



H.H. The Crown Prince
& Prime Minister
Sheikh Saad Al-Abdullah
Al-Salem Al-Sabah



H.H. The Amir of Kuwait
Sheikh Jaber Al-Ahmad
Al-Jaber Al-Sabah

Kuwait Finance House

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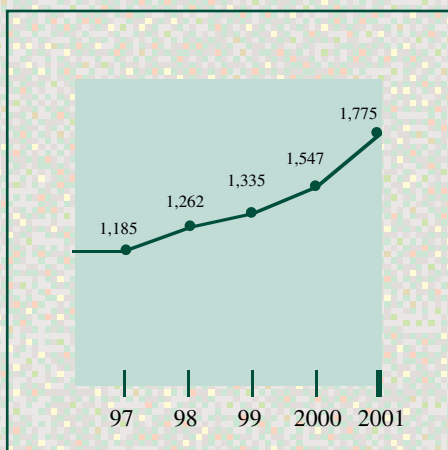
In the Name of Allah

In the **Name of Allah** **the Most Gracious, the Most Merciful**

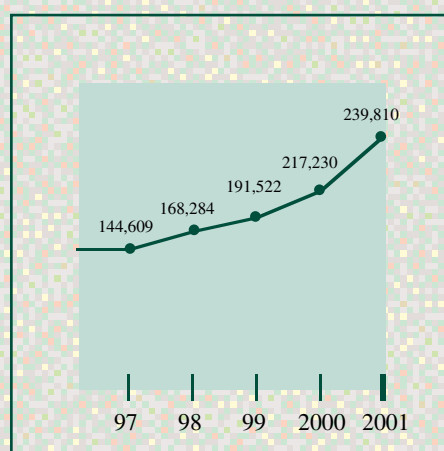
Ye who believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums dealt not unjustly and ye shall not be dealt unjustly

Al-Baqara (278-279)
Al-Qura'an

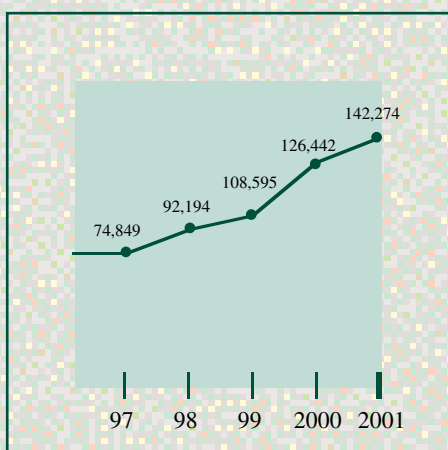
Financial Highlights



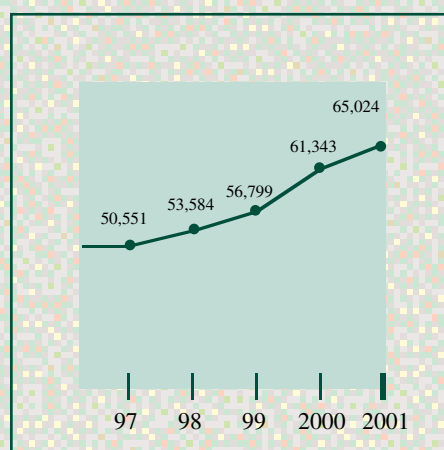
Depositor's Accounts Growth
(Amounts in Millions KD)



Shareholders' Funds Growth
(Amounts in 000's KD)



Reserves Growth
(Amounts in 000's KD)



Capital Growth
(Amounts in 000's KD)

Kuwait Finance House

Kuwait Finance House, with its strong Islamic values, is a financial institution whose aim is to develop and promote Islamic banking worldwide. Kuwait Finance House offers unique yet competitive products and services directed to target markets for both depositors and shareholders. In accordance with the Islamic principles, Kuwait Finance House ensures that while working with the public professionally, the company guarantees an honorable relationship with its client base in particular and the Islamic community as a whole.

These values are continually reinforced and adhered to in all aspects of the company's operations. Its integrity and sincerity has maintained a quality service at all times. The employees of Kuwait Finance House are constantly encouraged to be efficient, creative and above all successful. Career enhancement is actively promoted with an ever-changing financial world, creating a healthy professional environment.



Board of Directors

Board



Bader Abdul Muhsen Al-Mukhaizeem
Chairman



Sameer Yaqoub Al-Nafeesi
Vice-Chairman

of Directors



Ahmad Hamza Al-Filkawi
Board Member



Saud Abdul Aziz Al-Babtain
Board Member



Sami Hussein Al-Anbae
Board Member



Abdul Muhsen Abdullah Al-Mijhim
Board Member



Fouad Abdullah Al Omar
Board Member



Mohammed Ali Al-Khudairi
Board Member



Essam Saud Al-Rashed
Board Member



Meshaal Yousuf Al-Derbas
Board Member

Management

Man



Jassar D. Al-Jassar
General Manager



Assistants General Manager

From right to left:

Mohammed S. Al-Omar, Wael Y. Al-Qatami, Barrak F. Al-Sabeeh, General Manager, Deputy General Manager, Adnan A. Al-Othman, Salah A. Al-Bassam, Fawaz S. Al-Othman.

agement



Yousuf A. Al-Mailam
Deputy General Manager



Deputy Assistants General Manager

From right to left:

Suliman A. Abdal Qader, Ibrahim A. Al-Khamees, Mahmood M. Al-Jeean, Fahad M. Al-Othman, Deputy General Manager, Essam Al-Tawhid, Emad A. Al-Thaqeb, Sa'ad M. Al-Surac'a, Mohammed N. Al-Fozan.

Their Eminences

Members of Al-Fatwa and Shareea'a Supervisory Board



Sheikh Ahmad Bazie Al-Yaseen
Chairman



Sheikh Dr. Khaled Mathkour Al-Mathkour
Shareea'a Board Member



Sheikh Dr. Ajeel Jasem Al-Nashmi
Shareea'a Board Member



Sheikh Dr. Mohammed Fawzi Faidullah
Shareea'a Board Member



Sheikh Dr. Anwar Shuaib Abdulsalam
Shareea'a Board Member

Report of Al-Fatwa and Shareea'a Supervisory Board

By following up the performance of Kuwait Finance House during the year ended 31 December 2001, we certify confidently that all activities were practiced in compliance with Islamic Shareea'a and no violations have occurred, to the best of our knowledge.

Sheikh Ahmad Bazie Al-Yaseen - Chairman



Sheikh Dr. Khaled Mathkour Al-Mathkour



Sheikh Dr. Ajeel Jasem Al-Nashmi



Sheikh Dr. Mohammed Fawzi Faidullah



Sheikh Dr. Anwar Shuaib Abdulsalam



The Chairman's Statement

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

ANNUAL REPORT 2001



Praise be to Allah and Allah's prayer and peace be upon our Prophet Mohammed and his family and companions and their followers in good deeds to the Day of Judgment.

Dear Brothers,

It is my pleasure to welcome you at the twenty-third meeting of the General Assembly to present the twenty-third report of Kuwait Finance House (KFH) for the year ended 31 December 2001, which includes an outline of our main achievements during the year, as well as local, regional and international developments, the consolidated financial statements of KFH and its subsidiary company, in addition to the auditors' report and the report of the Al-Fatwa and Shareea'a Supervisory Board.



Kuwait Finance House Achievements

The year 2001 was marked by the economic fluctuations and crises witnessed by the financial markets and significant slow-down of most of the world economies, especially in the United States where the tragic events of September have further weakened the US economy. This prompted economic policy makers to cut the interest rates and increase public expenditure to counter the economic slowdown, which threatens the world economy. Despite these factors KFH managed to maintain its positive performance confirming the efficiency of the Islamic methodology adopted in the KFH business and the tremendous ability to absorb shocks and mitigate the risks.

These achievements are the result of a process of continued development and modernization of all KFH services, products and investment operations, through its renewed strategy for the next three years. The key element of this process is to guarantee an immediate and direct contact with customers and make KFH services and products available to them through all service channels. This includes expanding the scope of these services through new technological means, and promoting investment in promising markets. For this purpose KFH is re-developing its organizational structure and processes to keep abreast with the technological innovations in the financial sector. This renewed strategy will assist in increasing the profit potential and enhancing the productivity.

This strategy required innovation and the creation of multiple distribution channels, including a branch network covering the various Kuwaiti regions. Today, there are 26 banking branches, after the opening of three new branches at Sharq, Qurtuba and Mubarak Al-Kabir, each with a separate section for ladies. In addition to that four branches are scheduled to be opened in 2002.

“Tamweel Net” the online banking service through the Internet was also developed and improved and is now presented in Arabic, in addition to English, in order to enable customers to benefit from the services offered. There are more than twenty different services available through the Internet to enable customers to quickly access their banking accounts and carry out banking operations easily and safely. In the field of phone services development, the real estate phone service was offered to enable customers to inquire about the way of purchasing real estate properties, calculate installments and find out about the required documents. The customers can also inquire about their outstanding real estate balances.



In the case of new products, KFH offered “Shabab Al-Dira” account to meet the young people’s needs. It also offered “Sidra Investment Deposit” to give the middle income group a chance to invest through an automatically renewable annual investment deposit. A new investment deposit was also offered in Euro to diversify investments in addition to the deposits in Kuwaiti Dinar, US Dollar and Pound Sterling.

Moreover, KFH acquired the award of excellence from Visa International with regard to the volume of cards issued among the Kuwaiti banks which totalled more than one million cards, one third of which were issued by KFH. This was a major step toward improving and developing KFH services.

Furthermore, in order to develop the services and enable customers to obtain them more easily, KFH is in the process of implementing a new Core Banking System to assimilate the expansion of KFH business, enhance the level of services and performance, facilitate the marketing of new products and keep abreast with the technological developments in this field.

In order to help this institution benefit from the advances in information technology, the Information Technology sector has been restructured in order to better serve the other sectors and contribute toward improving the way services are delivered.

In the area of real estate investment, KFH significantly expanded its activities by construction and marketing of 41 villas during 2001 in Al-Salam and Fintas Agricultural area, in addition to construction of a commercial complex in Hawally and planned construction of Al-Dira Tower in the Tenth Commercial area, and the establishment and development of several blocks in Souk Wajef in Mubarak Al-Kabir street and Safat market area. In Ishbiliah area, 133 properties were offered in an auction which was a major success, as all the estates were sold.

In order to expand the real estate services offered by KFH, the real estate sales service was offered at Al-Ardiya branch in preparation for the opening of other branches and offering a comprehensive service to customers in various regions



of Kuwait. The real estate properties offered for sale were announced to the clients through the Internet. In order to indicate the real estate locations on the map of Kuwait, an automation project was implemented to show the real estate locations on computer screens instead of using paper maps.

In the field of developing and improving customer services, insurance cover for real estate debts was offered in collaboration with First Takaful Insurance Company. The insurance cover would limit the risks to which customers may be exposed in the event of incapacity or death.

To emphasize its leading role in the local real estate market and in order to create innovative real estate projects, KFH has participated in establishing Al Nakhil United Real Estate Company with a share of 32% of the capital amounting to KD 15 million for developing Al-Nakhil Neighborhood Real Estate Project (Housing, Commercial, Investment, Services) in Al-Salmiya area.

KFH is an active contributor in the development of the local and regional economy through its participation in long-term projects: KFH has participated with a group of local banks in financing the Petrochemicals Project in Kuwait for the second time with \$200 million and Al-Shuwaihat Project with \$50 million. This project is considered as the first project to finance the infrastructure in the Gulf region under the B.O.O. system. The project is to build a power generation and water desalination plant in Abu Dhabi. The total cost is estimated at \$1.6 billion over a twenty year period.

As regards the efforts of the International Investment Sector, Al Amana Fund for Currency Exchange was created in cooperation with HSBC with KFH as the sole placing agent for the Fund. The Board of Directors of KFH has also agreed, in the last quarter of 2001, to establish two new real estate funds: The first is the Industrial Real Estate Leasing Fund in the amount of US \$ 120 million to lease industrial stores and warehouses. Steps are being taken to establish the second fund, the Leasing Finance Fund in collaboration with Chase – JP Morgan Bank in the amount of \$50 million initially, both the funds shall be placed with the KFH customers during 2002.



In line with its strategy in the International Investment Sector to consolidate alliances with international banks and institutions, KFH has concluded a liquidity management agreement with Deutsche Bank to promote cooperation with major financial institutions in the world to achieve the best results for the business and customers of KFH. Deutsche Bank is one of the world's largest banks and a successful model of a global bank and KFH is one of the most important Islamic banks, which offers the services of a global bank. Therefore, there are real cooperation possibilities for both sides.

Within the framework of its endeavors to expand its activities in international markets and to participate in Gulf development projects, KFH has contributed 20% in the capital of the National Bank of Sharjah to transform it into an Islamic bank.

In order to promote the leading role of KFH in the service of the Kuwaiti society and its requirements, based on its belief in the promising future of the healthcare market, and seeking to diversify its investment assets, KFH has acquired a share in the capital of Al-Salam Hospital Company after it was converted from a family business into a closed shareholding company. KFH became the largest shareholder, with 38% of the capital, at an amount which exceeds Kuwaiti Dinars seven million.

In light of the efforts exerted by KFH to enter the government privatization projects according to the B.O.T system and to construct the biggest produce market in Salibiya area, KFH has entered into a strategic partnership with the Kuwait Real Estate Company and Al-Massaleh Real Estate Company by restructuring the capital of the Markets & Marketing Services Company, in which KFH has 36% equity interest.

In order to cater to the customers' needs for various goods, the Commercial Sector at KFH continues to occupy the leading position in consumer finance. It spurred growth in the local market by achieving a 14% increase in sales while at the same time catering to customers' needs.



The Support Services Sector played a major role in the activities of KFH by focusing on development of human resources in 2001 through enhancement of recruitment and training policies, which aim to attract competent Kuwaiti professionals and encouraging them to join the Islamic banking industry. National manpower of various specializations reached 41%. These efforts reflect the continuous strive of KFH to enhance the competence of its human resources, relying on specialized training and preparation of distinguished banking cadres, in addition to the creation of new organizational divisions and units in certain departments as part of the efforts to modernize the organizational structure.

Several modifications were also introduced to the entire financial and information systems in order to keep abreast with the technological developments and assimilate all innovations. This is reflected in improved competence, and better services, and underlines the leading role of KFH in the Kuwaiti society.

As part of its active participation in the international efforts to eliminate money laundering, the efforts made by KFH in this regard focused on setting a mechanism of dealing with the Central Bank of Kuwait and international banks. Lectures were organized in coordination with the Central Bank of Kuwait and CitiBank to explain money laundering operations and the ways to eliminate them. A delegation from KFH visited CitiBank, Bahrain, to exchange information and combat money laundering operations at the international level. The local monetary authorities are in the process of preparing a draft legislation to combat money laundering.

As regards the social role of KFH, it contributed to the support of several scientific, cultural and economic conferences inside and outside the country and actively participated in addressing urgent national issues in the Kuwaiti society, especially the national manpower support issue, by drawing and implementing orientation programs for new Kuwaiti graduates in coordination with the National Manpower Support Committee.



Dear Shareholders,

The financial results for the year ended 31 December 2001 showed the following:

Balance Sheet:

Total assets at the end of the year amounted to KD 2,375 million, with an increase of Kuwaiti Dinars 350 million over 2000. On the liabilities side, depositors' accounts reached Kuwaiti Dinars 1,775 million, with an increase of Kuwaiti Dinars 228 million or 15%, in comparison with the previous year, while the shareholders' equity amounted to Kuwaiti Dinars 240 million, with an increase of Kuwaiti Dinars 23 million, or 10%, in comparison with 2000.

Operating Income:

Total operating income this year amounted to Kuwaiti Dinars 143 million with a decrease of Kuwaiti Dinars 893 thousand or 0.6%, and after deducting the expenses and provisions, the profit before distribution amounted to Kuwaiti Dinars 112 million with a decrease of Kuwaiti Dinars 3 million or 2.6% over the year 2000.

Distributions:

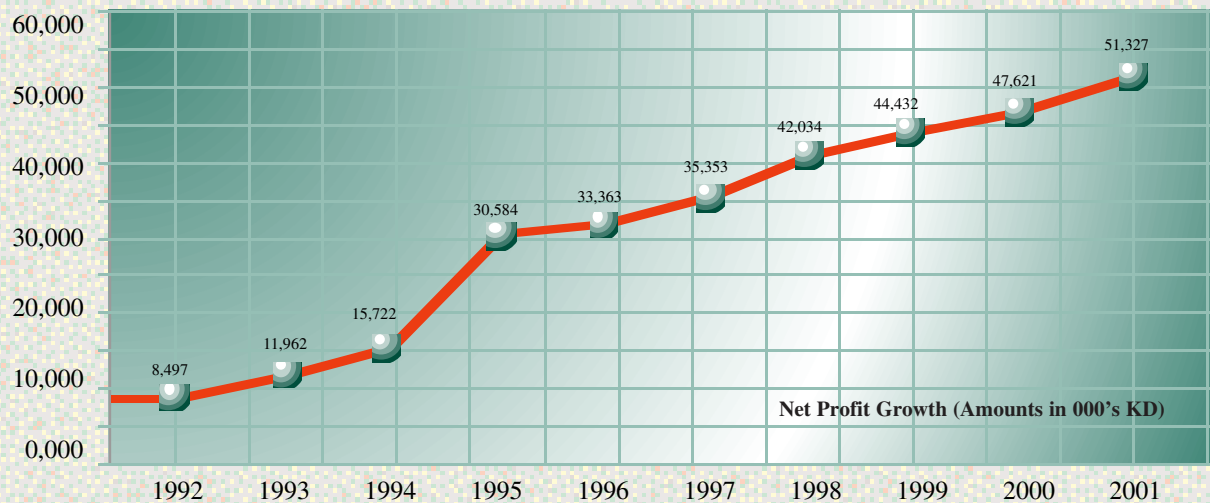
Profits were distributed to the investment depositors for the year ended 31 December 2001 at the following rates:

Type of Deposit

	2001	2000
Investment savings accounts	3.500%	4.417%
Unconditional investment deposits for a limited period	4.667%	5.889%
Unconditional investment deposits for an unlimited period	5.250%	6.625%

New Products

Al-Sedra investment deposits	4.083%
Al-Baraem accounts	2.330%
Shabab Al-Dira accounts	2.330%



Growth Trends in the Kuwaiti Economy:

The Kuwaiti economy achieved a remarkable growth in 2001 due to external economic developments associated with the continuous stability and increase of oil prices in the world markets throughout the year, which averaged at \$ 21 per barrel in 2001 and \$ 25 per barrel in 2000.

The Kuwaiti economy also witnessed a flow of liquidity into the financial system due to the amounts received from the United Nations Compensations Authority, which allocated an amount of \$24.5 billion as compensations for the State of Kuwait.

Stable oil prices lead to a budget and current account surplus for the second consecutive year and a higher rate of economic growth in general, in comparison with the previous year, while the gross national product increased by 1.7% to KD 11.6 billion in 2000. This growth was not limited to the oil sector. After the growth rate declined in the non-oil sectors from 2.5% in 1999 to 1.5% in 2000, the International Monetary Fund expects a growth of 1.8% in 2001.

The budget surplus of the State of Kuwait increased by more than half during the first nine months of fiscal year 2000/2001 to exceed KD 2.28 billion due to the revenue increase resulting from the rise in international oil prices, the budget estimate for the nine month period showed a deficit of KD 1.71 billion on the basis of \$13 per barrel whereas the actual price averaged \$25.6 per barrel.

Non-oil revenues also increased to KD 353 million and most of the increase was due to increase in telephone charges, customs duties and the revenues of the Ministries of Justice, Education and Health. Expenditure also increased at a lower rate of 3.4% amounting to KD 2.22 billion and the final account surplus is expected to be lower after carrying out the final adjustments.

It is expected that the final budget surplus will be KD 1.7 billion for the 2000-2001 shortened fiscal year of nine months. On the basis of the normal 12 month fiscal year, the surplus would amount to KD 2.3 billion. This represents the highest annual budget surplus achieved in 20 years. The beginning of fiscal year was changed to 1 April from 1 July effective from the fiscal year 2001-2002.



In continuation of the efforts of the Central Bank of Kuwait in 2001 to formulate the monetary policy, which aims at consolidating monetary stability and maintain exchange rate stability, and within the framework of the periodic review carried out by the Central Bank of Kuwait with regard to the local interest rates developments in order to ensure that KD interest rate keep abreast with the local economic and monetary developments and it remains in line with the trends of interest rates of the major currencies, it decreased the discount rate 7 times during the year for a total of 3% point from 7.25% to 4.25%, and the last decrease was made on 30 October 2001.

Within the framework of the reform efforts and the strive to allow the private sector certain opportunities, the Kuwait Investment Authority, after it had stopped selling its investments in March 1999, took the step in 2001 to sell to the private sector 113 million shares of the Mobile Telecommunications Company at a total value of Kuwaiti Dinars 164 million, which represented less than half of KIA's 49% interest in the capital of MTC. Furthermore, the Authority announced its intention to sell its shares in Kuwait Cement Company to continue the privatization program started in 1994.

In the current year, the performance of the Kuwaiti stocks exceeded those of the Gulf Cooperation Council countries, with a 176% increase in value of the traded shares amounting to KD 3,580 million in 2001, in comparison with KD1,295 million in 2000, an increase of KD 2,285 million. The daily turnover of shares in 2001 amounted to KD14.5 million, which was an increase of 178%, compared to 2000. The total number of shares traded during the same period was 16.3 billion shares at a daily rate of 66 million shares, which is 141% higher than the rate for 2000.

On the other hand, 2001 witnessed the establishment of a shareholding company for central information on credit risks. KFH participated in the establishment of the new company along with several local banks and institutions, which grant credit facilities and are under the control of the Central Bank of Kuwait. This step will positively affect the financing market and risk management operations.



Growth Trends in the Gulf Cooperation Council Countries:

Economic growth in the GCC countries continued in 2001 thanks to the positive developments in the oil sector in 2000 and 2001 especially the increase in the oil prices and revenues, in addition to the economic reform and economic liberation policies implemented by the governments of the GCC countries. Initial estimates indicate that the total growth of the real gross national product in the GCC countries in 2001 reached 5% due to the increase or relative stability of oil prices. This increase, which started in March 1999 and continued through 2001 has had both a direct and indirect effect on the performance of the oil sector in the GCC countries.

The financial situation improved in all the Gulf countries as a substantial increase in oil revenues exceeded expectations and left a positive impact on the budgets of these countries most of which achieved a budget surplus varying between 0.5% and 7%.

External trade improved significantly during 2001 in comparison with 2000 and 1999, with oil exports representing more than 85% of total exports of most countries of the Gulf Cooperation Council. The expectations of the World Bank indicate that the current account of the oil countries will achieve a surplus in 2001 of 12.4% and 8.6% of the gross national product. It is expected that the GCC countries will achieve a remarkable growth in 2002 due to the oil sector though less than 2001, as the economic slowdown remains probable in line with what happens in the rest of the world.

Trends of the International Growth:

The incident that took place at the World Trade Center, which overlooks the financial district of Manhattan, and the Pentagon coincided with the expectations of the International Monetary Fund in relation to the decline of the world economic growth due to the weaker performance of the US economy during the first half of 2001. As a result, expectations for the world economic growth were scaled down in 2001 from 3.3% to 2.4% in comparison with the growth rate of 4.7% in 2000 when the US economy constituted the driving engine of the world growth since 1992 as it



passed through the longest and strongest cycle of economic growth since World War II. Nevertheless, it seems that the unhealthy aspects have hit the US economy since the beginning of 2001 as the unemployment rate rose to 4.9%.

The Euro region also witnessed a significant slowdown in growth, especially in Germany as the growth of the countries of the region, dropped to 1.5% in 2001 against 3.4% in 2000. Meanwhile, attempts by Japan to come out of the stagnancy circle and overcome the financial crisis has failed, with the economic rate of growth registering a negative rate of 0.4% in 2001 comparison with a positive rate of 1.8% in 2000.

The performance of the US economy has had a direct and almost immediate impact on the Asian economies; according to IMF reports, Singapore recorded a negative growth of 2.9% in 2001 compared to positive growth of 9.9% in 2000. Given that the Asian Tiger economies rely on electronic technology exports (60% of Singapore's exports), it is expected that the slowdown will be global, though at different rates. IMF figures also indicate that the economy of Taiwan, which also relies on electronic technology exports, achieved a negative growth rate of 2.2% in 2001 compared to positive growth of 6% for the year 2000. The same is true for the other Asian economies, except for China, which achieved a growth rate of 7.25% and became the 143rd member of the World Trade Organization in 2001 at the last conference held in Doha in November 2001. The conference achieved positive results on health and agricultural subsidy, and an agreement was reached to launch subsequent negotiations on investment and competition that enabled the attendants to overcome the failure of the Seattle meeting.

The International Monetary Fund expects economic growth in the developing countries to continue during 2001 at 4.2% and to rise to 4.4% in 2002. It is expected that the modest world growth especially in the most advanced economies will affect the world trade growth rates estimated by the International Monetary Fund at 1% during 2001, in comparison with a record growth of 12.4% in 2000. It is also expected that inflation rates will remain under control and reach 2.3% in the



developed countries and 6% in the developing countries. Interest rates are likely to remain low and expected to reach 3.8% and 2.8% on US Dollar deposits for six months in 2001 and 2002 respectively. The same expansionary monetary policy is expected to continue to be pursued to reduce the risk of depression.

Finally, we thank Allah Almighty for His Grace and pray that our efforts be rewarded with success in achieving the goals and objectives of Kuwait Finance House and to serve our beloved country and the Arab and Islamic world under the judicious leadership and guidance of His Highness, the Amir of Kuwait, Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah, and His Highness, the Crown Prince and Prime Minister Sheikh Saad Al-Abdullah Al-Salem Al-Sabah, may God protect them. I would also like to thank all official authorities and our customers who have been so generous in their support of the progress of this Islamic financial institution.

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

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

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

ANNUAL REPORT 2001

We have audited the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and its Subsidiary (the group) as of 31 December 2001, 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 parent 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.

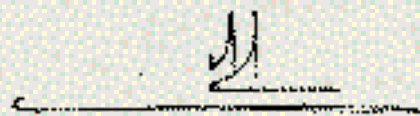
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2001, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the group 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 parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2001 that might have had a material effect on the business of the group 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 2001.



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



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

7 January 2002
Kuwait

أرقام هواتف بيت التمويل الكويتي

Telephone Numbers

Main Office	2445050	المركز الرئيسي
Al-Jahra	4550007 / 4550006	الجهراء
Al-Riqaa	3963625 / 3963627	الرقعة
Al-Sahrq	2429691 / 2429625	الشرق
Al-Fahaheel	3913400 / 3963627	الفحيحيل
Al-Farwaniya	4710729 / 4768331	الفروانية
Al-Salmiya	5722489 / 5724536	السالمية
Al-Faiha	2520174 / 2522264	الفيحاء
Hawalli	2644162 / 2644143	حولي
Ministries Complex	2434060 / 2423057	مجمع الوزارات
Muthanna Complex	2414091 / 2414092	مجمع المثني
Al-Shaab	2610607 / 2610439	الشعب
Al-Ardiya	4880891 / 4880347	العارضية
Sabhan	4719408 / 4719407	صباحان
Sabah Al Salem	5517498 / 5517472	صباح السالم
Khaitan	4766113 / 4766112	خيطان
Al-Fintas	3903135 / 3902743	الفضطاس
Al-Khaldiya	4812567 / 4813269	الخالدية
Bayan	5396189 / 5391023	بيان
Al-Shuwaikh	4824608 / 4824607	الشويخ
Al-Nassim	4580734 / 4580737	النسيم
Al-Rihab (South Rabieh)	4313542 / 4313543	الرحاب (جنوب الرابية)
Al-Rawda	2512649 / 2512648	الروضة
Al-Sulaibikhat	4865279 / 4865273	الصليبخات
Qurtuba	5328406 / 5328407	قرطبة
Mubarak Al Kabeer	5430027 / 5430026	مبارك الكبير
Cards Department	4822366	إدارة البطاقات
Credit Department	2403524 / 2402523	إدارة الائتمان
Local Real Estate Department	2414928 / 2437116	إدارة العقار المحلي
Private Banking	2436020 / 2441091	إدارة الخدمات المالية الخاصة
Tele-Banking	803333	الخدمة الهاتفية
International Call Service	803000	خدمة الاتصال الدولي
Al-Shuwaikh Showroom	4818222	معرض الشويخ
Al-Farwaniya Showroom	4330700	معرض الفروانية

Murabaha Branches: Al-Sharq: 2407473 - Hawally: 2646536 - Al-Jahra: 4555326 - Fahaheel: 3923783
فروع المرابحة: الشرق: 2407473 - حولي: 2646536 - الجهراء: 4555326 - الفحيحيل: 3923783


Consolidated Balance Sheet 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

ANNUAL REPORT 2001

	Notes	2001 KD 000's	2000 KD 000's
Assets			
Cash and balances with banks and financial institutions	3	80,574	133,295
Short-term international murabaha	3	572,974	357,330
Receivables	4	1,179,845	1,070,519
Leased assets	5	51,764	80,064
Government debt bonds		-	19,087
Investments in securities and managed portfolios	6	208,456	154,497
Trading properties		108,698	91,062
Investment properties	7	96,338	57,897
Other assets		47,517	34,413
Property and equipment		29,321	27,448
TOTAL ASSETS		2,375,487	2,025,612
Liabilities, deferred revenue, fair value reserve, minority interest and equity			
Liabilities			
Due to banks and financial institutions	8	81,934	7,615
Depositors' accounts	9	1,775,156	1,547,065
Other liabilities		86,475	71,940
TOTAL LIABILITIES		1,943,565	1,626,620
Deferred revenue		172,513	165,507
Fair value reserve	10	2,923	-
Minority interest		16,676	16,255
Equity			
Share capital	11	65,024	61,343
Proposed issue of bonus shares	12	3,251	3,681
Reserves	13	142,274	126,442
		210,549	191,466
Proposed cash dividends	12	29,261	25,764
TOTAL EQUITY		239,810	217,230
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY		2,375,487	2,025,612


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


JASSAR DAKHEEL AL-JASSAR
 (GENERAL MANAGER)

The attached notes 1 to 23 form part of these consolidated financial statements.

Consolidated Statement of Income Year ended 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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	Notes	2001 KD 000's	2000 KD 000's
OPERATING INCOME			
Murabaha, Istisna'a and leasing		115,214	112,804
Subvention of government debt bonds		201	2,666
Investment income		16,487	18,593
Fee and commission income		7,449	5,486
Net gain from dealing in foreign currencies		1,142	1,940
Other operating income		2,687	2,584
		143,180	144,073
OPERATING EXPENSES			
General and administration		19,576	18,024
Depreciation		6,637	5,118
Provision for impairment		3,967	4,766
		30,180	27,908
PROFIT FROM OPERATIONS BEFORE			
MINORITY INTEREST			
Minority interest		1,446	1,241
PROFIT FROM OPERATIONS BEFORE			
DISTRIBUTION TO DEPOSITORS			
Distribution to depositors	9	58,382	66,522
		53,172	48,402
Contribution to Kuwait Foundation for the Advancement of Sciences		794	701
Directors' fees		80	80
PROFIT BEFORE NATIONAL LABOUR			
SUPPORT TAX			
National Labour Support tax		971	-
NET PROFIT FOR THE YEAR			
		51,327	47,621
BASIC EARNINGS PER SHARE			
	14	79 fils	74 fils

The attached notes 1 to 23 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity Year ended 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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	Share capital KD 000's (Note 11)	Proposed Issue of bonus shares KD 000's (Note 12)	Reserves					Proposed cash dividends KD 000's (Note 12)	Total equity KD 000's
			Share premium KD 000's (Note 13)	Statutory reserve KD 000's (Note 13)	Voluntary reserve KD 000's (Note 13)	Treasury shares KD 000's	Sub total KD 000's		
At 31 December 1999	56,799	3,408	5,641	84,929	18,715	(690)	108,595	22,720	191,522
Movements During 2000:									
Issue of bonus shares	3,408	(3,408)	-	-	-	-	-	-	-
Issue of shares for cash	1,136	-	2,067	-	-	-	2,067	-	3,203
Zakat	-	-	-	-	(2,345)	-	(2,345)	-	(2,345)
Cash dividends paid	-	-	-	-	-	-	-	(22,720)	(22,720)
Net movement in treasury shares	-	-	-	-	-	(51)	(51)	-	(51)
Transfer to statutory reserve	-	-	-	13,336	-	-	13,336	-	13,336
Transfer to voluntary reserve	-	-	-	-	4,840	-	4,840	-	4,840
Proposed issue of bonus shares	-	3,681	-	-	-	-	-	-	3,681
Proposed cash dividends	-	-	-	-	-	-	-	25,764	25,764
At 31 December 2000	61,343	3,681	7,708	98,265	21,210	(741)	126,442	25,764	217,230
Movements During 2001:									
Issue of bonus shares	3,681	(3,681)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(2,809)	-	(2,809)	-	(2,809)
Cash dividends paid	-	-	-	-	-	-	-	(25,764)	(25,764)
Net movement in treasury shares	-	-	-	-	-	(173)	(173)	-	(173)
Transfer to statutory reserve	-	-	-	13,497	-	-	13,497	-	13,497
Transfer to voluntary reserve	-	-	-	-	5,317	-	5,317	-	5,317
Proposed issue of bonus shares	-	3,251	-	-	-	-	-	-	3,251
Proposed cash dividends	-	-	-	-	-	-	-	29,261	29,261
At 31 December 2001	65,024	3,251	7,708	111,762	23,718	(914)	142,274	29,261	239,810

The attached notes 1 to 23 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows Year ended 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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	Note	2001 KD 000's	2000 KD 000's
OPERATING ACTIVITIES			
Net profit for the year		51,327	47,621
Adjustment for:			
Minority interest		1,446	1,241
Depreciation		6,637	5,118
Provision for impairment		3,967	4,766
Operating profit before changes in operating assets and liabilities		63,377	58,746
<i>(Increase) decrease in operating assets:</i>			
Receivables		(109,379)	(63,080)
Leased assets		26,090	(4,291)
Trading properties		(14,147)	(13,797)
Other assets		(15,227)	5,824
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		74,319	1,926
Depositors' accounts		228,091	212,122
Other liabilities		14,535	6,516
Deferred revenue		7,006	9,289
Net cash from operating activities		274,665	213,255
INVESTING ACTIVITIES			
Redemption of government debt bonds		19,087	41,592
Purchase of investments in securities and managed portfolios		(50,971)	(14,078)
(Purchase) sale of investment properties		(43,329)	3,265
Purchase of property and equipment		(10,643)	(13,106)
Proceeds from sale of property and equipment		3,712	4,232
Net cash (used in) from investing activities		(82,144)	21,905
FINANCING ACTIVITIES			
Issue of Shares		-	3,203
Cash dividends paid		(25,764)	(22,720)
Minority interest		(1,025)	-
Payment of Zakat		(2,809)	(2,345)
Net cash used in financing activities		(29,598)	(21,862)
NET INCREASE IN CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS			
Cash and balances with banks and financial institutions at 1 January		162,923	213,298
		490,625	277,327
CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS AT 31 DECEMBER	3	653,548	490,625

The attached notes 1 to 23 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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1 - ACTIVITIES

The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiary (the group) for the year ended 31 December 2001 were authorised for issue in accordance with a resolution of the board of directors on 7 January 2002.

Kuwait Finance House K.S.C. (the parent company) is a public shareholding company incorporated in Kuwait on 23 March 1997 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.

Al-Enma'a Real Estate Company K.S.C. (Closed) (the subsidiary) is a closed shareholding company incorporated in Kuwait and is engaged primarily in real estate investment, trading and management activities. The parent company has a 54.78% interest in the subsidiary.

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

The parent company operates through 26 local branches (2000: 25). The group employed 2,381 employees as of 31 December 2001 (2000: 2,080).

2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in conformity with International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the IASB.

The group has adopted IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Properties" for the year ended 31 December 2001. Implementation of IAS 39 has resulted in certain changes in the accounting policies of the group in respect of recognition and measurement of financial instruments. No adjustment resulted on the adoption of IAS 40 as the group adopted the cost model which requires investment properties to be carried at depreciated cost less impairment. In accordance with the transitional provisions of IAS 39, the group has accounted for the changes in accounting policies with effect from 1 January 2001 and has not restated comparatives.

The adoption of IAS 39 has resulted in a credit adjustment reported in the "fair value reserve" on the balance sheet.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention, except for the measurement at fair value of available for sale investments.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2001, and of the subsidiary for the year ended 31 October 2001. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

The financial statements used in consolidation are drawn up to different reporting dates, hence adjustments were made for the effects of significant transactions or other events that occurred between 31 October 2001, the reporting date of the subsidiary and 31 December 2001, the reporting date of the parent company.

The consolidated subsidiary uses an accounting policy other than that adopted in the consolidated financial statements for certain assets. Hence, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

Other subsidiaries listed in Note 6 are not significant to the financial position or results of the group and, accordingly, are not consolidated. Similarly, investments in associated companies listed in Note 6 are not significant and, accordingly, are not accounted for under the equity method of accounting. These investments are classified as "available for sale" and are carried at cost since fair values are not determinable. For each investment, an assessment is made at each balance sheet date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, the estimated recoverable amount of that investment is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Any impairment loss is recognised in the consolidated statement of income.

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 mainly comprise Murabaha and Istisna'a. These are stated at amortised cost including provision for impairment.

Murabaha is the sale of commodities 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.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables (continued)

The provision for impairment of receivables covers losses where there is objective evidence that probable losses are present in components of the receivables at the balance sheet date. These are estimated based on the historical patterns of losses in each component, the credit ratings allocated to the debtors, the current economic environment in which the debtors operate and Central Bank of Kuwait guidelines.

Leased assets

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

Investments in securities and managed portfolios

Previously, the group carried all quoted investments at the lower of cost or market value and all unquoted investments at cost, less provision for any decline in value which was other than temporary. Subsequent to the implementation of IAS 39, the group reclassified such investments as "available for sale" and remeasured these to fair value except investment in unconsolidated subsidiaries and associated companies. The gain or loss on remeasuring to fair value on 1 January 2001 is reported under the heading "fair value reserve" on the consolidated balance sheet. Unrealised fair value gains and losses, if any, on available for sale investments 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 statement of income.

Trading properties

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

Investment properties

Previously the group classified its investments properties into rental properties, trading properties and other properties. Subsequent to the implementation of IAS 40, the group reclassified them to investment properties and trading 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. Provisions for impairment losses, if any, are made where carrying values exceed the recoverable amount.

Provision for impairment of assets

An asset is impaired if its carrying amount exceeds its estimated 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. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

- i) Income from Murabaha and Istisna'a is recognised on a 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 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 reserves of the parent company (excluding proposed distributions) at the end of the year before transfers to reserves for the year, and paid under the direction of the parent company's 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 statement of income.

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.

Fair values

Fair values are determined on the basis of: quoted market bid prices at the close of business on the balance sheet date for exchange traded assets; management's estimate of value determined on the basis of a multiple of expected future earnings or by reference to the current market value of another instrument which is substantially the same or based on the underlying net asset base in respect of unquoted equity investments; open market valuations based upon the opinion of external valuers and the group's own specialist resources which have recent experience in the location and category of property being valued in respect of trading and investment properties; expected future cash flows in respect of receivables (net of provisions) and for other assets and liabilities, management's estimate of the amount at which these assets could be exchanged for cash on the basis of an arms length transaction or a liability settled to the satisfaction of creditors. 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.

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 - CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2001 KD 000's	2000 KD 000's
Cash	18,062	22,632
Balances with the Central Bank of Kuwait	50,122	24,344
Balances with banks and financial institutions - current accounts	12,390	72,372
Balances with banks and financial institutions - exchange of deposits	-	13,947
	80,574	133,295
Short-term international murabaha	572,974	357,330
	653,548	490,625

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

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:

	2001 KD 000's	2000 KD 000's
Due from banks and financial institutions	249,889	317,331
Due to banks and financial institutions	(329,593)	(309,898)
	(79,704)	7,433

Included in the consolidated balance sheet as net balances:

	2001 KD 000's	2000 KD 000's
In assets:		
Due from banks and financial institutions	-	13,947
In liabilities:		
Due to banks and financial institutions	(79,704)	(6,514)
	(79,704)	7,433

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

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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4 - RECEIVABLES

Receivables mainly comprise Murabaha and Istisna'a are stated net of provision for impairment.

The composition of receivables is as follows:

	2001 KD 000's	2000 KD 000's
Trading and manufacturing	120,214	131,626
Banks and financial institutions	248,049	202,675
Construction and real estate	387,707	363,658
Individuals	503,366	459,535
Other	22,010	20,475
	1,281,346	1,177,969
Less: provision for impairment	(101,501)	(107,450)
	1,179,845	1,070,519

The movement in the provision for impairment during the year was as follows:

	2001 KD 000's	2000 KD 000's
Balance at 1 January	107,450	106,716
Provided during the year	53	2,153
Amounts written off during the year	(6,002)	(1,419)
Balance at 31 December	101,501	107,450

Provisions include certain amounts in respect of debts 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 "AA" rated banks.

The group's receivables are concentrated in Kuwait.

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

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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5 - LEASED ASSETS

This represents net investment in assets leased for periods which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide a purchase option to lessees at a price equal to the estimated residual value of the gross investment outstanding at the time when such option is exercised. The net investment comprises the following:

	2001	2000
	KD 000's	KD 000's
Gross investment	56,154	82,418
Unearned revenue	(1,490)	(1,664)
Provision for impairment	(2,900)	(690)
	51,764	80,064

The unguaranteed residual value of the leased assets at 31 December 2001 is estimated at KD Nil (2000: KD Nil).

6 - INVESTMENTS IN SECURITIES AND MANAGED PORTFOLIOS

	2001	2000
	KD 000's	KD 000's
Investments in securities and managed portfolios	110,506	89,394
Investments in unconsolidated subsidiaries and associated companies:		
Unconsolidated subsidiaries	37,295	33,760
Associated companies	60,655	31,343
	208,456	154,497
Investments carried at fair value	110,506	-
Investments carried at cost less impairment	97,950	154,497
	208,456	154,497

Included in investments in securities and managed portfolios is an amount of KD 3,564 thousand (2000: KD 4,404 thousand) which represents the group's investment in 5,280 thousand (2000: 6,547 thousand) of its own shares on behalf of depositors, equivalent to 0.81% of the total issued share capital at 31 December 2001 (2000: 1.07%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares continue to be classified in investments in securities and managed portfolios.

The details of the group's unconsolidated subsidiaries and associated companies are as follows:

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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6 - INVESTMENTS IN SECURITIES AND MANAGED PORTFOLIOS (continued)

Unconsolidated subsidiaries:

	Interest in equity %	Country of registration	Principal activities
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	100	Kuwait	Contracting, trading and project management
Gulf International Automobile Trading Company K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
Malaysian KFH Capital Sdn. Bhd	100	Malaysia	Investment Holding Company
Muthana Investment Company K.S.C. (Closed)	100	Kuwait	Islamic investments
Za'afraan Investement Ltd.	100	Cayman	Financial services
International Turnkey Systems Company K.S.C. (Closed)	85	Kuwait	Development of computer software and hardware
Aviation Lease and Finance Company K.S.C. (Closed)	85	Kuwait	Leasing and financing of aircraft
Aviation Lease and Finance Company K.S.C. (Closed)	80	Bermuda	Leasing and financing of aircraft
KFH Ijarah House (Malaysia) Sdn. Bhd	70	Malaysia	Leasing, finance and murabaha
Human Investment Corporation for Training and Consulting K.S.C. (Closed)	69	Kuwait	Training services

Associated companies:

	Interest in equity %	Country of registration	Principal activities
Kuwait Turkish Evkaf Finance House	50	Turkey	Islamic banking services
Al Salaam Hospital Company K.S.C. (Closed)	40	Kuwait	Health care
Kuwait Auction Company K.S.C. (Closed)	40	Kuwait	Auctioning services
Markets and Marketing Services Company K.S.C. (Closed)	36	Kuwait	Marketing services
Nakheel United Real Estate Company K.S.C. (Closed)	32	Kuwait	Real estate investment and trading
Aref Investment Group K.S.C. (Closed)	30	Kuwait	Islamic investments
First Takaful Insurance Company K.S.C. (Closed)	27.5	Kuwait	Islamic takaful insurance
A'ayan Leasing & Investment Company K.S.C. (Closed)	27	Kuwait	Leasing and islamic investments
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments
National Bank of Sharjah	20	United Arab Emirates	Islamic banking services

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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7 - INVESTMENT PROPERTIES

	KD 000's
Balance, net of accumulated depreciation, at 1 January 2001	57,897
Additions	60,148
Disposals, at net book value	(16,819)
Depreciation charged for the year	(1,580)
Impairment losses recognised	(3,308)
Balance, net of accumulated depreciation, at 31 December 2001	96,338

	2001	2000
	KD 000's	KD 000's
Cost	119,666	76,407
Accumulated depreciation	(14,563)	(13,053)
Impairment	(8,765)	(5,457)
	96,338	57,897

Included in investment properties is an investment in the 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 106,619 thousand.

8 - DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2001	2000
	KD 000's	KD 000's
Balances due to banks and financial institutions - current accounts	2,230	1,101
Balances due to banks and financial institutions - exchange of deposits (Note 3)	79,704	6,514
	81,934	7,615

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 the respective book values.

9 - 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, limited periods and saving 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 deposits for a limited period are initially valid for one year and are renewable only by specific instructions from the depositors concerned. Investment savings accounts are valid for an unlimited period.

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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9 - DEPOSITORS' ACCOUNTS (continued)

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, 80% of investment deposits for a limited period, 70% of investment deposits for unlimited period, 70% of short term investment deposits and 60% of investment savings accounts respectively. 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 and 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:

	2001 % per annum	2000 % per annum
Investment deposits for an unlimited period ("Mustamera")	5.250	6.625
Investment deposits for a limited period ("Muhaddadah")	4.667	5.889
Investment deposits for an unlimited period ("Al-Sedra")	4.083	-
Short-term investment deposits ("Thulatheeyah")	2.950	-
Investment savings accounts ("Tawfeer")	3.500	4.417

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

10 - 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 for the year ended 31 December 2001.

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

	KD 000's
Adjustment on restatement to fair value on 1 January 2001	1,716
Change in fair value during the year	1,207
	<u>2,923</u>

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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11 - SHARE CAPITAL

The Extraordinary General Assembly of the shareholders of the parent company held on 19 February 2001, approved an increase in the paid-up share capital by the issuance of 36,810 thousand (2000: 34,080 thousand) bonus shares of 100 fils each. The bonus shares were issued by a transfer from profits for the year ended 31 December 2000. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2001 comprises 650,237 thousand (2000: 613,430 thousand) shares of 100 fils each.

12 - PROPOSED CASH DIVIDENDS AND ISSUE OF BONUS SHARES

The board of directors of the parent company have proposed cash dividends of 45% for the year ended 31 December 2001 (2000: 42%) and an issue of bonus shares of 5% (2000: 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 as a separate component of equity.

13 - 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 13,497 thousand equivalent to approximately 25% (2000: KD 13,336 thousand equivalent to approximately 28%), of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, director's 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 group. 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.

Notes to the Consolidated Financial Statements 31 December 2001

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14 - BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the year of KD 51,327 (2000: KD 47,621) and the weighted average number of ordinary shares outstanding during the year of 649,594 thousand (2000: 646,481 thousand) after adjusting for treasury shares held by the group.

15 - 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:

	2001	2000
	KD 000's	KD 000's
Acceptances and letters of credit	23,934	32,660
Guarantees	90,727	86,593
	114,661	119,253
Capital commitments	34,305	-

16 - NET OPEN FOREIGN CURRENCY POSITION

	2001	2000
	KD 000's	KD 000's
	equivalent	equivalent
Net assets (liabilities) in major foreign currencies:		
U.S. Dollars	2,909	40,680
Sterling Pounds	(8,590)	(5,430)
Japanese Yen	(880)	870
Euros	681	1,020
Gulf Cooperation Council currencies	(14,559)	(91)
Others	390	1,583
	(20,049)	38,632

17 - 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 the directors are approved by the Ordinary General Assembly of the shareholders of the parent company. The year end balances of related parties included in the balance sheet are considered insignificant.

Notes to the Consolidated Financial Statements 31 December 2001

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18 - 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 and associated companies and investment in Government debt bonds;

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

31 December 2001	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	80,574	-	-	-	80,574
Short-term international murabaha	572,974	-	-	-	572,974
Receivables	184,487	5,341	982,066	7,951	1,179,845
Leased assets	-	44,367	7,397	-	51,764
Investments in securities and managed portfolio	-	208,456	-	-	208,456
Trading properties	-	108,698	-	-	108,698
Investment properties	-	96,338	-	-	96,338
Other assets	-	3,599	38,909	5,009	47,517
Property and equipment	443	207	13,829	14,842	29,321
	838,478	467,006	1,042,201	27,802	2,375,487
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial Institutions	81,934	-	-	-	81,934
Depositors' accounts	117	60,683	1,510,672	203,684	1,775,156
Other liabilities	59	294	47,610	38,512	86,475
Deferred revenue	4,420	-	168,093	-	172,513
Fair value reserve	-	-	-	2,923	2,923
Minority interest	-	-	-	16,676	16,676
Share capital	-	-	-	65,024	65,024
Proposed issue of bonus shares	-	-	-	3,251	3,251
Reserves	-	-	-	142,274	142,274
Proposed cash dividends	-	-	-	29,261	29,261
	86,530	60,977	1,726,375	501,605	2,375,487
Revenue	31,930	15,741	91,203	4,306	143,180
Profit from operations before distribution to depositors	25,300	14,684	71,017	553	111,554

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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18 - SEGMENTAL ANALYSIS (continued)

31 December 2000

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	133,295	-	-	-	133,295
Short-term international murabaha	357,330	-	-	-	357,330
Receivables	140,345	6,344	909,814	14,016	1,070,519
Leased assets	-	62,571	17,493	-	80,064
Government debt bonds	-	19,087	-	-	19,087
Investments in securities and managed portfolios	-	154,497	-	-	154,497
Trading properties	-	91,062	-	-	91,062
Investment properties	-	57,897	-	-	57,897
Other assets	-	10,095	19,623	4,695	34,413
Property and equipment	468	224	11,889	14,867	27,448
	631,438	401,777	958,819	33,578	2,025,612
Liabilities, deferred revenue, minority interest and equity					
Due to banks and financial Institutions	7,615	-	-	-	7,615
Depositors' accounts	101	52,886	1,316,565	177,513	1,547,065
Other liabilities	48	230	36,371	35,291	71,940
Deferred revenue	5,962	-	159,545	-	165,507
Minority interest	-	-	-	16,255	16,255
Share capital	-	-	-	61,343	61,343
Proposed issue of bonus shares	-	-	-	3,681	3,681
Reserves	-	-	-	126,442	126,442
Proposed cash dividends	-	-	-	25,764	25,764
	13,726	53,116	1,512,481	446,289	2,025,612
Revenue	31,791	22,861	85,421	4,000	144,073
Profit from operations before distribution to depositors	23,752	21,474	67,899	1,799	114,924

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18 - SEGMENTAL ANALYSIS (continued)

Secondary segment information

The group operates in different geographical areas as designated below:

	Assets		Liabilities, deferred revenue, fair value reserve, minority interest and equity		Contingencies and commitments under letters of credit and guarantees	
	2001 KD 000's	2000 KD 000's	2001 KD 000's	2000 KD 000's	2001 KD 000's	2000 KD 000's
Geographical areas:						
Kuwait and the rest of						
Middle East	1,771,374	1,601,447	2,352,678	2,022,974	80,263	83,477
North America	207,244	128,400	9,159	1,063	1,146	1,192
Western Europe	384,824	278,512	12,761	1,519	5,733	5,963
Other	12,045	17,253	889	56	27,519	28,621
	2,375,487	2,025,612	2,375,487	2,025,612	114,661	119,253

	Local		International	
	2001 KD 000's	2000 KD 000's	2001 KD 000's	2000 KD 000's
<i>Revenue</i>	110,327	110,641	32,853	33,432
<i>Profit from operations before distribution to depositors</i>	85,626	88,968	25,928	25,964

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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19 - 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 2001 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	2001 Total KD 000's
Assets					
Cash and balances with banks and financial institutions	80,574	-	-	-	80,574
Short-term international murabaha	572,974	-	-	-	572,974
Receivables	165,853	181,987	185,622	646,383	1,179,845
Leased assets	5,096	2,936	5,254	38,478	51,764
Investment in securities and managed portfolios	-	-	-	208,456	208,456
Trading properties	-	-	108,698	-	108,698
Investment properties	-	-	-	96,338	96,338
Other assets	28,941	-	14,820	3,756	47,517
Property and equipment	-	-	-	29,321	29,321
31 December	853,438	184,923	314,394	1,022,732	2,375,487

Liabilities, deferred revenue, fair value reserve, minority interest and equity

Due to banks and financial institutions	81,934	-	-	-	81,934
Depositors' accounts	876,952	307,900	220,083	370,221	1,775,156
Other liabilities	60,124	2,865	23,486	-	86,475
Deferred revenue	23,430	18,577	30,345	100,161	172,513
Fair value reserve	-	-	-	2,923	2,923
Minority interest	-	-	-	16,676	16,676
Equity	-	-	-	239,810	239,810
31 December	1,042,440	329,342	273,914	729,791	2,375,487

Notes to the Consolidated Financial Statements 31 December 2001

KUWAIT FINANCE HOUSE K.S.C. and Subsidiary

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19 - LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities, deferred revenue, minority interest and equity at 31 December 2000 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	2000 Total KD 000's
Assets					
Cash and balances with banks and financial institutions	133,295	-	-	-	133,295
Short-term international murabaha	357,330	-	-	-	357,330
Receivables	190,187	191,925	170,634	517,773	1,070,519
Leased assets	6,493	8,469	6,051	59,051	80,064
Government debt bonds	1,193	1,193	2,386	14,315	19,087
Investment in securities and managed portfolio	-	-	-	154,497	154,497
Trading properties	-	-	91,062	-	91,062
Investment properties	-	-	-	57,897	57,897
Other assets	25,123	-	6,543	2,747	34,413
Property and equipment	-	-	-	27,448	27,448
31 December	713,621	201,587	276,676	833,728	2,025,612
Liabilities, deferred revenue, minority interest and equity					
Due to banks and financial institutions	7,615	-	-	-	7,615
Depositors' accounts	784,371	269,579	161,394	331,721	1,547,065
Other liabilities	50,336	1,408	20,196	-	71,940
Deferred revenue	27,522	15,746	25,682	96,557	165,507
Minority interest	-	-	-	16,255	16,255
Equity	-	-	-	217,230	217,230
31 December	869,844	286,733	207,272	661,763	2,025,612

20 - RISK MANAGEMENT

In accordance with Central Bank of Kuwait's guidelines and taking into account the nature of activities of the group, the parent company has a comprehensive system for the measurement and management of risks.

The main risks to which the group's assets and liabilities are exposed and the principal methods of risk management are as follows:

Credit Risk:

All policies relating to credit including the determination of approval limits are approved by the 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

20 - RISK MANAGEMENT (continued)

Credit Risk (continued):

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.

Foreign exchange risk:

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. The group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

Price risks:

Price risks comprising market and valuation risks are 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.

21 - 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 in securities and managed portfolios, 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.

22 - FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2001 amounted to 332,669 thousand (2000: KD 318,482 thousand).

23 - COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform to the current year's presentation as follows:

	<u>KD 000's</u>
Investments as shown in 2000 consolidated financial statements	303,456
Restated:	
Investment in securities and managed portfolios	154,497
Trading properties	91,062
Investment properties	57,897