KUWAIT FINANCE HOUSE K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

ERNST & YOUNG
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AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.

We have audited the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and Subsidiaries as of 31 December 2004, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2004 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 audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2004.

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18 January 2005
Kuwait

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2004

	Note	*2004* *KD 000's*	*2003* *KD 000's*
OPERATING INCOME			
Murabaha, Istisna'a and leasing income		**133,463**	106,917
Investment income	3	**48,293**	43,540
Fee and commission income		**13,933**	10,409
Net gain (loss) from dealing in foreign currencies		**1,613**	(1,098)
Other operating income		**6,304**	3,589
		203,606	163,357
OPERATING EXPENSES			
General and administrative expenses		**33,045**	28,789
Depreciation		**5,940**	7,966
Provision for impairment		**13,664**	4,132
		52,649	40,887
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST		**150,957**	122,470
Minority interest		**2,889**	2,603
PROFIT FROM OPERATIONS BEFORE DISTRIBUTION TO DEPOSITORS		**148,068**	119,867
Distribution to depositors	12	**71,476**	59,833
PROFIT FOR THE YEAR		**76,592**	60,034
Contribution to Kuwait Foundation for the Advancement of Sciences		**766**	600
National Labour Support tax		**1,294**	1,184
Directors' fees		**120**	90
NET PROFIT FOR THE YEAR		**74,412**	58,160
BASIC EARNINGS PER SHARE	4	**96 fils**	77 fils

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

CONSOLIDATED BALANCE SHEET
At 31 December 2004

	Note	2004 KD 000's	2003 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	5	**146,161**	129,208
Short-term international murabaha		**380,646**	369,369
Receivables	6	**1,484,971**	1,457,494
Leased assets	7	**505,550**	287,990
Investments	8	**565,038**	433,410
Trading properties		**127,835**	139,615
Investment properties	9	**105,921**	102,447
Other assets		**69,736**	63,021
Property and equipment	10	**72,208**	58,556
TOTAL ASSETS		**3,458,066**	3,041,110
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	11	**121,821**	63,676
Depositors' accounts	12	**2,563,185**	2,300,161
Other liabilities		**204,807**	169,864
TOTAL LIABILITIES		**2,889,813**	2,533,701
DEFERRED REVENUE		**189,002**	182,410
FAIR VALUE RESERVE	13	**31,680**	19,776
MINORITY INTEREST		**21,633**	20,637
EQUITY			
Share capital	14	**78,141**	71,689
Proposed issue of bonus shares	15	**7,814**	4,301
Reserves	16	**200,913**	172,752
		286,868	248,742
Proposed cash dividends	15	**39,070**	35,844
TOTAL EQUITY		**325,938**	284,586
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY		**3,458,066**	3,041,110

BADER ABDUL MUHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

			Reserves						
	Share capital KD 000's (Note 14)	Proposed issue of bonus shares KD 000's (Note 15)	Share premium KD 000's (Note 16)	Statutory reserve KD 000's (Note 16)	Voluntary reserve KD 000's (Note 16)	Treasury shares KD 000's	Sub total KD 000's	Proposed cash dividends KD 000's (Note 15)	Total equity KD 000's
At 31 December 2002	68,275	3,414	7,708	125,240	26,145	(902)	158,191	32,089	261,969
Movements during the year:									
Issue of bonus shares	3,414	(3,414)	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	118	-	-	-	118	-	118
Zakat	-	-	-	-	(3,607)	-	(3,607)	-	(3,607)
Cash dividends paid	-	-	-	-	-	-	-	(32,089)	(32,089)
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	12,011	-	-	12,011	-	12,011
Transfer to voluntary reserve	-	-	-	-	6,004	-	6,004	-	6,004
Proposed issue of bonus shares	-	4,301	-	-	-	-	-	-	4,301
Proposed cash dividends	-	-	-	-	-	-	-	35,844	35,844
Net movement in treasury shares	-	-	-	-	-	35	35	-	35
At 31 December 2003	71,689	4,301	7,826	137,251	28,542	(867)	172,752	35,844	284,586
Movements during the year:									
Issue of shares (Note 14)	2,151	-	4,774				4,774		6,925
Issue of bonus shares (Note 14)	4,301	(4,301)	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	18	-	-	-	18	-	18
Zakat	-	-	-	-	(4,010)	-	(4,010)	-	(4,010)
Cash dividends paid	-	-	-	-	-	-	-	(35,844)	(35,844)
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	19,868	-	-	19,868	-	19,868
Transfer to voluntary reserve	-	-	-	-	7,660	-	7,660	-	7,660
Proposed issue of bonus shares	-	7,814	-	-	-	-	-	-	7,814
Proposed cash dividends	-	-	-	-	-	-	-	39,070	39,070
Net movement in treasury shares	-	-	-	-	-	(149)	(149)	-	(149)
At 31 December 2004	**78,141**	**7,814**	**12,618**	**157,119**	**32,192**	**(1,016)**	**200,913**	**39,070**	**325,938**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2004

	Note	*2004* *KD 000's*	*2003* *KD 000's*
OPERATING ACTIVITIES			
Net profit for the year		**74,412**	58,160
Adjustment for:			
Depreciation		**5,940**	7,966
Provision for impairment		**13,664**	4,132
Operating profit before changes in operating assets and liabilities		**94,016**	70,258
(Increase) decrease in operating assets:			
Exchange of deposits		**-**	26,624
Receivables		**32,476**	(158,500)
Leased assets		**(217,437)**	(179,022)
Trading properties		**11,790**	(27,517)
Other assets		**29,914**	(5,092)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**58,144**	51,038
Depositors' accounts		**263,023**	323,300
Other liabilities		**35,940**	69,087
Deferred revenue		**6,592**	6,686
Net cash from operating activities		**314,458**	176,862
INVESTING ACTIVITIES			
Purchase of investments		**(119,895)**	(169,114)
(Purchase) sale of investment properties		**(5,557)**	661
Purchase of property and equipment		**(55,057)**	(39,520)
Net cash used in investing activities		**(180,509)**	(207,973)
FINANCING ACTIVITIES			
Issue of shares		**6,925**	-
Cash dividends paid		**(35,844)**	(32,089)
Cash received on cancellation of share options		**18**	118
Payment of Zakat		**(4,010)**	(3,607)
Net movement in treasury shares		**(149)**	35
Net cash used in financing activities		**(33,060)**	(35,543)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**100,889**	(66,654)
Cash and cash equivalents at 1 January		**238,426**	305,080
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**339,315**	238,426

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

1 ACTIVITIES

The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiaries (the group) for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the board of directors on 18 January 2005.

The group comprises Kuwait Finance House K.S.C. (the parent company) and its consolidated subsidiaries as noted in Note 17. 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 Al-Fatwa and Shareea'a Supervisory Board.

The parent company operates through 33 local branches (2003: 27) and employed 1,594 employees as of 31 December 2004 (2003: 1,452) of which 742 (2003: 637) are Kuwaiti nationals representing 47% (2003: 44%) of the total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Interpretations Committee.

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention
The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous year.

The significant accounting policies adopted are as follows:

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2004, Al Enma'a Real Estate Company K.S.C. (Closed) for the year ended 31 October 2004, The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed) for the year ended 31 October 2004 and Al Muthana Investment Company K.S.C. (Closed) for the year ended 30 September 2004. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

The financial statements used in the consolidation are drawn up to different reporting dates, hence adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and 31 December 2004, the reporting date of the parent company.

Some of the consolidated subsidiaries use accounting policies other than that adopted in the consolidated financial statements for certain assets. Hence, appropriate adjustments are made to their financial statements when used in preparing the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term international murabaha
Short-term international murabaha are financial assets originated by the parent company and represent deals with high credit quality international banks and financial institutions with a residual maturity of upto three months from the balance sheet date. These are stated at amortised cost.

Receivables
Receivables are financial assets originated by the group and principally comprise Murabaha and Istisna'a receivables. These are stated at amortised cost.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Impairment and uncollectability of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows discounted at original profit rates, recognised in the consolidated income statement. For receivables, the future anticipated cash flows include anticipated recoveries from guarantees and collateral.

In addition, a provision is made to cover impairment which, although not specifically identified, are deemed to be present in the group's portfolio of receivables. These are estimated based on the historical patterns of losses in each component, the credit ratings allocated to the debtors, the current economic investment in which the debtors operate and Central Bank of Kuwait guidelines.

Leased assets
This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

Investments
Investments are classified as available for sale investments.

Investments are initially recognised at cost and are subsequently remeasured to fair value unless fair value cannot be reliably determined. Changes in fair value are reported in the fair value reserve until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain or loss previously included within the fair value reserve is included within investment income in the consolidated income statement.

Trading properties
Trading properties are carried at the lower of cost and market value determined on an individual basis.

Investment properties
Investment properties are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties other than freehold land which is deemed to have an indefinite life. The carrying amounts are reviewed at each balance sheet date on an individual basis by reference to their fair value to assess whether they are recorded in excess of their recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Impairment losses, if any, are recognised in the consolidated income statement where carrying values exceed the recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

Investments

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 balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Investment properties

For local investment properties, fair value is determined by the group's specialist resources which have recent experience in the local property market. For overseas investment properties, fair value is determined based on external valuations by independent, registered real estate valuers.

Financial assets and liabilities

For financial assets and liabilities, fair value is determined based on expected future cash flows or management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Revenue recognition

i) Income from Murabaha and Istisna'a is recognised on a weighted time apportionment basis.
ii) Income from leased assets is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.
iii) Rental income from investment properties is recognised on a weighted time apportionment basis.
iv) Dividend income, including dividend income on own shares (held on behalf of depositors), is recognised when the right to receive payment is established.
v) Fee and commission income is recognised at the time the related services are provided.

Zakat

Zakat is calculated at 2.577% on the opening reserves of the parent company (excluding proposed distributions) which have remained for one complete fiscal year and is paid under the direction of the parent company's Al-Fatwa and Shareea'a Supervisory Board. Zakat is charged to voluntary reserve.

Foreign currencies

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

Trade and settlement date accounting

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

Offsetting

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with banks and financial institutions and international murabaha contracts and exchange of deposits maturing within three months of contract date.

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

3 INVESTMENT INCOME

	2004 ***KD 000's***	*2003* *KD 000's*
Income from sale of trading properties	**9,042**	13,290
Rental income	**8,812**	8,058
Dividend income and gain from sale of investments	**30,439**	22,192
	48,293	43,540

4 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the year of KD 74,412 thousand (2003: KD 58,160 thousand) and the weighted average number of ordinary shares outstanding during the year of 773,336 thousand (2003: 759,070 thousand) after adjusting for treasury shares held by the group.

The basic earnings per share of the previous year has been restated for bonus shares issued in 2004.

5 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2004 ***KD 000's***	*2003* *KD 000's*
Cash	**18,919**	23,510
Balances with the Central Bank of Kuwait	**69,960**	17,934
Balances with banks and financial institutions - current accounts	**45,880**	29,326
Balances with banks and financial institutions - exchange of deposits	**11,402**	58,438
Cash and balances with banks and financial institutions	**146,161**	129,208
Short-term international murabaha – maturing within 3 months of contract date	**193,154**	109,218
Cash and cash equivalents	**339,315**	238,426

In accordance with Islamic Shareea'a, no interest is receivable on amounts due from banks and financial institutions.

5 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS (continued)

The parent company exchanges deposits with high credit quality banks and financial institutions in local and foreign currencies with the legal right reserved to set off such deposits exchanged in the event that a bank or a financial institution becomes insolvent. The gross balances of deposits exchanged were as follows:

	2004 KD 000's	2003 KD 000's
Due from banks and financial institutions	**341,273**	364,314
Due to banks and financial institutions	**(378,140)**	(368,511)
	(36,867)	(4,197)

Included in the consolidated balance sheet as net balances:

	2004 KD 000's	2003 KD 000's
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	**11,402**	58,438
In liabilities:		
Due to banks and financial institutions – exchange of deposits (Note 11)	**(48,269)**	(62,635)
	(36,867)	(4,197)

The fair value of cash and balances with banks and financial institutions do not differ from their respective book values.

6 RECEIVABLES

Receivables principally comprise Murabaha and Istisna'a balances and are stated net of provision for impairment as follows:

	2004 KD 000's	2003 KD 000's
International murabahas	**131,601**	268,121
Local murabahas	**1,362,911**	1,196,655
Istisna'a and other receivables	**113,144**	102,788
	1,607,656	1,567,564
Less: provision for impairment	**(122,685)**	(110,070)
	1,484,971	1,457,494

The industry concentration of receivables is as follows:

	2004 KD 000's	2003 KD 000's
Trading and manufacturing	**193,977**	122,410
Banks and financial institutions	**306,616**	364,632
Construction and real estate	**335,116**	383,960
Individuals	**759,989**	653,716
Other	**11,958**	42,846
	1,607,656	1,567,564
Less: provision for impairment	**(122,685)**	(110,070)
	1,484,971	1,457,494

6 RECEIVABLES (continued)

Provisions for losses on receivables from customers for finance facilities are as follows:

	Specific		*General*		*Total*	
	2004	*2003*	***2004***	*2003*	***2004***	*2003*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Balance at beginning of year	**80,375**	77,806	**29,695**	27,105	**110,070**	104,911
Provided during the year	**6,901**	2,569	**5,714**	2,590	**12,615**	5,159
Balance at end of year	**87,276**	80,375	**35,409**	29,695	**122,685**	110,070

At 31 December 2004, non-performing finance facilities amounted to KD 98,316 thousand (2003: KD 98,714 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	Pre-invasion	*Post liberation*	*Total*
	KD 000's	*KD 000's*	*KD 000's*
2004			
Finance facilities	**31,790**	**66,526**	**98,316**
Provisions	**31,790**	**55,486**	**87,276**
2003			
Finance facilities	35,333	63,381	98,714
Provisions	35,333	45,042	80,375

The policy of the group for calculation of the impairment provision for receivables complies in all material respects with the specific provision requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a general provision of 2% on all finance facilities not subject to specific provision has been provided. The analysis of specific and general provision set out above is based on the requirements of the Central Bank of Kuwait.

Provisions include certain amounts purchased by the Central Bank of Kuwait. Such provisions must be ceded to the Central Bank of Kuwait when they are no longer required.

Whenever necessary, murabaha receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Real estate murabaha receivables are secured by mortgage on the underlying property.

Receivables from banks and financial institutions comprise mainly murabaha transactions with high credit quality institutions.

The group's receivables are principally concentrated in Kuwait.

The fair values of receivables do not differ from their respective book values.

7 LEASED ASSETS

The net investment comprises the following:

	2004 *KD 000's*	*2003* *KD 000's*
Gross investment	**525,598**	307,837
Unearned revenue	**(19,157)**	(18,833)
Provision for impairment	**(891)**	(1,014)
	505,550	287,990

The future minimum lease payments receivable in the aggregate are as follows:

	2004 *KD 000's*	*2003* *KD 000's*
Within one year	**423,491**	192,917
One to five year	**65,386**	82,169
Later than five years	**36,721**	32,751
	525,598	307,837

The unguaranteed residual value of the leased assets at 31 December 2004 is estimated at KD Nil (2003: KD Nil).

8 INVESTMENTS

	2004 *KD 000's*	*2003* *KD 000's*
Investments comprise:		
Quoted equity investments	**49,444**	32,697
Unquoted equity investments	**26,277**	5,777
Managed portfolios and funds	**205,339**	196,510
Sukook	**64,089**	36,880
Unconsolidated subsidiaries	**180,601**	121,563
Associated companies	**39,288**	39,983
	565,038	433,410
Investments carried at fair value	**281,060**	234,984
Investments carried at cost less impairment	**283,978**	198,426
	565,038	433,410

Included in managed portfolios is an amount of KD 6,699 thousand (2003: KD 3,667 thousand) which represents the group's investment in 5,953 thousand (2003: 3,353 thousand) of its own shares on behalf of depositors, equivalent to 0.76% of the total issued share capital at 31 December 2004 (2003: 0.47%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares are classified under investments.

8 INVESTMENTS (continued)

The unconsolidated subsidiaries and associated companies of the group primarily consist of the following:

Unconsolidated subsidiaries:

	Interest in equity %	*Country of registration*	*Principal activities*
Al-Nakheel United Real Estate Company K.S.C. (Closed)	100	Kuwait	Real estate investment and trading
Baitak Holding Company K.S.C. (Closed)	100	Kuwait	Holding Company
Gulf International Automobile Trading Company K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
Kuwait Finance House B.S.C.	100	Bahrain	Islamic Banking Services
Kuwait Finance House (Malaysia) Berhad	100	Malaysia	Islamic Banking Services
ALAFCO - Aviation Lease and Finance Company K.S.C. (Closed)	88	Kuwait	Leasing and financing of aircraft
International Turnkey Systems Company K.S.C. (Closed)	85	Kuwait	Development of computer software and hardware
Public Services Company K.S.C. (Closed)	80	Kuwait	Administrative services
Kuwait Turkish Evkaf Finance House	62	Turkey	Islamic banking services
Al Salaam Hospital Company K.S.C. (Closed)	52	Kuwait	Health care
Aref Investment Group K.S.C. (Closed)	52	Kuwait	Islamic investments

Associated companies

First Takaful Insurance Company K.S.C. (Closed)	27	Kuwait	Islamic Takaful insurance
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments
Liquidity Management Centre Company B.S.C. (Closed)	25	Bahrain	Islamic banking and financial services
National Bank of Sharjah PJSC	20	United Arab Emirates	Islamic banking services
A'ayan Leasing & Investment Company K.S.C. (Closed)	19	Kuwait	Leasing and Islamic investments

9 INVESTMENT PROPERTIES

	2004 *KD 000's*	*2003* *KD 000's*
At 1 January	**102,447**	106,279
Additions	**6,625**	4,500
Disposals, at net book value	**(1,068)**	(6,757)
Depreciation charged for the year	**(2,075)**	(2,068)
Impairment losses (charged) released	**(8)**	493
At 31 December	**105,921**	102,447

	2004 *KD 000's*	*2003* *KD 000's*
Cost	**133,143**	129,132
Accumulated depreciation	**(20,532)**	(18,456)
Impairment	**(6,690)**	(8,229)
	105,921	102,447

Included in investment properties is an investment in Al-Muthana Complex in Kuwait which is constructed on land leased from the Government of Kuwait. The ownership of the building, as well as any results from the activities relating to the investment, are attributed only to the shareholders of the parent company.

The fair value of the investment properties at the balance sheet date is KD 122,982 thousand (2003: KD 118,686 thousand).

10 PROPERTY AND EQUIPMENT

Included in property and equipment are the head office building and all branches of the parent company constructed on land leased from the Government of Kuwait. The ownership of the buildings as well as the net rental income from these buildings are attributable only to the shareholders of the parent company.

11 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2004 *KD 000's*	*2003* *KD 000's*
Current accounts	**4,624**	1,041
Murabaha payable	**68,928**	-
Exchange of deposits (Note 5)	**48,269**	62,635
	121,821	63,676

In accordance with Islamic Shareea'a, no interest is payable on accounts due to banks and financial institutions. The fair values of balances due to banks and financial institutions do not differ from their respective book values.

12 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the parent company comprise the following:

i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the parent company guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the parent company on the grounds of Islamic Shareea'a.

ii) Investment deposits comprise deposits for unlimited periods and savings accounts. Unlimited investment deposits are initially valid for one year and are automatically renewable for the same period unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases the investment deposits receive a proportion of the profit as the board of directors of the parent company determines, or bear a share of loss based on the results of the financial year.

The parent company generally invests approximately 90% of investment deposits for an unlimited period ("Mustamera"), 70% of investment deposits for an unlimited period ("Al-Sedra") and 60% of investment savings accounts ("Tawfeer"). The parent company guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered Qard Hasan from depositors to the parent company, on the grounds of Islamic Shareea'a. Investing such Qard Hasan is made at the discretion of the board of directors of the parent company, the results of which are attributable to the shareholders of the parent company.

b) On the basis of the results for the year the board of directors of the parent company determined the depositors' share of profit at the following rates:

	2004	*2003*
	% per annum	*% per annum*
Investment deposits for an unlimited period ("Mustamera")	**4.800**	4.400
Investment deposits for an unlimited period ("Al-Sedra")	**3.733**	3.422
Investment savings accounts ("Tawfeer")	**3.200**	2.933

c) The fair values of depositors' accounts do not differ from their respective book values.

13 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 since a significant proportion of this reserve is attributable to its depositors and would be allocated to depositors on realisation, 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:

	2004	*2003*
	KD 000's	*KD 000's*
Balance at 1 January	**19,776**	5,771
Change in fair value during the year	**15,314**	13,188
Impairment loss recognised during the year	**-**	389
(Gain) loss realised during the year	**(3,410)**	428
Balance at 31 December	**31,680**	19,776

14 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 78,141 thousand by way of an issue of 6% bonus shares amounting to KD 4,301 thousand and 21,506,575 shares under an employee share purchase scheme amounting to KD 2,151 thousand. The bonus shares were issued by a transfer from the profits for the year ended 31 December 2003. The employee share purchase scheme shares were issued at par value of 100 fils and premium of 222 fils per share. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2004 comprises 781,406 thousand (2003: 716,886 thousand) shares of 100 fils each.

15 PROPOSED CASH DIVIDEND AND ISSUE OF BONUS SHARES

The board of directors of the parent company have proposed a cash dividend of 50% for the year ended 31 December 2004 (2003: 50%) and an issue of bonus shares of 10% (2003: 6%) of paid-up share capital. This proposal is subject to the approval of the Ordinary General Assembly of the shareholders of the parent company and completion of legal formalities. Proposed dividends are shown separately within equity.

16 RESERVES

The Extraordinary General Assembly of the parent company held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the net profit for the year to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the parent company. As a result, an amount of KD 19,868 thousand equivalent to approximately 27% (2003: KD 12,011 thousand equivalent to approximately 20%), of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to statutory reserve. The Ordinary General Assembly may resolve to discontinue such annual transfers, if proposed by the board of directors of the parent company.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and useable at the discretion of the Ordinary General Assembly in ways that may be deemed beneficial to the parent company. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to voluntary reserve.

The share premium account is not available for distribution.

17 CONSOLIDATED SUBSIDIARIES

Details of consolidated subsidiaries are set out below:

Name	*Country of registration*	*Interest in equity %*	*Principal activities*
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.

18 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:

	2004 *KD 000's*	*2003* *KD 000's*
Acceptances and letters of credit	**36,846**	41,420
Guarantees	**160,842**	122,308
	197,688	163,728
Capital commitments	**244,460**	98,836

19 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 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 shareholders of the parent company.

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

	The number of Board Members or Executive Officers		*The number of related parties*			
	2004	*2003*	***2004***	*2003*	***2004*** ***KD 000's***	*2003* *KD 000's*
Board Members						
Finance facilities	**6**	3	**2**	-	**111**	72
Contingent liabilities	-	-	-	-	-	-
Credit cards	**4**	4	**6**	5	**9**	8
Deposits	**8**	8	**48**	47	**1,634**	2,007
Collateral against financing facilities	-	-	-	-	-	-
Executive officers						
Finance facilities	**19**	9	**6**	-	**869**	360
Contingent liabilities	-	-	-	-	-	-
Credit cards	**11**	10	**9**	8	**8**	7
Deposits	**19**	19	**61**	60	**1,315**	926
Collateral against finance facilities	**7**	8	-	-	**1,645**	2,000

20 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the parent company's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. The group where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

The group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2004 KD 000's equivalent	*2003 KD 000's equivalent*
U.S. Dollars	**83,994**	106,380
Sterling Pounds	**1,197**	(7,843)
Japanese Yen	**645**	36
Euros	**1,346**	722
Gulf Cooperation Council currencies	**(10,557)**	(12,465)
Others	**1,530**	1,243

21 SEGMENTAL ANALYSIS

Primary segment information

For management purposes the parent company is organised into three major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, international murabaha investments, exchange of deposits with banks and financial institutions and international banking relationships.

Investment: Managing direct investments, investments in subsidiaries, associated companies and international leasing.

Retail and corporate banking: Providing a range of banking services and investment products to corporate and individual customers, providing commodity and real estate murabaha finance, local leasing, wakala and Istisna'a facilities.

21 SEGMENTAL ANALYSIS (continued)

31 December 2004	*Treasury*	*Investment*	*Retail and corporate banking*	*Other groups*	*Total*
Assets	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Cash and balances with banks and financial institutions	146,161	-	-	-	146,161
Short-term international murabaha	380,381	265	-	-	380,646
Receivables	94,885	12,862	1,356,020	21,204	1,484,971
Leased assets	-	73,029	432,521	-	505,550
Investments	-	565,038	-	-	565,038
Trading properties	-	127,835	-	-	127,835
Investment properties	-	105,921	-	-	105,921
Other assets	-	14,996	51,127	3,613	69,736
Property and equipment	304	153	36,356	35,395	72,208
	621,731	900,099	1,876,024	60,212	3,458,066
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial Institutions	121,821	-	-	-	121,821
Depositors' accounts	168	87,621	2,181,292	294,104	2,563,185
Other liabilities	75	4,865	122,663	77,204	204,807
Deferred revenue	9,764	-	179,238	-	189,002
Fair value reserve	-	31,680	-	-	31,680
Minority interest	-	-	-	21,633	21,633
Equity	-	-	-	325,938	325,938
	131,828	124,166	2,483,193	718,879	3,458,066
Year ended 31 December 2004					
Operating income	17,720	51,104	127,018	7,764	203,606
Profit from operations before distribution to depositors	9,367	44,539	88,473	5,689	148,068

21 SEGMENTAL ANALYSIS (continued)

31 December 2003 **Assets**	*Treasury* *KD 000's*	*Investment* *KD 000's*	*Retail and corporate banking* *KD 000's*	*Other groups* *KD 000's*	*Total* *KD 000's*
Cash and balances with banks and financial institutions	129,208	-	-	-	129,208
Short-term international murabaha	360,259	9,110	-	-	369,369
Receivables	240,128	9,221	1,190,741	17,404	1,457,494
Leased assets	-	68,932	219,058	-	287,990
Investments	-	433,410	-	-	433,410
Trading properties	-	139,615	-	-	139,615
Investment properties	-	102,447	-	-	102,447
Other assets	-	11,404	49,233	2,384	63,021
Property and equipment	349	171	50,657	7,379	58,556
	729,944	774,310	1,509,689	27,167	3,041,110
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	63,676	-	-	-	63,676
Depositors' accounts	151	78,630	1,957,456	263,924	2,300,161
Other liabilities	78	5,200	105,379	59,207	169,864
Deferred revenue	8,976	-	173,434	-	182,410
Fair value reserve	-	19,776	-	-	19,776
Minority interest	-	-	-	20,637	20,637
Equity	-	-	-	284,586	284,586
	72,881	103,606	2,236,269	628,354	3,041,110
Year ended 31 December 2003					
Operating income	14,066	46,454	97,156	5,681	163,357
Profit from operations before distribution to depositors	6,754	40,742	68,499	3,872	119,867

21 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The group operates in different geographical areas. A geographical analysis is as follows:

	Assets		*Liabilities, deferred revenue, fair value reserve, minority interest and equity*		*Contingencies and commitments under letters of credit and guarantees*	
	2004	*2003*	***2004***	*2003*	***2004***	*2003*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Geographical areas:						
Kuwait and the rest of the Middle East	**2,985,770**	2,572,753	**3,414,246**	3,022,198	**140,940**	114,610
North America	**135,036**	128,641	**22,722**	282	**1,892**	1,637
Western Europe	**237,887**	311,186	**20,889**	18,527	**9,458**	8,186
Other	**99,373**	28,530	**209**	103	**45,398**	39,295
	3,458,066	3,041,110	**3,458,066**	3,041,110	**197,688**	163,728

	Local		*International*		*Total*	
	2004	*2003*	***2004***	*2003*	***2004***	*2003*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Operating income	**173,778**	139,499	**29,828**	23,858	**203,606**	163,357
Profit from operations before distribution to depositors	**125,953**	101,980	**22,115**	17,887	**148,068**	119,867

22 CONCENTRATION OF ASSETS AND DEPOSIT LIABILITIES

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

(a) The distribution of assets by industry sector was as follows:

	2004	*2003*
	KD 000's	*KD 000's*
Trading and manufacturing	**310,018**	198,434
Banks and financial institutions	**1,260,765**	1,186,788
Construction and real estate	**1,148,230**	987,083
Other	**739,053**	668,805
	3,458,066	3,041,110

See Note 21 for distribution of assets by geographical areas.

22 CONCENTRATION OF ASSETS AND DEPOSIT LIABILITIES (continued)

(b) The distribution of deposit liabilities was as follows:

	2004 *KD 000's*	*2003* *KD 000's*
Geographic region		
Kuwait and the rest of the Middle East	**2,643,897**	2,347,277
North America	**22,103**	-
Western Europe	**18,957**	16,551
Other	**49**	9
	2,685,006	2,363,837
Industry sector		
Trading and manufacturing	**461,392**	402,507
Banks and financial institutions	**121,884**	63,730
Construction and real estate	**13,344**	10,522
Other	**2,088,386**	1,887,078
	2,685,006	2,363,837

23 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.

All policies relating to credit including the determination of approval limits are approved by the parent company's Board of Directors.

The group manages credit risk on both an individual counterparty and portfolio or product line basis together with geographical and business diversification to avoid undue concentration of risk. Credit limits or individual transactions resulting in credit risk are approved in accordance with appropriately defined procedures for the assessment of creditworthiness, collateral requirements and approval limits by the group's management and executive credit committees. Security is obtained when considered appropriate and is considered by management in the determination of provisions. The group's credit granting process including the subsequent monitoring, timely identification of defaults and determination of provisions are subject to periodic independent internal reviews.

The credit risk concentrations within receivables, which form a significant portion of asset's subject to credit risk, is given in Note 6.

24 LIQUIDITY RISK

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

The table below summarises the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2004 is as follows:

	Within 3 months KD 000's	*3 to 6 months KD 000's*	*6 to 12 months KD 000's*	*After one year KD 000's*	***Total KD 000's***
Assets					
Cash and balances with banks and financial institutions	146,161	-	-	-	**146,161**
Short-term international murabaha	380,646	-	-	-	**380,646**
Receivables	315,967	199,317	226,901	742,786	**1,484,971**
Leased assets	194,578	125,018	86,938	99,016	**505,550**
Investments	-	-	-	565,038	**565,038**
Trading properties	-	127,835	-	-	**127,835**
Investment properties	-	-	-	105,921	**105,921**
Other assets	37,008	32,001	562	165	**69,736**
Property and equipment	-	-	-	72,208	**72,208**
	1,074,360	**484,171**	**314,401**	**1,585,134**	**3,458,066**
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial Institutions	121,821	-	-	-	**121,821**
Depositors' accounts	1,532,055	6,181	6,181	1,018,768	**2,563,185**
Other liabilities	130,796	17,958	56,053	-	**204,807**
Deferred revenue	27,044	24,451	34,538	102,969	**189,002**
Fair value reserve	-	-	-	31,680	**31,680**
Minority interest	-	-	-	21,633	**21,633**
Equity	-	-	-	325,938	**325,938**
	1,811,716	**48,590**	**96,772**	**1,500,988**	**3,458,066**

24 LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2003 is as follows:

	Within 3 months KD 000's	*3 to 6 months KD 000's*	*6 to 12 months KD 000's*	*After One year KD 000's*	*Total KD 000's*
Assets					
Cash and balances with banks and financial institutions	129,208	-	-	-	129,208
Short-term international murabaha	369,369	-	-	-	369,369
Receivables	196,943	300,453	171,377	788,721	1,457,494
Leased assets	4,500	30,222	147,735	105,533	287,990
Investments	-	-	-	433,410	433,410
Trading properties	-	139,615	-	-	139,615
Investment properties	-	-	-	102,447	102,447
Other assets	36,098	-	26,923	-	63,021
Property and equipment	-	-	-	58,556	58,556
	736,118	470,290	346,035	1,488,667	3,041,110
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	63,676	-	-	-	63,676
Depositors' accounts	1,305,827	6,606	6,606	981,122	2,300,161
Other liabilities	92,923	22,153	54,788	-	169,864
Deferred revenue	23,923	20,703	30,857	106,927	182,410
Fair value reserve	-	-	-	19,776	19,776
Minority interest	-	-	-	20,637	20,637
Equity	-	-	-	284,586	284,586
	1,486,349	49,462	92,251	1,413,048	3,041,110

25 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices.

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

The group is not exposed to any risk in terms of the repricing of its liabilities since in accordance with Islamic Shareea'a the group does not provide contractual rates of return to its depositors.

26 OPERATIONAL RISK

The parent company has a set of policies and procedures, which is approved by its Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the parent company. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The operational risk function of the parent company is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and supervising operational risks in banks.

27 MANAGEMENT OF PURCHASED DEBTS

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the group is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

28 FINANCIAL INSTRUMENTS

In the ordinary course of business, the group uses primary financial instruments such as cash and balances with or due to banks and other financial institutions, investments, receivables and payables. The group does not make use of derivative financial instruments. Information about fair values of financial assets and liabilities are disclosed in the related notes to the consolidated financial statements.

29 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2004 amounted to KD 155,266 thousand (2003: KD 243,951 thousand).

30 COMPARATIVE AMOUNTS

Trading properties, investment properties, property and equipment, and other assets have been restated due to reclassification of certain balances in order to conform with the current year presentation. Such restatement does not affect the prior year reported net profit or shareholders' equity.