

**KUWAIT FINANCE HOUSE K.S.C. AND  
SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**

**31 MARCH 2004**

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**REVIEW REPORT TO THE DIRECTORS OF  
KUWAIT FINANCE HOUSE K.S.C.**


We have reviewed the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and Subsidiaries at 31 March 2004, and the related consolidated statements of income, changes in equity and cash flows for the three month period then ended. These interim condensed consolidated financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.


We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

Furthermore, based on our review, the interim condensed consolidated financial statements are in agreement with the books of the company. We further report that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association of the company have occurred that might have had a material effect on the business of the company or on its financial position.

We further report that, during the course of our review, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.

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

  
JASSIM AHMAD AL-FAHAD  
LICENCE NO. 53 A  
DELOITTE  
AL-FAHAD & CO.

6 April 2004

Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

31 March 2004

	<i>Note</i>	<i>3 months ended 31 March 2004 KD 000's</i>	<i>3 months ended 31 March 2003 KD 000's</i>
<b>OPERATING INCOME</b>			
Murabaha, Istisna'a and leasing income		32,357	26,084
Investment income		12,329	7,068
Fee and commission income		3,938	2,156
Net gain from dealing in foreign currencies		145	492
Other operating income		886	787
		<u>49,655</u>	<u>36,587</u>
<b>OPERATING EXPENSES</b>			
General and administrative expenses		6,973	4,850
Depreciation		1,852	1,805
Provision for impairment		1,427	-
		<u>10,252</u>	<u>6,655</u>
<b>PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST</b>			
		39,403	29,932
Minority interest		(802)	(443)
<b>PROFIT FROM OPERATIONS BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS</b>			
		38,601	29,489
Estimated distribution to depositors	3	(21,260)	(15,418)
<b>PROFIT FOR THE PERIOD</b>			
		17,341	14,071
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(173)	(141)
Provision for National Labour Support tax		(317)	(275)
<b>NET PROFIT FOR THE PERIOD</b>			
	3	<u>16,851</u>	<u>13,655</u>
<b>BASIC EARNINGS PER SHARE</b>			
	4	<u>22 fils</u>	<u>18 fils</u>

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET (UNAUDITED)

31 March 2004

		(Audited)	
	31 March 2004	31 December 2003	31 March 2003
	KD 000's	KD 000's	KD 000's
<b>ASSETS</b>			
Cash and balances with banks and financial institutions	156,737	129,208	202,372
Short-term international murabaha	317,030	369,369	378,706
Receivables	1,549,613	1,457,494	1,297,278
Leased assets	335,927	287,990	130,212
Investments	463,758	433,410	275,975
Trading properties	137,113	141,210	116,191
Investment properties	103,405	100,852	103,291
Other assets	68,699	63,021	58,487
Property and equipment	64,374	58,556	43,348
<b>TOTAL ASSETS</b>	<b>3,196,656</b>	<b>3,041,110</b>	<b>2,605,860</b>
<b>LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and financial institutions	58,014	63,676	20,522
Depositors' accounts	2,460,783	2,300,161	2,040,777
Other liabilities	183,046	169,864	106,150
<b>TOTAL LIABILITIES</b>	<b>2,701,843</b>	<b>2,533,701</b>	<b>2,167,449</b>
<b>DEFERRED REVENUE</b>	<b>181,302</b>	<b>182,410</b>	<b>173,884</b>
<b>FAIR VALUE RESERVE</b>	<b>32,611</b>	<b>19,776</b>	<b>6,082</b>
<b>MINORITY INTEREST</b>	<b>19,392</b>	<b>20,637</b>	<b>18,547</b>
<b>EQUITY</b>			
Share capital	6 75,990	71,689	71,689
Proposed issue of bonus shares	6 -	4,301	-
Reserves	185,518	172,752	168,209
Proposed cash dividend	-	35,844	-
<b>TOTAL EQUITY</b>	<b>261,508</b>	<b>284,586</b>	<b>239,898</b>
<b>TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY</b>	<b>3,196,656</b>	<b>3,041,110</b>	<b>2,605,860</b>

BADER ABDULMOHSEN AL-MUKHAIZEEM  
(CHAIRMAN AND MANAGING DIRECTOR)

JASSAR DAKHEEL AL-JASSAR  
(GENERAL MANAGER)

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

31 March 2004

	Reserves							Total equity KD 000's	
	Share capital KD 000's	Proposed Issue of bonus shares KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares KD 000's	Sub total KD 000's		Proposed cash dividends KD 000's
At 1 January 2003	68,275	3,414	7,708	125,240	26,145	(902)	158,191	32,089	261,969
Movements during the period:									
Issue of bonus shares	3,414	(3,414)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(3,607)	-	(3,607)	-	(3,607)
Cash dividends paid	-	-	-	-	-	-	-	(32,089)	(32,089)
Net movement in treasury shares	-	-	-	-	-	(30)	(30)	-	(30)
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	13,655	-	13,655	-	13,655
At 31 March 2003	71,689	-	7,708	125,240	36,193	(932)	168,209	-	239,898
At 1 January 2004	71,689	4,301	7,826	137,251	28,542	(867)	172,752	35,844	284,586
Movements during the period:									
Issue of bonus shares	4,301	(4,301)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(4,010)	-	(4,010)	-	(4,010)
Cash dividends paid	-	-	-	-	-	-	-	(35,844)	(35,844)
Net movement in treasury shares	-	-	-	-	-	(75)	(75)	-	(75)
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	16,851	-	16,851	-	16,851
At 31 March 2004	75,990	-	7,826	137,251	41,383	(942)	185,518	-	261,508

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

31 March 2004

	<i>3 months ended</i> <i>31 March 2004</i>	<i>3 months ended</i> <i>31 March 2003</i>
<i>Note</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	16,851	13,655
Adjustment for:		
Depreciation	1,852	1,805
Provision for impairment	1,427	-
Operating profit before changes in operating assets and liabilities	<u>20,130</u>	<u>15,460</u>
<i>(Increase) decrease in operating assets:</i>		
Exchange of deposits	(62,626)	(71,532)
Receivables	(91,995)	15,064
Leased assets	(47,396)	(22,493)
Trading properties	4,107	(4,094)
Other assets	349	(10,193)
<i>Increase (decrease) in operating liabilities:</i>		
Due to banks and financial institutions	(5,664)	7,882
Depositors' accounts	160,622	63,916
Other liabilities	11,939	3,284
Deferred revenue	(1,108)	(1,839)
Net cash used in operating activities	<u>(11,642)</u>	<u>(4,545)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(17,576)	(24,932)
(Purchase) sale of investment properties	(3,064)	1,176
Purchase of property and equipment	(13,124)	(9,368)
Net cash used in investing activities	<u>(33,764)</u>	<u>(33,124)</u>
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(35,844)	(32,089)
Payment of Zakat	(4,010)	(3,607)
Net cash used in financing activities	<u>(39,854)</u>	<u>(35,696)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(85,260)</b>	<b>(73,365)</b>
Cash and cash equivalents at the beginning of the period	<u>238,426</u>	<u>305,081</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>8</b> <u><u>153,166</u></u>	<u><u>231,716</u></u>

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

# Kuwait Finance House K.S.C. and Subsidiaries

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2004

### 1 ACTIVITIES

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. and Subsidiaries (the group) for the period ended 31 March 2004 were authorised for issue in accordance with a resolution of the board of directors on 6 April 2004.

The group comprises Kuwait Finance House K.S.C. (the parent company) and its subsidiaries. The parent company is a public shareholding company incorporated in Kuwait on 23 March 1977 and is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practising usury. Trading activities are conducted on the basis of purchasing various goods and selling them on Murabaha at negotiated profit margins which can be settled in cash or on instalment credit basis. The parent company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

For details of consolidated subsidiaries please see Note 7.

All activities are conducted in accordance with Islamic Shareea'a, as approved by the parent company's Fatwa and Shareea'a Supervisory Board.

### 2 BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the group have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2003.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2004.

### 3 ESTIMATED DISTRIBUTION TO DEPOSITORS AND NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS

Management of the parent company is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the estimated distribution to depositors and the net profit for the period attributable to shareholders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 31 March 2004, or for the year ending 31 December 2004.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the parent company in accordance with the parent company's articles of association, based on the annual audited results for the year ending 31 December 2004.

For the purpose of these interim condensed consolidated financial statements, the net profit for the period ended 31 March 2004 attributable to shareholders has been credited to the voluntary reserve.

### 4 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the period of KD 16,851 thousand (31 March 2003: KD 13,655 thousand) and the weighted average number of ordinary shares outstanding during the period of 758,980 thousand (31 March 2003: KD 758,893 thousand) after adjusting for treasury shares held by the group.

The basic earnings per share of the comparative period has been restated on account of the bonus shares issued during the quarter.

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2004

**5 FAIR VALUE RESERVE**

	<b>31 March 2004 KD 000's</b>	<i>(Audited)</i> <b>31 December 2003 KD 000's</b>	<b>31 March 2003 KD 000's</b>
Balance at beginning of the period	19,776	5,771	5,771
Change in fair value during the period	12,835	13,188	311
Loss realised during the period	-	428	-
Impairment loss recognised during the period	-	389	-
Balance at end of the period	<u><u>32,611</u></u>	<u><u>19,776</u></u>	<u><u>6,082</u></u>

**6 SHARE CAPITAL**

The extraordinary general assembly meeting of the parent company held on 16 February 2004 approved an increase in the authorised share capital from KD 71,689 thousand to KD 75,990 thousand by way of an issue of 6% bonus shares amounting to KD 4,301 thousand.

The annual general assembly also approved an employee share option scheme under which 21,506,575 shares, representing 3% of the parent company's share capital, would be issued to eligible employees at par value of 100 fils and premium of 222 fils per share. The parent company's board of directors will determine the employees eligible for the scheme.

**7 CONSOLIDATED SUBSIDIARIES**

Details of consolidated subsidiaries are set out below:

<i>Name</i>	<i>Country of registration</i>	<i>Interest in equity %</i>	<i>Principal activities</i>
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	Real estate, investment, trading and management
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	Kuwait	100	Contracting, trading and project management
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	Islamic investments



## Kuwait Finance House K.S.C. and Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2004

#### 8 CASH AND CASH EQUIVALENTS

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

	<i>31 March 2004 KD 000's</i>	<i>(Audited) 31 December 2003 KD 000's</i>	<i>31 March 2003 KD 000's</i>
Cash and balances with banks and financial institutions	156,737	129,208	202,372
Short-term international murabaha – maturing within 3 months of contract date	59,055	109,218	127,500
Exchange of deposits – maturing after 3 months of contract date	<b>(62,626)</b>	-	<b>(98,156)</b>
	<u><b>153,166</b></u>	<u>238,426</u>	<u>231,716</u>

#### 9 CONTINGENCIES AND COMMITMENTS

At the balance sheet date there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	<i>31 March 2004 KD 000's</i>	<i>(Audited) 31 December 2003 KD 000's</i>	<i>31 March 2003 KD 000's</i>
Acceptances and letters of credit	37,565	41,420	29,947
Guarantees	118,767	122,308	121,570
	<u>156,332</u>	<u>163,728</u>	<u>151,517</u>
Capital commitments	<u>94,433</u>	<u>98,836</u>	<u>97,893</u>

#### 10 CURRENCY RISK

The group had the following net exposures denominated in foreign currencies:

	<i>31 March 2004 KD 000's equivalent</i>	<i>(Audited) 31 December 2003 KD 000's equivalent</i>	<i>31 March 2003 KD 000's equivalent</i>
U.S. Dollars	25,769	106,380	108,355
Sterling Pounds	930	(7,843)	(6,923)
Japanese Yen	51	36	(38)
Euros	730	722	5,498
Gulf Co-operation Council currencies	<b>(11,508)</b>	<b>(12,465)</b>	<b>(12,453)</b>
Others	1,096	1,243	930

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2004

**11 RELATED PARTY TRANSACTIONS**

Certain related parties (directors and officers of the group, their families and companies of which they are principal owners) were depositors and credit customers of the parent company, in the ordinary course of business. Transactions with related parties are approved by the Ordinary General Assembly of the shareholders of the parent company. The period end balances of related parties included in the interim condensed consolidated balance sheet are considered insignificant.

**12 SEGMENTAL ANALYSIS***Primary segment information*

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

31 March 2004

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	5,122	12,953	29,746	1,834	49,655
Net profit for the period	1,621	4,977	9,563	690	16,851
Total assets	756,508	794,852	1,598,200	47,096	3,196,656
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	67,173	121,873	2,373,752	633,858	3,196,656

31 March 2003

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	4,018	4,358	26,993	1,218	36,587
Net profit for the period	1,315	1,645	10,345	350	13,655
Total assets	790,855	588,336	1,203,932	22,737	2,605,860
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	28,102	78,958	1,963,158	535,642	2,605,860

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2004

12 SEGMENTAL ANALYSIS (continued)

*Secondary segment information*

The group operates in different geographical areas as designated below:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>31 March 2004 KD 000's</i>	<i>31 March 2003 KD 000's</i>	<i>31 March 2004 KD 000's</i>	<i>31 March 2003 KD 000's</i>	<i>31 March 2004 KD 000's</i>	<i>31 March 2003 KD 000's</i>
Operating income	<u>41,642</u>	<u>27,091</u>	<u>8,013</u>	<u>9,496</u>	<u>49,655</u>	<u>36,587</u>
Net profit for the period	<u>13,994</u>	<u>9,949</u>	<u>2,857</u>	<u>3,706</u>	<u>16,851</u>	<u>13,655</u>
Total assets	<u>2,748,404</u>	<u>2,222,216</u>	<u>448,252</u>	<u>383,644</u>	<u>3,196,656</u>	<u>2,605,860</u>
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	<u>3,174,728</u>	<u>2,601,541</u>	<u>21,928</u>	<u>4,319</u>	<u>3,196,656</u>	<u>2,605,860</u>

13 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 March 2004 amounted to KD 218,962 thousand (31 December 2003: KD 243,951 thousand, 31 March 2003: KD 239,522 thousand).