Kuwaiti Dinars
Consideration settled against due from a related party (note 14)	**16,250,000**
Non-controlling interests	**32,941,655**
Fair value of the previously held equity interest on acquisition date	**17,331,843**
	66,523,498
Less : Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and balances	**3,714,489**
Murabaha and wakala investments	**27,435,067**
Investment at fair value through profit or loss	**8,024,078**
Account receivables	**1,704,847**
Available for sale investments	**24,829,317**
Investment in an associate	**2,843,788**
Account payable	**(1,513,547)**
Provision for end of service indemnity	**(6,715)**
Total identifiable net assets	**67,031,324**
Negative goodwill included in other income (refer note 7)	**507,826**

The initial accounting for the business combination is provisional due to its complexity, and will be adjusted retrospectively when the final purchase price allocation is completed during the one year measurement period from the acquisition date.

The financial position of the newly controlled subsidiary as at 31 December 2010 was consolidated with the Group's financial statements as of that date.

Accordingly NoorTel as subsidiary contributed revenues and profit of KD Nil to the net results of the Group. However, the Group has recognised a loss of KD 1,690,900 for the year 2010 being its share of loss in NoorTel as an associate (note 16). If the acquisition had taken place on 1 January 2010, the Group revenue would have been higher by KD 777,461 and loss for the year would have been higher by KD 2,745,180.

30. Fiduciary assets

The Group manages mutual funds and portfolios on behalf of its Ultimate Parent Company, other related parties and outsiders, and maintains securities in fiduciary accounts which are not reflected in the Group's consolidated statement of financial position. Assets under management at 31 December 2010 amounted to KD 246,777,202 (2009: KD 338,757,236) of which assets managed on behalf of its Ultimate Parent Company and other related parties amounted to KD 195,576,672 (2009: KD 292,450,981).

31. Contingent liabilities

Group's share of a foreign associate's contingent liabilities:

	Kuwaiti Dinars	
	2010	**2009**
Guarantees	**8,593,152**	8,248,000
Letters of credit	**20,776,787**	17,700,000
Commitments in respect of forward exchange contracts	**61,997,748**	43,514,000
Commitment for the acquisition of operating fixed assets	**345,203**	46,000
Commitment in respect of financing	**44,886,705**	39,978,000
Bills for collection	**6,895,471**	3,451,000
Senior executive bonus incentive scheme	**132,446**	119,000
	143,627,512	113,056,000

Guarantees and capital commitments

At the consolidated statement of financial position date the Group had capital commitments of KD 543,809 towards available for sale investments and investment property (2009: KD 166,912) and guarantees amounting to KD 7,915,592 (2009: KD 7,725,419).

32. Comparative amounts

Certain comparative amounts have been reclassified to conform to the presentation in the current year. Such reclassification does not affect previously reported net assets, net equity, net results for the year or net increase in cash and cash equivalents.