

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

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

31 MARCH 2006

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

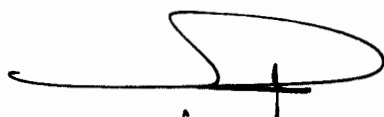
We have reviewed the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. (the bank) and Subsidiaries (the group) at 31 March 2006, and the related consolidated income statement, statements of changes in equity and cash flows for the three month period then ended. These interim condensed consolidated financial statements are the responsibility of the bank'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 Review Engagements 2400. 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 bank 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 the basis of presentation set out in Note 2.

Furthermore, based on our review, the interim condensed consolidated financial statements are in agreement with the books of the bank. 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 bank have occurred that might have had a material effect on the business of the bank 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.



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ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS



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Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Period ended 31 March 2006

	<i>Note</i>	3 months ended 31 March 2006 KD 000's	3 months ended 31 March 2005 KD 000's
OPERATING INCOME			
Murabaha, Istisna'a and leasing income		73,415	41,546
Investment income		42,482	26,609
Fee and commission income		10,255	6,498
Net (loss) gain from dealing in foreign currencies		(1,172)	649
Other operating income		2,651	1,859
		<u>127,631</u>	<u>77,161</u>
OPERATING EXPENSES			
Staff costs		13,747	10,633
General and administrative expenses		9,785	6,649
Depreciation		10,790	4,312
Provision for impairment		4,470	4,975
		<u>38,792</u>	<u>26,569</u>
OPERATING PROFIT BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS			50,592
Estimated distribution to depositors	3	(42,363)	(24,687)
PROFIT FOR THE PERIOD		46,476	25,905
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(381)	(251)
Provision for National Labour Support tax		(628)	(366)
NET PROFIT FOR THE PERIOD		<u>45,467</u>	<u>25,288</u>
Attributable to:			
Equity holders of the bank	3	37,140	24,505
Minority interest		8,327	783
		<u>45,467</u>	<u>25,288</u>
BASIC EARNINGS PER SHARE	4	<u>30 fils</u>	<u>25 fils</u>

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 31 March 2006

		(Audited)	
	31 March 2006	31 December 2005	31 March 2005
	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and balances with banks and financial institutions	192,975	158,293	114,261
Short-term international murabaha	694,104	663,848	379,156
Receivables	2,223,375	2,104,346	1,565,870
Leased assets	576,972	603,333	545,160
Investments	509,732	555,279	511,397
Investment in associates	157,949	142,734	40,275
Trading properties	89,742	93,009	97,180
Investment properties	180,876	184,479	133,958
Other assets	80,164	68,102	79,172
Property and equipment	245,563	107,695	73,374
TOTAL ASSETS	4,951,452	4,681,118	3,539,803
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	369,449	281,617	121,367
Depositors' accounts	3,398,489	3,189,344	2,684,152
Other liabilities	206,624	220,795	175,311
TOTAL LIABILITIES	3,974,562	3,691,756	2,980,830
DEFERRED REVENUE	246,160	235,239	198,371
FAIR VALUE RESERVE	51,864	62,092	34,687
FOREIGN EXCHANGE TRANSLATION RESERVE	10,601	11,401	(1,878)
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
Share capital	122,525	109,397	85,955
Share premium	188,465	188,465	12,633
Proposed issue of bonus shares	-	13,128	-
Reserves	224,341	229,052	183,853
Net profit for the period attributable to equity holders of the bank	37,140	-	24,505
	572,471	540,042	306,946
Proposed cash dividend	-	60,168	-
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	572,471	600,210	306,946
Minority interest	95,794	80,420	20,847
TOTAL EQUITY	668,265	680,630	327,793
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY	4,951,452	4,681,118	3,539,803

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMED SULAIMAN AL-OMAR
(DEPUTY GENERAL MANAGER)

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 31 March 2006

	Attributable to equity holders of the bank										Minority interest KD 000's	Total equity KD 000's	
	Reserves												
	Share capital KD 000's	Share premium KD 000's	Proposed issue of bonus shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares KD 000's	Sub total KD 000's	Net profit KD 000's	Sub total KD 000's	Proposed cash dividends KD 000's			Sub total KD 000's
At 1 January 2005	78,141	12,618	7,814	157,119	32,192	(1,016)	188,295	-	286,868	39,070	325,938	21,633	347,571
Movements during the period													
Issue of bonus shares	7,814	-	(7,814)	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	15	-	-	-	-	-	-	15	-	15	-	15
Zakat	-	-	-	-	(4,371)	-	(4,371)	-	(4,371)	-	(4,371)	-	(4,371)
Cash dividends paid	-	-	-	-	-	-	-	-	-	(39,070)	(39,070)	-	(39,070)
Net movement in treasury shares	-	-	-	-	-	(71)	(71)	-	(71)	-	(71)	-	(71)
Net change in minority interest	-	-	-	-	-	-	-	24,505	24,505	-	24,505	(1,569)	(1,569)
Net profit for the period	-	-	-	-	-	-	-	24,505	24,505	-	24,505	783	25,288
At 31 March 2005	85,955	12,633	-	157,119	27,821	(1,087)	183,853	24,505	306,946	-	306,946	20,847	327,793
At 1 January 2006	109,397	188,465	13,128	169,386	60,944	(1,278)	229,052	-	540,042	60,168	600,210	80,420	680,630
Movements during the period													
Issue of bonus shares (Note 7)	13,128	-	(13,128)	-	-	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	(5,091)	-	(5,091)	-	(5,091)	-	(5,091)	-	(5,091)
Cash dividends paid	-	-	-	-	-	380	380	-	380	(60,168)	(60,168)	-	(60,168)
Net movement in treasury shares	-	-	-	-	-	-	-	-	-	-	-	7,047	7,047
Net change in minority interest	-	-	-	-	-	-	-	37,140	37,140	-	37,140	8,327	45,467
Net profit for the period	-	-	-	-	-	-	-	37,140	37,140	-	37,140	8,327	45,467
At 31 March 2006	122,525	188,465	-	169,386	55,853	(898)	224,341	37,140	572,471	-	572,471	95,794	668,265

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Period ended 31 March 2006

	<i>Note</i>	<i>3 months ended 31 March 2006 KD 000's</i>	<i>3 months ended 31 March 2005 KD 000's</i>
OPERATING ACTIVITIES			
Net profit for the period		45,467	25,288
Adjustment for:			
Depreciation		10,790	4,312
Provision for impairment		4,470	4,975
Share of the accumulated retained earnings of the newly consolidated subsidiary as of 1 January 2005		(5,090)	-
Share of results of associates		(18,664)	-
		<u>36,973</u>	<u>34,575</u>
Operating profit before changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Exchange of deposits		4,727	(26,822)
Receivables		(112,122)	(14,449)
Leased assets		25,017	(42,628)
Trading properties		3,267	30,655
Other assets		(11,999)	(9,436)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		87,832	(454)
Depositors' accounts		209,145	120,967
Other liabilities		(7,647)	(30,282)
Deferred revenue		10,921	9,369
		<u>246,114</u>	<u>71,495</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Net sale of available for investments		39,808	15,293
Sale (purchase) of investment properties		3,046	(29,232)
Purchase of property and equipment		(148,101)	(4,972)
Sale (purchase) of investment in associates		3,450	(757)
		<u>(101,797)</u>	<u>(19,668)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Cash dividends paid		(60,168)	(39,070)
Cash received on cancellation of share options		-	15
Payment of Zakat		(5,091)	(4,371)
Net movement in treasury shares		380	(71)
		<u>(64,879)</u>	<u>(43,497)</u>
Net cash used in financing activities			
INCREASE IN CASH AND CASH EQUIVALENTS		79,438	8,330
Cash and cash equivalents at 1 January		<u>701,582</u>	<u>339,315</u>
CASH AND CASH EQUIVALENTS AT 31 MARCH	8	<u><u>781,020</u></u>	<u><u>347,645</u></u>

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2006

1 ACTIVITIES

The interim condensed consolidated financial statements of the group for the period ended 31 March 2006 were authorised for issue in accordance with a resolution of the parent company's board of directors on 9 April 2006.

The group comprises Kuwait Finance House K.S.C. and its consolidated subsidiaries. The parent company is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait on 24 May 2004. It 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34, Interim Financial Reporting except as noted below.

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 2005. The annual consolidated financial statements for the year ended 31 December 2005 were prepared in accordance with the regulations of the State 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 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described below.

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the Central Bank of Kuwait and IFRS. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 2% on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2006.

During the period, the parent company consolidated a previously unconsolidated subsidiary. Previously the unconsolidated subsidiary was carried at cost. On consolidation, the group's share of the accumulated retained earnings of the subsidiary as of 1 October 2004 amounting to KD 5,090 thousand along with results of the year ended 30 September 2005 amounting to KD 1,794 thousand have been included in the consolidated income statement for the period ended 31 March 2006.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2006

3 ESTIMATED DISTRIBUTION TO DEPOSITORS AND NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

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 three month period attributable to equity holders should not be relied upon to indicate distribution of profit to all parties concerned for the three month period ended 31 March 2006, or for the year ending 31 December 2006.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the bank in accordance with the bank's articles of association, based on the annual audited results for the year ending 31 December 2006.

4 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the period attributable to equity holders of the parent company of KD 37,140 thousand (2005: KD 24,505 thousand) and the weighted average number of ordinary shares outstanding during the period of 1,224,499 thousand (2005: 989,871 thousand) after adjusting by average treasury shares held by the group.

The basic earnings per share of the comparative period has been restated for bonus shares issued during the three month period ended 31 March 2006.

5 FAIR VALUE RESERVE

Changes in fair value of available for sale investments are reported in the fair value reserve. Management of the parent company is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

The movement on the fair value reserve is analysed as follows:

	<i>31 March</i> <i>2006</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2005</i> <i>KD 000's</i>	<i>31 March</i> <i>2005</i> <i>KD 000's</i>
Balance at the beginning of the period	62,092	31,680	31,680
Change in fair value during the period	(10,228)	49,480	7,998
Gain realised during the period	-	(19,068)	(4,991)
	<hr/>	<hr/>	<hr/>
Balance at the end of the period	<u>51,864</u>	<u>62,092</u>	<u>34,687</u>

6 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates.

Management of the parent company is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2006

7 SHARE CAPITAL

The ordinary and extraordinary general assembly meeting of the equity holders of the parent company held on 6 March 2006 approved an increase in the authorised share capital from KD 109,397 thousand to KD 122,525 thousand by way of an issuance of 12% bonus shares amounting to KD 13,128. Accordingly, the authorised, issued and fully paid-up share capital at 31 March 2006 comprises 1,225,244 thousand (31 December 2005: 1,093,968 thousand and 31 March 2005: KD 859,546) shares of 100 fils each.

8 CASH AND CASH EQUIVALENTS

	<i>31 March</i> <i>2006</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2005</i> <i>KD 000's</i>	<i>31 March</i> <i>2005</i> <i>KD 000's</i>
Cash	37,974	42,328	23,733
Balances with Central Banks	65,548	46,875	17,406
Balances with banks and financial institutions – current accounts	85,657	67,977	16,865
Balances with banks and financial institutions – exchange of deposits	3,796	1,113	56,257
Cash and balances with banks and financial institutions	<u>192,975</u>	<u>158,293</u>	<u>114,261</u>
Short-term international murabaha – maturing within 3 months of contract date	588,045	447,646	260,206
Tawarruq balances with Central Bank of Kuwait	-	100,370	-
Exchange of deposits – maturing after 3 months of contract date	-	(4,727)	(26,822)
Cash and cash equivalents	<u><u>781,020</u></u>	<u><u>701,582</u></u>	<u><u>347,645</u></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</i> <i>2006</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2005</i> <i>KD 000's</i>	<i>31 March</i> <i>2005</i> <i>KD 000's</i>
Acceptances and letters of credit	40,870	43,002	34,706
Guarantees	208,362	197,760	165,101
	<u>249,232</u>	<u>240,762</u>	<u>199,807</u>
Capital commitments	<u><u>80,439</u></u>	<u><u>103,865</u></u>	<u><u>283,527</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)

At 31 March 2006

10 RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the group, their families and companies of which they are principal owners) were depositors and financing facilities customers of the parent company, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. These transactions are approved by the Ordinary General Assembly of the equity holders of the parent company.

Details of the interests of Board Members and Executive Officers are as follows:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2006

10 RELATED PARTY TRANSACTIONS (continued)

	The number of Board Members or Executive Officers				The number of related parties				Values	
	(Audited)		(Unaudited)		(Audited)		(Unaudited)		(Audited)	(Unaudited)
	31 March 2006	31 December 2005	31 March 2005	31 March 2006	31 December 2005	31 March 2005	31 March 2006	31 December 2005	31 March 2005	31 March 2006
Board Members										
Finance facilities	6	6	6	3	4	1	124	137	57	
Contingent liabilities	-	-	-	-	-	-	-	-	-	
Credit cards	14	13	3	19	18	8	26	17	3	
Deposits	16	16	6	478	475	48	4,422	3,762	1,923	
Collateral against finance facilities	-	-	-	-	-	-	-	-	-	
Executive Officers										
Finance facilities	21	21	15	41	40	5	505	479	524	
Contingent liabilities	-	-	-	-	-	-	-	-	-	
Credit cards	28	30	10	38	43	9	50	37	13	
Deposits	38	34	15	125	123	64	951	617	1,432	
Collateral against finance facilities	7	7	7	17	17	7	754	754	1,645	

Compensation of key management personnel is as follows:

	31 March 2006	31 December 2005	31 March 2005
	KD 000's	KD 000's	KD 000's
Short-term employee benefits	888	2,982	429
Termination benefits	4,132	3,883	3,724
	<u>5,020</u>	<u>6,865</u>	<u>4,153</u>

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2006

11 SEGMENTAL ANALYSIS

Primary segment information

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

<i>31 March 2006 (Unaudited)</i>	<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	12,290	53,001	56,498	5,842	127,631
Net profit for the period	3,550	23,907	16,322	1,688	45,467
Total assets	527,789	1,426,454	2,906,668	90,541	4,951,452
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	284,807	391,871	3,481,493	793,281	4,951,452
 <i>31 March 2005 (Unaudited)</i>					
	<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	9,523	19,251	46,026	2,361	77,161
Net profit for the period	3,024	6,897	14,617	750	25,288
Total assets	500,193	884,718	2,089,910	64,982	3,539,803
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	148,451	143,650	2,769,965	477,737	3,539,803

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2006

11 SEGMENTAL ANALYSIS (continued)

Secondary segment information

	<i>Local</i>		<i>International</i>		<i>Total</i>	
	<i>2006</i> <i>KD 000's</i>	<i>2005</i> <i>KD 000's</i>	<i>2006</i> <i>KD 000's</i>	<i>2005</i> <i>KD 000's</i>	<i>2006</i> <i>KD 000's</i>	<i>2005</i> <i>KD 000's</i>
Operating income	<u>106,412</u>	<u>52,375</u>	<u>21,219</u>	<u>24,786</u>	<u>127,631</u>	<u>77,161</u>
Profit before distribution to depositors	<u>37,306</u>	<u>17,394</u>	<u>8,161</u>	<u>7,894</u>	<u>45,467</u>	<u>25,288</u>

12 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 March 2006 amounted to KD 316,421 thousand (31 December 2005: KD 274,239 thousand and 31 March 2005: KD 156,666).