2003

Year

Twenty Fifth Annual Report

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بيت التمويل الكويتي

Kuwait Finance House

H.H. Sheikh Saad Al Abdullah Al Salem Al Sabah

Crown Prince

H.H. Sheikh Jaber Al Ahmad Al Jaber Al Sabah

The Amir of Kuwait

H.H. Sheikh Sabah Al Ahmad Al Jaber Al Sabah

The Prime Minister

Contents

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Telephone: 2445050
Facsimile: 2455135
Cable: BAITMAL KT
www.kfh.com

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 deal not unjustly and ye shall not be dealt unjustly.

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

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.

Financial Highlights

Depositors' Account Growth
(in Millions of Kuwaiti Dinars)

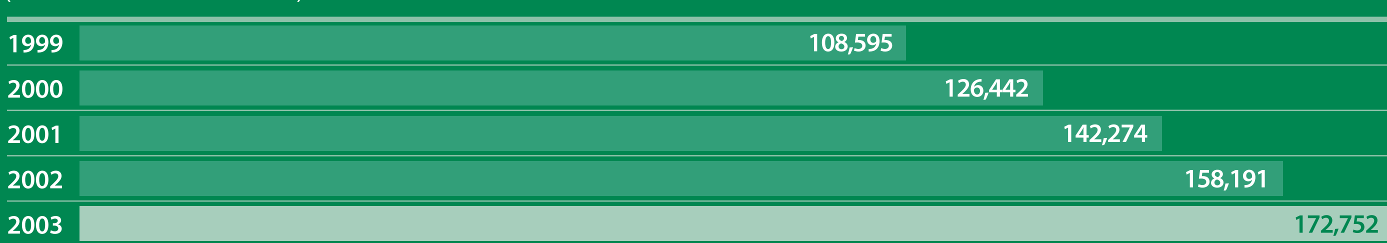
Shareholders' Funds Growth
(in thousands of Kuwaiti Dinars)

In accordance with the Islamic principles, Kuwait Finance House ensures that while working with the public professionally, the company guarantees an honourable relationship with its client base 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.

Reserves Growth

(in thousands of Kuwaiti Dinars)



Capital Growth

(in thousands of Kuwaiti Dinars)

Bader Abdul Muhsen Al-Mukhaizeem
Chairman

1. Sami Hussein Al-Anbaee
Board Member

2. Saud Abdul Aziz Al-Babtain
Board Member

3. Essam Saud Al-Rashed
Board Member

4. Ali Mohammed Al-Elaimi
Board Member

5. Dr. Fouad Abdullah Al Omar
Board Member

6. Moahmmed Ali Al-Khudairi
Board Member

7. Meshaal Yousuf Al-Derbas
Board Member

8. Naser Abdul Muhsen Al-Merri
Board Member

1

5

Sameer Yaqoub Al Nafeesi
Vice Chairman

Jassar D. Al-Jassar
General Manager

>>

1. **Dr. Anwar Ahmed Al-Fuzaie**
Assistant General Manager, Head of the Legal Department

2. **Salah A. Al-Bassam**
Assistant General Manager

3. **Emad A. Al-Thaqeb**
Assistant General Manager

4. **Fawaz S. Al-Othman**
Assistant General Manager

5. **Wael Y. Al-Qatami**
Assistant General Manager

6. **Dr. Waleed Essa Al-Hasawi**
Assistant General Manager

Yousuf A. Al-Mailam
Deputy General Manager

1

2

3

4

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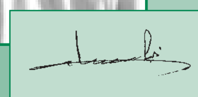
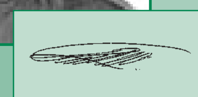
Sheikh Ahmad Bazie Al-Yaseen
Chairman

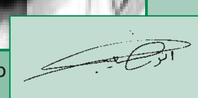



Sheikh Dr. Khalid Mathkour Al-Mathkour
Shareea'a Board Member

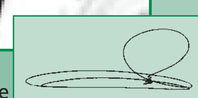



Sheikh Dr. Ajeel Jasem Al-Nashmi
Shareea'a Board Member


Sheikh Dr. Mohammed Fawzi Faidullah
Shareea'a Board Member

Sheikh Dr. Anwar Shuaib Abdulsalam
Shareea'a Board Member

Sheikh Dr. Mohammed Abdul Razaq Al-Tabtabae
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 2003, 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.

In the name of Allah, the most gracious and the most merciful. All praise and thanks be to Allah, the Lord of the Universe, and peace and prayers be upon the Master of Messengers, our prophet Mohammed, and all his family members, companions and the faithful followers to the Day of Judgement.

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Chairman's Statement

Fellow Shareholders

I am pleased to welcome you to the twenty-fifth Annual General Meeting and present the twenty-fifth annual report of Kuwait Finance House (KFH) for the year ended 31 December 2003. It includes the Al-Fatwa and Shareea'a Supervisory Board's report and main accomplishments and developments during the year. The report also covers local regional and international economic developments, and consolidated financial statements of KFH and its subsidiary companies together with auditors' report.

Key Accomplishments of KFH

After a series of consecutive successes in its march for over a quarter of a century, KFH continued its growth and expansion during 2003 using a strategy that aims at enhancing the concept of overall Islamic banking activities in all its branches. New investment products and services that attract various cross section of clients were introduced. The year 2003 has been an outstanding year during which information technology infrastructure has been further upgraded, and long-term comprehensive solutions have been devised. Moreover, KFH has implemented the concept of "one stop banking" in a good number of branches. We have also implemented a comprehensive telephone banking service.

With the objective of enhancing information technology infrastructure in order to improve operating efficiencies and business effectiveness, by grace of Allah, KFH has successfully implemented "Phoenix" System - one of the latest international core banking systems that will augment the level of service offered and facilitate the marketing of new products.

In appreciation of its role and position in the Gulf economic domain, KFH was honored with a merit shield in the conference and exhibition of the top 100 Gulf companies. This honor comes in recognition of KFH's continued efforts in strengthening its presence and activities in banking and investment fields within the framework of its strategy of regional expansion. Moreover, KFH has won the prestigious Euromoney award for the second year in succession in the category of Best Islamic Leasing House in Islamic finance segment for its innovative development of leasing products.

Financial Results

The key highlights of the financial results for the fiscal year ended 31 December 2003 have shown the following:

Balance Sheet:

The total assets at the end of the year amounted to KD. 3,041 million, an increase of KD. 487 million over 2002. As far as liabilities are concerned, the customers' account balances reached KD. 2,300 million, an increase of KD. 323 million or 16% compared to the previous year, while shareholders equity amounted to KD. 285 million, an increase of KD. 23 million or 9% compared to the year 2002.

Revenues

Total revenue realized for this year amounted to KD. 163 million, an increase of KD. 17 million or 11% . After deduction of various expenses and provisions, the profit before distributions amounted to KD. 120 million, an increase of KD. 7 million or a growth rate of 6% when compared to the previous year.

Net Profit

The net profit of shareholders reached KD. 58 million, an increase of KD. 3.5 million or a growth rate of 6.5% when compared to the year 2002.

Distributions

Profits have been distributed to depositors for the year ended 31 December 2003 as follows:

	2003	2002
Investment deposits for unlimited period	**4.400%**	4.500%
Al Sedra investment deposits	**3.422%**	3.500%
Investment savings accounts	**2.933%**	3.000%

Launching of Comprehensive Banking System

During the year 2003, advanced information technology was directed to support financial and banking activities through launching the comprehensive banking system "Phoenix" in both front and back office operations. The system enables KFH to serve a larger customer base in a smooth, secure, accurate and efficient manner. This in turn brought about an improvement of overall banking service quality and enhanced KFH competitive edge over its peers.


بيت التمويل الكويتي
Kuwait Finance House
Bader A. M. Al-Mukhaizeem
Chairman & Managing Dicrector


SMS ON TIME:
- Account balance
- Credit card
balance with last
three transactions
Options
Clear

The year 2003 has been an outstanding year during which information technology infrastructure has been further upgraded, and long-term comprehensive solutions have been devised.

KFH Online

Considering the demand for web-based products and services, KFH continues to invest in this delivery channel. During the year KFH has also made great efforts in developing and providing its integrated banking services via its website (KFH ONLINE). This website is unique and has a wide range of user-friendly products and services in both Arabic and English languages. The customer can take advantage of accessing over 110 services, which are freely available on this website. This service along with broad range of other available services, such as "KFH WAP Service", "KFH Mobile Service" and "Fax-on-Time Service"- in which KFH is a pioneer in introducing them into the Kuwaiti market, help provide insight and ability to deliver services as per the customers' preferences, thus providing customers with access to their accounts and information at anytime, anywhere via such delivery channels. Al Murabaha calculation service by fax and other electronic services based on advanced technology have also been recently introduced.

International System for Banking Cards (First Data Europe)

KFH's competitive advantage was further enhanced by switching its automated system of banking cards to "First Data Europe System" in a record time. The new system allows access to the company's huge information center in London and enables KFH branches to issue and monitor banking cards more efficiently, promptly and independently. The related value added benefits of the system would facilitate in further expanding KFH share in this segment of Kuwaiti market, which currently stands at 35%. VISA International supports these developments by ranking KFH as the first bank in Kuwait for this type of business.

Smart Cards and Al Teyseer

Continuing its pioneering role in providing better services to its customers, KFH is proud to introduce, for the first time in the Middle East, the Smart Card Platinum Chip which is based on smart chip technology that offers enhanced security features. Its success will pave the way towards transferring all the cards to chip technology in the future.

KFH has also introduced a new card called Al Teyseer card. The use of this card allows customers to purchase items on credit with the repayment installments being spread over a convenient time period, without paying any interests on such purchases. Moreover, Nafais Card was introduced as a unique card that is issued in three categories gold, platinum and diamond. It is designed with features and benefits especially attractive to our female customers.

Comprehensive Branch Network

At year-end the total number of branches has reached 27. Moreover, new ATMs were installed and for the very first time a Cash Deposit Machine became operational in the main branch at the Head Office.

An Outstanding Local Performance

Despite tense regional political environment and the prevailing low interest rates that dominated the global financial markets during the year, KFH has shown a distinguished performance. KFH continued to expand its market base through the introduction of new products and services, upgrading information technology, increasing trade finance business and investments in local and international real estate.

In line with this strategy, KFH is currently constructing a commercial complex in Kuwait under the name "Al Dira Commercial Tower" next to its Head Office building. The building will be one of the most significant construction landmark in the country.

Local Investments

In pursuit of its strategy that aims at increasing local investments, KFH ownership in ALAFCO- an aircraft financing company was increased to about 88% of the company's total capital. This enabled KFH to expand its activities and establish a leading position in this line of business in the region. Moreover, in order to further penetrate local and international industries, a new holding company with a capital of KD 15 million was incorporated in October. KFH also acquired additional 33% stake of Nakheel United Real Estate Company, a fast growing company in the residential real estate sector. This acquisition will bring KFH stake in the company to 99.97%.

Local Investment Funds

To serve KFH broad customer base, KFH continued its efforts in developing new products and services. To this effect, KFH participated in the establishment and marketing of Kuwait Investment Fund. The

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fund is capitalized with KD 45.7 million and would serve the purpose of investing in listed stocks of Shareea'a-compliant Kuwaiti companies. Trading in real estate is another objective of the fund.

Besides, KFH along with Global Investment House (Global) launched "Direct Investment Fund" with a capital of KD 30 million. This is the first investment fund that includes in its investment objectives to serve the purpose of buying existing Kuwaiti companies and transforming them into Shareea'a Compatible institutions.

Gulf Expansion

KFH in pursuit of its regional expansion strategy began to extend its services beyond the boundaries of Kuwait. In this regard, Kuwait Finance House-Bahrain, a wholly owned subsidiary that was established in 2002, has already started assuming a leading investment role in the Kingdom of Bahrain. Moreover,during the year, one of KFH's subsidiaries extended its financing activities to the Sultanate of Oman by establishing International Commercial House that aims at providing financing services on convenient installment basis to its customers.

Islamic Bonds (Sukuks)-Promising Growth

In a unique step to promote Islamic financing, KFH assumed a Lead Manager role in the issue of US$ 250 million Islamic bond (Sukuk) for the Government of Bahrain and took US$ 40 million share in this issue. The issue was lead arranged by Liquidity Management Center (LMC) that was formed by KFH along with other Islamic Financial Institutions with a capital of US$ 30 million. Further, to enhance its regional presence KFH has acted as a Co- Manager for US$ 750 million Global Sukuk Issue for the Government of Qatar and participated with US$35 million. Furthermore, KFH also acted as Co-Lead Manager and co-underwriter for US$ 400 million Islamic Bond issue of Islamic Development Bank and participated with US$ 50 million. These factors reflect KFH's commitment towards the promotion of Islamic banking and finance.

Global Investment Funds

This year KFH has launched three major funds namely "MALC Fund", "Alliance Real Estate Fund" and "Net Lease Fund". MALC, the total asset base of which is expected to reach US$ 800 million, is an aircraft-leasing fund. At the year-end, MALC has successfully concluded ten aircrafts deals valuing US$ 396 million. Nine of these aircrafts are sub-leased to European airlines - including five aircrafts to the British Airways, while one is sub-leased to the Malaysian Airline.

Alliance Real Estate Fund, with a total asset base of US$ 520 million, will invest in the US market to yield a return in the range of 7-9% per annum. Net Lease Fund that is launched in partnership with First Industrial has total asset base of US$ 420 million and is involved in leasing industrial real estate in the USA.

Human Resources Development

KFH takes pride in the quality and the skill of its work force. Nevertheless KFH continued to upgrade its existing manpower and recruit new manpower to meet further challenge. The employment rate of Kuwaiti Nationals has already reached 43% of the total workforce, whereas, Kuwaiti nationals occupy 84% of managerial positions. Every year new recruits attend especially tailored job orientation training courses to abreast them with Islamic financing activities. During the year KFH patronized the first conference for the development of Human Resources in Kuwait. The purpose of this conference was to highlight KFH's experience in upgrading its manpower as a model to help local enterprises in tapping the professional skills and personal talents of their staff. Furthermore during the year, more financial resources were allocated towards strengthening risk management and combating money laundering activities. Besides a new Marketing Department that aims at developing new products and services to meet increasing demand for Islamic finance has been set up.

Community Service

KFH recognizes that business institutions have an obligation towards the environment and the community they serve. In this respect, KFH made a generous contribution towards a number of development projects in Kuwait and abroad. KFH paid for 50% of the total cost estimated to be K.D 4 million of a hospital that rehabilitate and treat drug addicts. Moreover, KFH has already started the construction of a Prisoners Rehabilitation Center - covering an area of approx. 12,000 square meters. The center can accommodate 400 inmates, who


التمويل الآلي
Al-Tamweel Al-Aali
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EXPIRES END 12/07

KFH continued to expand its market base through the introduction of new products and services, upgrading information technology, increasing trade finance business and investments in local and international real estate.

will receive the necessary care under a specially designed rehabilitation program that will assist in converting former prison inmates to good and active citizens. Further, KFH donated approx. KD 450,000 to Kuwait Zakat House to support charitable activities undertaken by Zakat House for the poor and needy people.

I am very pleased to present a report on the most significant economic developments and trends in 2003 together with the prospects of growth in our region in the future.

Growth Trends in Kuwait Economy

The Kuwaiti economy has witnessed a remarkable development in recent years. This development brought about an overall economic growth that resulted in increase in Government spending and investment budget. Furthermore, compensation received for the Iraqi invasion losses enhanced cash liquidity and contributed positively towards active Stock and Real Estate markets. Consequently, Gross Domestic Product (GDP) increased by 4.2% and approached KD 11 billion as compared with a 2.7% increase during the year 2002. In this context the balance of payment reflected a surplus of KD 2.2 billion or 18.3% of GDP against a budgeted deficit of KD 2.25 billion. It is worth noting that during the fiscal year 2003-2004 Kuwait's foreign investments returns are expected to be dropped by 2% to reach KD 1.5 billion. The decline in foreign investment return is attributable to an overall poor performance of world market and low interest rates. Furthermore, Government revenues during the fiscal year 2003-2004 are estimated to search KD 7.5 billion against the budgeted revenues of KD 3.5 billion. This surplus of KD 4 billion is basically attributable to increased oil prices during the year as compared to the budgeted oil price.

Inflation in Kuwait is mostly driven by imports. The inflation rate increased from 1.3% during 2002 to 1.6% during 2003. This is explained by increase in local demand as well as in imports for re-export to Iraq.

The successful experience of KFH and its pioneering efforts in the Islamic banking industry have prompted the Government to promulgate law no. 30/2003 that liberalizes the banking sector and leads to the formation of new Islamic banks. The law would further expand the role of Islamic finance in local economy. KFH has welcomed the Government initiative as it is in line with its mandate to make Kuwait a regional Islamic center.

Growth Trends in GCC Countries

Despite the tense political environment during the first half of the year, the steady increase in oil prices and continued co-operation amongst GCC countries, has brought about positive performance in GCC-economies with respect to growth rates and the resultant surplus in current accounts. Respective Governments are boosting efforts to encourage free trade through implementation of a GCC-Customs Union Treaty, which will unify customs tariff against non-member countries. The Custom Union Treaty calls for member states to adopt a 5% tariff rate against non-member countries instead of the varying range of rates that is presently applicable. This is a preliminary step towards the formation of GCC - Common Market by 2007, which is expected to eventually pave the way for adopting a unified common currency by 2010.

On the other hand, a number of GCC countries have begun to introduce legislations to regulate and liberalize investments to attract investors and make optimum use of foreign capital, expertise and technical know how.

In conclusion, we thank Allah the All Mighty for His Graces and Blessings, and pray that His Guidance continues to lead us towards achieving KFH's targets and objectives for the benefit of our beloved country and valued customers under the able leadership and directions of HH the Amir, Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah, HH the Crown Prince Sheikh Sa'ad Al-Abdullah Al-Salem Al-Sabah and HH the Prime Minister, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah. I also extend my thanks to the competent official authorities and our valued customers who spared no effort in backing the march of this Islamic institution to its desired goal.

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Consolidated Financial Statements

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 2003, 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 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 2003, 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 2003 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 the 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 2003.

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

5 January 2004
Kuwait

Consolidated Income Statement

Year ended 31 December 2003

	Note	2003 KD 000's	2002 KD 000's
Operating income			
Murabaha, Istisna'a and leasing		**106,917**	104,130
Investment income		**43,540**	28,629
Fee and commission income		**10,409**	9,459
Net (loss) gain from dealing in foreign currencies		**(1,098)**	833
Other operating income		**3,589**	3,473
		163,357	146,524
Operating expenses			
General and administration		**28,789**	22,263
Depreciation		**7,966**	6,966
Provision for impairment		**4,132**	2,499
		40,887	31,728
Profit from operations before minority interest		**122,470**	114,796
Minority interest		**2,603**	1,894
Profit from operations before distribution to depositors		**119,867**	112,902
Distribution to depositors	11	**59,833**	56,582
Profit for the year		**60,034**	56,320
Contribution to Kuwait Foundation for the Advancement of Sciences		**600**	562
National Labour Support Tax		**1,184**	1,055
Directors' fees		**90**	90
Net profit for the year		**58,160**	54,613
Basic earnings per share	3	**81 fils**	76 fils

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Balance Sheet
At 31 December 2003

	Note	**2003 KD 000's**	2002 KD 000's
Assets			
Cash and balances with banks and financial institutions	4	**129,208**	147,882
Short-term international murabaha		**369,369**	458,916
Receivables	5	**1,447,484**	1,285,361
Leased assets	6	**287,990**	107,662
Investments	7	**433,410**	250,763
Trading properties		**141,210**	112,098
Investment properties	8	**100,852**	104,684
Other assets		**92,201**	62,164
Property and equipment	9	**39,386**	24,847
Total assets		**3,041,110**	2,554,377
Liabilities, deferred revenue, fair value reserve, minority interest and equity			
Liabilities			
Due to banks and financial institutions	10	**63,676**	12,640
Depositors' accounts	11	**2,300,161**	1,976,861
Other liabilities		**169,864**	102,572
Total liabilities		**2,533,701**	2,092,073
Deferred revenue		**182,410**	175,724
Fair value reserve	12	**19,776**	5,771
Minority interest		**20,637**	18,840
Equity			
Share capital	13	**71,689**	68,275
Proposed issue of bonus shares	14	**4,301**	3,414
Reserves	15	**172,752**	158,191
		248,742	229,880
Proposed cash dividends	14	**35,844**	32,089
Total equity		**284,586**	261,969
Total liabilities, deferred revenue, fair value reserve, minority interest and equity		**3,041,110**	2,554,377

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Jassar Dakheel Al-Jassar
General Manager

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Share capital KD 000's (Note 13)	Proposed issue of bonus shares KD 000's (Note 14)	Reserves: Share premium KD 000's (Note 15)	Reserves: Statutory reserve KD 000's (Note 15)	Reserves: Voluntary reserve KD 000's (Note 15)	Reserves: Treasury shares KD 000's	Sub Total KD 000's	Proposed cash dividends KD 000's (Note 14)	Total equity KD 000's
At 31 December 2001	65,024	3,251	7,708	111,762	23,718	(914)	142,274	29,261	239,810
Movements during 2002:									
Issue of bonus shares	3,251	(3,251)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(3,205)	-	(3,205)	-	(3,205)
Cash dividends paid	-	-	-	-	-	-	-	(29,261)	(29,261)
Net movement in treasury shares	-	-	-	-	-	12	12	-	12
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	13,478	-	-	13,478	-	13,478
Transfer to voluntary reserve	-	-	-	-	5,632	-	5,632	-	5,632
Proposed issue of bonus shares	-	3,414	-	-	-	-	-	-	3,414
Proposed cash dividends	-	-	-	-	-	-	-	32,089	32,089
At 31 December 2002	68,275	3,414	7,708	125,240	26,145	(902)	158,191	32,089	261,969
Movements during 2003:									
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)
Net movement in treasury shares	-	-	-	-	-	35	35	-	35
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
At 31 December 2003	**71,689**	**4,301**	**7,826**	**137,251**	**28,542**	**(867)**	**172,752**	**35,844**	**284,586**

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2003

	Note	2003 KD 000's	2002 KD 000's
Operating activities			
Net profit for the year		58,160	54,613
Adjustment for:			
Depreciation		7,966	6,966
Provision for impairment		4,132	2,499
Operating profit before changes in operating assets and liabilities		70,258	64,078
(Increase) decrease in operating assets:			
Exchange of deposits		26,624	(26,624)
Receivables		(152,429)	(92,871)
Leased assets		(179,022)	(55,318)
Trading properties		(29,112)	(3,160)
Other assets		(18,997)	(9,408)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		51,038	(69,294)
Depositors' accounts		323,300	201,705
Other liabilities		69,088	18,263
Deferred revenue		6,686	3,211
Net cash from operating activities		167,434	30,582
Investing activities			
Purchase of investments		(169,081)	(38,413)
Sale (purchase) of investment properties		2,256	(6,053)
Purchase of property and equipment		(31,686)	(11,096)
Net cash used in investing activities		(198,511)	(55,562)
Financing activities			
Cash dividends paid		(32,089)	(29,261)
Cash received on cancellation of share options		118	-
Payment of Zakat		(3,607)	(3,205)
Net cash used in financing activities		(35,578)	(32,466)
Net decrease in cash and cash equivalents		(66,655)	(57,446)
Cash and cash equivalents at 1 January		305,081	362,527
Cash and cash equivalents at 31 December	4	238,426	305,081

The attached notes 1 to 27 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
At 31 December 2003

1 Activities
The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiaries (the group) for the year ended 31 December 2003 were authorised for issue in accordance with a resolution of the board of directors on 5 January 2004.

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

Details of the consolidated subsidiaries are included in Note 16.

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 27 local branches (2002: 27) and employed 1,452 employees as of 31 December 2003 (2002: 1,393).

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.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2003, Al Enma'a Real Estate Company K.S.C. (Closed) for the year ended 31 October 2003, The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed) for the year ended 31 October 2003 and Al Muthana Investment Company K.S.C. (Closed) for the year ended 30 September 2003. 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 2003, 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.

Other subsidiaries listed in Note 7 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 7 are not significant and, accordingly, are not accounted for under the equity method of accounting. These investments are classified as "available for sale" investments.

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.

Notes to the Consolidated Financial Statements
At 31 December 2003

2 Significant Accounting Policies (continued)

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. 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.

Notes to the Consolidated Financial Statements
At 31 December 2003

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 and 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 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 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.

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.

Notes to the Consolidated Financial Statements
At 31 December 2003

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 Basic Earnings per Share

Basic earnings per share are based on the net profit for the year of KD 58,160 thousand (2002: KD 54,613 thousand) and the weighted average number of ordinary shares outstanding during the year of 716,057 thousand (2002: 715,826 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 2003.

4 Cash and Balances with Banks and Financial Institutions

	2003 KD 000's	2002 KD 000's
Cash	23,510	25,317
Balances with the Central Bank of Kuwait	17,934	13,787
Balances with banks and financial institutions - current accounts	29,326	10,871
Balances with banks and financial institutions - exchange of deposits	58,438	97,907
Cash and balances with banks and financial institutions	129,208	147,882
Short-term international murabaha - maturing within 3 months of contract date	109,218	183,823
Exchange of deposits - maturing after 3 months of contract date	-	(26,624)
Cash and cash equivalents	238,426	305,081

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:

	2003 KD 000's	2002 KD 000's
Due from banks and financial institutions	364,314	392,570
Due to banks and financial institutions	(368,511)	(306,114)
	(4,197)	86,456

Included in the consolidated balance sheet as net balances:

	2003 KD 000's	2002 KD 000's
In assets:		
Cash and balances with banks and financial institutions - exchange of deposits	58,438	97,907
In liabilities:		
Due to banks and financial institutions - exchange of deposits (Note 10)	(62,635)	(11,451)
	(4,197)	86,456

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

Notes to the Consolidated Financial Statements
At 31 December 2003

5 Receivables

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

The composition of receivables is as follows:

	2003 KD 000's	2002 KD 000's
Trading and manufacturing	122,410	129,418
Banks and financial institutions	364,632	286,164
Construction and real estate	383,960	398,920
Individuals	643,373	551,226
Other	42,846	24,247
	1,557,221	1,389,975
Less: provision for impairment	(109,737)	(104,614)
	1,447,484	1,285,361

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

	2003 KD 000's	2002 KD 000's
Balance at 1 January	104,614	101,501
Provided during the year	5,123	3,134
Amounts written off during the year	-	(21)
Balance at 31 December	109,737	104,614

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 institutions.

The group's receivables are principally concentrated in Kuwait.

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

6 Leased Assets

The net investment comprises the following:

	2003 KD 000's	2002 KD 000's
Gross investment	307,837	114,365
Unearned revenue	(18,833)	(4,382)
Provision for impairment	(1,014)	(2,321)
	287,990	107,662

Notes to the Consolidated Financial Statements
At 31 December 2003

6 Leased Assets (continued)

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

	2003 KD 000's	2002 KD 000's
Within one year	192,917	47,510
One to five year	82,169	40,124
Later than five years	32,751	26,731
	307,837	114,365

The unguaranteed residual value of the leased assets at 31 December 2003 is estimated at KD Nil (2002: KD Nil).

7 Investments

	2003 KD 000's	2002 KD 000's
Investment in securities and managed portfolios	271,864	115,302
Investments in unconsolidated subsidiaries and associated companies:		
Unconsolidated subsidiaries	121,563	93,598
Associated companies	39,983	41,863
	433,410	250,763
Investments carried at fair value	271,864	115,302
Investments carried at cost less impairment	161,546	135,461
	433,410	250,763

Included in investments in securities and managed portfolios is an amount of KD 3,667 thousand (2002: KD 4,099 thousand) which represents the group's investment in 3,353 thousand (2002: 5,594 thousand) of its own shares on behalf of depositors, equivalent to 0.47% of the total issued share capital at 31 December 2003 (2002: 0.82%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares continue to be classified under investments in securities and managed portfolios.

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

	Interest in equity %	Country of registration	Principal activities
Al-Nakheeel 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
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
Aref Investment Group K.S.C. (Closed)	52	Kuwait	Islamic investments

Notes to the Consolidated Financial Statements
At 31 December 2003

7 Investments (continued)

Associated companies:

	Interest in equity %	Country of registration	Principal activities
Al Salaam Hospital Company K.S.C. (Closed)	38	Kuwait	Health care
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
A'ayan Leasing & Investment Company K.S.C. (Closed)	20	Kuwait	Leasing and Islamic investments
National Bank of Sharjah PJSC	20	United Arab Emirates	Islamic banking services

8 Investment Properties

	2003 KD 000's	2002 KD 000's
At 1 January	**104,684**	96,338
Additions	**4,500**	16,181
Disposals, at net book value	**(6,757)**	(6,053)
Depreciation charged for the year	**(2,068)**	(1,825)
Impairment losses released	**493**	43
At 31 December	**100,852**	104,684

	2003 KD 000's	2002 KD 000's
Cost	**127,537**	129,794
Accumulated Depreciation	**(18,456)**	(16,388)
Impairment	**(8,229)**	(8,722)
	100,852	104,684

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 118,686 thousand (2002: KD 116,890 thousand).

9 Property and Equipment

Included in property and equipment are the head office building and all branches of 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.

Notes to the Consolidated Financial Statements
At 31 December 2003

10 Due to Banks and Financial Institutions

	2003 KD 000's	2002 KD 000's
Balances due to banks and financial institutions - current accounts	1,041	1,189
Balances due to banks and financial institutions - exchange of deposits (Note 4)	62,635	11,451
	63,676	12,640

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.

11 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 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 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.

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"), 80% of investment deposits for a limited period, 70% investment deposits for an unlimited period ("Al-Sedra"), 70% of short term investment deposits and 60% of investment savings accounts. 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:

	2003 % per annum	2002 % per annum
Investment deposits for an unlimited period ("Mustamera")	4.400	4.500
Investment deposits for a limited period ("Muhaddadah")	-	4.000
Investment deposits for an unlimited period ("Al-Sedra")	3.422	3.500
Short-term investment deposits ("Thulatheeyah")	1.063	1.730
Investment savings accounts ("Tawfeer")	2.933	3.000

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

Notes to the Consolidated Financial Statements
At 31 December 2003

12 Fair Value Reserve

The adoption of International Accounting Standard 39: Financial Instruments: Recognition and Measurement during 2001 resulted in a credit adjustment 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:

	2003 KD 000's	2002 KD 000's
Balance at 1 January	**5,771**	2,923
Change in fair value during the year	**13,188**	3,028
Impairment loss recognised during the year	**389**	-
Loss (gain) realised during the year	**428**	(180)
Balance at 31 December	**19,776**	5,771

13 Share Capital

The Extraordinary General Assembly of the shareholders of the parent company held on 3 February 2003, approved an increase in the authorised and paid-up share capital by the issuance of 34,137 thousand (2002: 32,512 thousand) bonus shares of 100 fils each. The bonus shares were issued by a transfer from the profits for the year ended 31 December 2002. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2003 comprises 716,886 thousand (2002: 682,749 thousand) shares of 100 fils each.

14 Proposed Cash Dividend and Issue of Bonus Shares

The board of directors of the parent company have proposed cash dividend of 50% for the year ended 31 December 2003 (2002: 47%) and an issue of bonus shares of 6% (2002: 5%) 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 dividend is shown as a separate component of equity.

15 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 12,011 thousand equivalent to approximately 20% (2002: KD 13,478 thousand equivalent to approximately 24%), 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.

Notes to the Consolidated Financial Statements
At 31 December 2003

16 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.

17 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:

	2003 KD 000's	2002 KD 000's
Acceptances and letters of credit	**41,420**	29,021
Guarantees	**122,308**	112,212
	163,728	141,233
Capital commitments	**98,836**	102,968

18 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.

19 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:

	2003 KD 000's equivalent	2002 KD 000's equivalent
U.S. Dollars	**106,380**	97,893
Sterling Pounds	**(7,843)**	(10,686)
Japanese Yen	**36**	(253)
Euros	**722**	111
Gulf Cooperation Council currencies	**(12,465)**	(12,610)
Others	**1,243**	1,039

Notes to the Consolidated Financial Statements

At 31 December 2003

20 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.

31 December 2003	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Assets					
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	7,394	1,447,484
Leased assets	-	68,932	219,058	-	287,990
Investments	-	433,410	-	-	433,410
Trading properties	-	141,210	-	-	141,210
Investment properties	-	100,852	-	-	100,852
Other assets	-	11,404	68,403	12,394	92,201
Property and equipment	349	171	31,487	7,379	39,386
	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

Notes to the Consolidated Financial Statements
At 31 December 2003

20 Segmental Analysis (continued)

31 December 2002	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	147,882	-	-	-	147,882
Short-term international murabaha	444,172	14,744	-	-	458,916
Receivables	220,946	7,261	1,048,488	8,666	1,285,361
Leased assets	-	69,406	38,256	-	107,662
Investments	-	250,763	-	-	250,763
Trading properties	-	112,098	-	-	112,098
Investment properties	-	104,684	-	-	104,684
Other assets	-	5,318	50,641	6,205	62,164
Property and equipment	393	188	15,416	8,850	24,847
	813,393	564,462	1,152,801	23,721	2,554,377
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	12, 640	-	-	-	12,640
Depositors' accounts	130	67,578	1,682,325	226,828	1,976,861
Other liabilities	40	3,759	60,110	38,663	102,572
Deferred revenue	7,490	-	168,234	-	175,724
Fair value reserve	-	5,771	-	-	5,771
Minority interest	-	-	-	18,840	18,840
Equity	-	-	-	261,969	261,969
	20,300	77,108	1,910,669	546,300	2,554,377
Year ended 31 December 2002					
Operating income	23,839	23,311	93,875	5,499	146,524
Profit from operations before distribution to depositors	18,338	19,176	72,706	2,682	112,902

Notes to the Consolidated Financial Statements
At 31 December 2003

20 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	
	2003 KD 000's	2002 KD 000's	**2003 KD 000's**	2002 KD 000's	**2003 KD 000's**	2002 KD 000's
Geographical areas:						
Kuwait and the rest of the Middle East	**2,572,753**	2,102,549	**3,022,198**	2,548,357	**114,610**	102, 167
North America	**128,641**	92,070	**282**	757	**1,637**	2,419
Western Europe	**311,186**	333,574	**18,527**	4,498	**8,186**	7,257
Other	**28,530**	26,184	**103**	765	**39,295**	29,390
	3,041,110	2,554,377	**3,041,110**	2,554,377	**163,728**	141,233

	Local		International		Total	
	2003 KD 000's	2002 KD 000's	**2003 KD 000's**	2002 KD 000's	**2003 KD 000's**	2002 KD 000's
Operating income	**139,499**	120,422	**23,858**	26,102	**163,357**	146,524
Profit from operations before distribution to depositors	**101,980**	92,452	**17,887**	20,450	**119,867**	112,902

21 Concentrations

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.

The distribution of assets by industry sector was as follows:

	2003 Assets KD 000's	2002 Assets KD 000's
Trading and manufacturing	**191,294**	187,272
Banks and financial institutions	**1,186,788**	1,070,727
Construction and real estate	**987,083**	742,784
Other	**675,945**	553,594
	3,041,110	2,554,377

22 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.

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23 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 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	**2003 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	186,933	300,453	171,377	788,721	**1,447,484**
Leased assets	4,500	30,222	147,735	105,533	**287,990**
Investments	-	-	-	433,410	**433,410**
Trading properties	-	-	141,210	-	**141,210**
Investment properties	-	-	-	100,852	**100,852**
Other assets	56,407	-	26,923	8,871	**92,201**
Property and equipment	-	-	-	39,386	**39,386**
	746,417	**330,675**	**487,245**	**1,476,773**	**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	855,293	191,524	272,222	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**
	1,035,815	**234,380**	**357,867**	**1,413,048**	**3,041,110**

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23 Liquidity Risk (continued)

The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2002 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	2002 Total KD 000's
Assets					
Cash and balances with banks and financial institutions	121,258	26,624	-	-	147,882
Short-term international murabaha	458,916	-	-	-	458,916
Receivables	172,430	282,114	187,179	643,638	1,285,361
Leased assets	4,490	4,325	33,475	65,372	107,662
Investments	-	-	-	250,763	250,763
Trading properties	-	-	112,098	-	112,098
Investment properties	-	-	-	104,684	104,684
Other assets	36,378	-	19,932	5,854	62,164
Property and equipment	-	-	-	24,847	24,847
	793,472	313,063	352,684	1,095,158	2,554,377
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	12,640	-	-	-	12,640
Depositors' accounts	924,994	261,879	161,525	628,463	1,976,861
Other liabilities	67,041	5,794	29,737	-	102,572
Deferred revenue	26,894	21,172	30,708	96,950	175,724
Fair value reserve	-	-	-	5,771	5,771
Minority interest	-	-	-	18,840	18,840
Equity	-	-	-	261,969	261,969
	1,031,569	288,845	221,970	1,011,993	2,554,377

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24 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.

25 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.

26 Fiduciary Assets
The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2003 amounted to KD 243,951 thousand (2002: KD 324,278 thousand).

27 Comparative Amounts
Murabaha, istisna'a and leasing income and investment income have been restated in order to conform with the current year presentation. Such restatement does not affect the prior year reported net profit or shareholders' equity.