

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

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

31 MARCH 2005

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

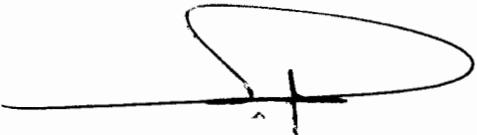
We have reviewed the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. (the bank) and Subsidiaries (the group) at 31 March 2005, and the related consolidated statements of income, changes in equity and cash flows for the three month period then ended. These interim condensed consolidated financial statements are the responsibility of the bank's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.


Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with the basis of presentation set out in Note 2.

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

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



WALEED A. AL OSAIMI
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ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS



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10 April 2005

Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

31 March 2005

	<i>Note</i>	<i>3 months ended 31 March 2005 KD 000's</i>	<i>3 months ended 31 March 2004 KD 000's</i>
INCOME			
Murabaha, Istisna'a and leasing income		41,546	32,357
Investment income		26,609	12,329
Fee and commission income		6,498	3,938
Net gain from dealing in foreign currencies		649	145
Other operating income		1,859	886
		<u>77,161</u>	<u>49,655</u>
EXPENSES			
General and administrative expenses		17,282	6,973
Depreciation		4,312	1,852
Provision for impairment		4,975	1,427
		<u>26,569</u>	<u>10,252</u>
PROFIT BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS			
Estimated distribution to depositors	3	50,592 (24,687)	39,403 (21,260)
PROFIT FOR THE PERIOD			
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		25,905 (251)	18,143 (173)
Provision for National Labour Support tax		(366)	(317)
NET PROFIT FOR THE PERIOD	3	<u>25,288</u>	<u>17,653</u>
Attributable to:			
Equity holders of the bank		24,505	16,851
Minority interest		783	802
		<u>25,288</u>	<u>17,653</u>
BASIC EARNINGS PER SHARE	4	<u>29 fils</u>	<u>20 fils</u>

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET (UNAUDITED)

31 March 2005

		(Audited)	
	31 March 2005	31 December 2004	31 March 2004
	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and balances with banks and financial institutions	114,261	146,161	156,737
Short-term international murabaha	379,156	380,646	317,030
Receivables	1,565,870	1,484,971	1,549,613
Leased assets	545,160	505,550	335,927
Investments	551,672	565,038	463,758
Trading properties	97,180	127,835	137,113
Investment properties	133,958	105,921	103,405
Other assets	79,172	69,736	68,699
Property and equipment	73,374	72,208	64,374
TOTAL ASSETS	3,539,803	3,458,066	3,196,656
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	121,367	121,821	58,014
Depositors' accounts	2,684,152	2,563,185	2,460,783
Other liabilities	175,311	204,807	183,046
TOTAL LIABILITIES	2,980,830	2,889,813	2,701,843
DEFERRED REVENUE	198,371	189,002	181,302
FAIR VALUE RESERVE	34,687	31,680	32,611
FOREIGN EXCHANGE TRANSLATION RESERVE	(1,878)	-	-
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
Share capital	85,955	78,141	75,990
Proposed issue of bonus shares	-	7,814	-
Reserves	196,486	200,913	168,667
Net profit for the period attributable to equity holders of the bank	24,505	-	16,851
Proposed cash dividend	-	39,070	-
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	306,946	286,868	261,508
Minority interest	20,847	21,633	19,392
TOTAL EQUITY	327,793	347,571	280,900
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY	3,539,803	3,458,066	3,196,656

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

JASSAR DAKHEEL AL-JASSAR
(GENERAL MANAGER)

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

Kuwait Finance House K.S.C. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

31 March 2005

	<i>Atributable to equity holders of the bank</i>										<i>Minority interest KD 000's</i>	<i>Total equity KD 000's</i>	
	<i>Reserves</i>												
	<i>Share Capital KD 000's</i>	<i>Proposed issue of bonus shares KD 000's</i>	<i>Share premium KD 000's</i>	<i>Statutory reserve KD 000's</i>	<i>Voluntary reserve KD 000's</i>	<i>Treasury shares KD 000's</i>	<i>Sub total KD 000's</i>	<i>Net profit for the period KD 000's</i>	<i>Sub total KD 000's</i>	<i>Proposed cash dividends KD 000's</i>			<i>Sub total KD 000's</i>
At 1 January 2004	71,689	4,301	7,826	137,251	28,542	(867)	172,752	-	248,742	35,844	284,586	20,637	305,223
Movements during the period:													
Issue of bonus shares	4,301	(4,301)	-	-	(4,010)	-	(4,010)	-	(4,010)	-	(4,010)	-	(4,010)
Zakat	-	-	-	-	-	-	-	-	-	(35,844)	(35,844)	-	(35,844)
Cash dividends paid	-	-	-	-	-	(75)	(75)	-	(75)	-	(75)	-	(75)
Net movement in treasury shares	-	-	-	-	-	-	-	16,851	16,851	-	16,851	802	(2,047)
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	17,653
Net profit for the period	-	-	-	-	-	-	-	16,851	16,851	-	16,851	-	280,900
At 31 March 2004	75,990	-	7,826	137,251	24,532	(942)	168,667	16,851	261,508	-	261,508	19,392	280,900
At 1 January 2005	78,141	7,814	12,618	157,119	32,192	(1,016)	200,913	-	286,868	39,070	325,938	21,633	347,571
Movements during the period:													
Issue of bonus shares (Note 7)	7,814	(7,814)	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	15	-	-	-	15	-	15	-	15	-	15
Zakat	-	-	-	-	(4,371)	-	(4,371)	-	(4,371)	-	(4,371)	-	(4,371)
Cash dividends paid	-	-	-	-	-	-	-	-	-	(39,070)	(39,070)	-	(39,070)
Net movement in treasury shares	-	-	-	-	-	(71)	(71)	-	(71)	-	(71)	-	(71)
Net change in minority interest	-	-	-	-	-	-	-	24,505	24,505	-	24,505	783	(1,569)
Net profit for the period	-	-	-	-	-	-	-	24,505	24,505	-	24,505	-	25,288
At 31 March 2005	85,955	-	12,633	157,119	27,821	(1,087)	196,486	24,505	306,946	-	306,946	20,847	327,793

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

31 March 2005

	<i>Note</i>	<i>3 months ended 31 March 2005 KD 000's</i>	<i>3 months ended 31 March 2004 KD 000's</i>
OPERATING ACTIVITIES			
Net profit for the period		25,288	17,653
Adjustment for:			
Depreciation		4,312	1,852
Provision for impairment		4,975	1,427
		<u>34,575</u>	<u>20,932</u>
Changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Exchange of deposits		(26,822)	(62,626)
Receivables		(14,449)	(91,995)
Leased assets		(42,628)	(47,396)
Trading properties		30,655	4,107
Other assets		(9,436)	349
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		(454)	(5,664)
Depositors' accounts		120,967	160,622
Other liabilities		(30,282)	11,137
Deferred revenue		9,369	(1,108)
Net cash from (used in) operating activities		<u>71,495</u>	<u>(11,642)</u>
INVESTING ACTIVITIES			
Sale (purchase) of investments		14,536	(17,501)
Purchase of investment properties		(29,232)	(3,064)
Purchase of property and equipment		(4,972)	(13,124)
Net cash used in investing activities		<u>(19,668)</u>	<u>(33,689)</u>
FINANCING ACTIVITIES			
Cash received on cancellation of shares options		15	-
Cash dividends paid		(39,070)	(35,844)
Payment of Zakat		(4,371)	(4,010)
Net movement in treasury shares		(71)	(75)
Net cash used in financing activities		<u>(43,497)</u>	<u>(39,929)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		8,330	(85,260)
Cash and cash equivalents at the beginning of the period		<u>339,315</u>	<u>238,426</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8	<u><u>347,645</u></u>	<u><u>153,166</u></u>

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

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

1 ACTIVITIES

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. (the bank) and Subsidiaries (the group) for the period ended 31 March 2005 were authorised for issue in accordance with a resolution of the board of directors on 10 April 2005.

The group comprises Kuwait Finance House K.S.C. (the bank) and its subsidiaries. The bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practising usury. Trading activities are conducted on the basis of purchasing various goods and selling them on Murabaha at negotiated profit margins which can be settled in cash or on instalment credit basis. The bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

2 BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the group have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2004.

The impairment provision for loans and advances complies in all material respects with the specific provision requirements of the Central Bank of Kuwait. In this respect, the Central Bank of Kuwait requires a general provision of 2% on all finance facilities not subject to specific provision.

The adoption of the other revised accounting standards that formed part of the International Accounting Standards Board's improvements project and are applicable from 1 January 2005, has had no impact on the interim condensed consolidated financial statements during the period ended 31 March 2005.

The adoption of IAS 1 revised "Presentation of Financial Statements" during the period has resulted in amendments to the presentation of minority interest. Minority interest is now presented within equity.

As at 31 March 2005, the bank consolidated three previously unconsolidated subsidiaries – Al Nakheel United Real Estate Company K.S.C. (Closed), Kuwait Finance House B.S.C. and Kuwait Finance House (Malaysia). On consolidation, the accumulated retained earnings of the subsidiaries as of 1 January 2005 amounting to KD 6,065 thousand along with results of the three month period ended 31 March 2005 amounting to KD 15 thousand have been included in the consolidated income statement. Previously, these unconsolidated subsidiaries were carried at cost.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2005.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

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

Management of the bank is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the estimated distribution to depositors and the net profit for the three month period attributable to equity holders should not be relied upon to indicate distribution of profit to all parties concerned for the three month period ended 31 March 2005, or for the year ending 31 December 2005.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the bank in accordance with the bank's articles of association, based on the annual audited results for the year ending 31 December 2005.

4 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the three month period attributable to equity holders of the bank of KD 24,505 thousand (31 March 2004: KD 16,851 thousand) and the weighted average number of ordinary shares outstanding during the three month period of 858,595 thousand (31 March 2004: KD 858,627 thousand) after adjusting for treasury shares held by the group.

The basic earnings per share of the comparative period has been restated on account of the bonus shares issued during the three month period ended 31 March 2005.

5 FAIR VALUE RESERVE

Changes in fair value of available for sale investments are reported in the fair value reserve. Management of the bank 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:

	<i>31 March 2005 KD 000's</i>	<i>(Audited) 31 December 2004 KD 000's</i>	<i>31 March 2004 KD 000's</i>
Balance at beginning of the period	31,680	19,776	19,776
Change in fair value during the period	7,998	15,314	12,835
Gain realised during the period	(4,991)	(3,410)	-
	<hr/>	<hr/>	<hr/>
Balance at end of the period	<u>34,687</u>	<u>31,680</u>	<u>32,611</u>

6 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries. On consolidation, assets and liabilities of foreign entities are translated into Kuwaiti dinars at the period end rates of exchange and the results of these entities are translated into Kuwaiti dinars at the average rates of exchange for the period. All foreign exchange translation adjustments are taken to the foreign currency translation reserve until disposal at which time they are recognised in the consolidated income statement.

Management of the bank 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.

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

7 SHARE CAPITAL

The ordinary and extraordinary general assembly meeting of the shareholders of the bank held on 14 March 2005 approved an increase in the authorised share capital from KD 78,141 thousand to KD 85,955 thousand by way of an issuance of 10% bonus shares amounting to KD 7,814 thousand and 234,421,665 shares with a nominal value of 100 fils per share amounting to KD 23,442 thousand plus premium of 750 fils per share amounting to KD 175,816 thousand. As at 31 March 2005, the bonus shares have been issued whereas the remaining 234,421,665 shares have yet to be issued.

8 CASH AND CASH EQUIVALENTS

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

	<i>31 March 2005 KD 000's</i>	<i>(Audited) 31 December 2004 KD 000's</i>	<i>31 March 2004 KD 000's</i>
Cash and balances with banks and financial institutions	114,261	146,161	156,737
Short-term international murabaha – maturing within 3 months of contract date	260,206	193,154	59,055
Exchange of deposits – maturing after 3 months of contract date	(26,822)	-	(62,626)
	<u>347,645</u>	<u>339,315</u>	<u>153,166</u>

9 CONTINGENCIES AND COMMITMENTS

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

	<i>31 March 2005 KD 000's</i>	<i>(Audited) 31 December 2004 KD 000's</i>	<i>31 March 2004 KD 000's</i>
Acceptances and letters of credit	34,706	36,846	37,565
Guarantees	165,101	160,842	118,767
	<u>199,807</u>	<u>197,688</u>	<u>156,332</u>
Capital commitments	<u>283,527</u>	<u>244,460</u>	<u>94,433</u>

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

10 CURRENCY RISK

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

	31 March 2005	<i>(Audited)</i> 31 December 2004	31 March 2004
	KD 000's equivalent	KD 000's equivalent	KD 000's equivalent
U.S. Dollars	71,368	83,994	25,769
Sterling Pounds	564	1,197	930
Japanese Yen	119	645	51
Euros	(9,805)	1,346	730
Gulf Co-operation Council currencies	1,219	(10,557)	(11,508)
Others	1,034	1,530	1,096

11 RELATED PARTY TRANSACTIONS

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

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

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

11 RELATED PARTY TRANSACTIONS (continued)

	The number of Board Members or Executive Officers		The number of related parties				Total (Audited)
	31 March 2005	31 December 2004	31 March 2005	31 December 2004	31 March 2004	31 December 2004	
Board Members							
Finance facilities	6	6	1	2	1	111	85
Credit cards	3	4	8	6	5	9	6
Deposits	6	8	48	48	47	1,634	1,520
Executive officers							
Finance facilities	15	19	5	6	-	869	1,904
Credit cards	10	11	9	9	8	8	12
Deposits	15	19	64	61	63	1,315	1,225
Collateral against finance facilities	7	7	-	-	-	1,645	1,645

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

12 SEGMENTAL ANALYSIS

Primary segment information

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

31 March 2005

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	9,523	19,251	46,026	2,361	77,161
Net profit for the period	3,024	6,897	14,617	750	25,288
Total assets	500,193	884,718	2,089,910	64,982	3,539,803
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	148,451	143,650	2,769,965	477,737	3,539,803

31 March 2004

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	5,122	12,953	29,746	1,834	49,655
Net profit for the period	1,621	5,779	9,563	690	17,653
Total assets	756,508	794,852	1,598,200	47,096	3,196,656
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	67,173	121,873	2,373,752	633,858	3,196,656

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2005

12 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The group operates in different geographical areas as designated below:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>31 March 2005</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>31 March 2004</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Operating income	<u>52,375</u>	<u>41,642</u>	<u>24,786</u>	<u>8,013</u>	<u>77,161</u>	<u>49,655</u>
Net profit for the period	<u>17,394</u>	<u>14,796</u>	<u>7,894</u>	<u>2,857</u>	<u>25,288</u>	<u>17,653</u>
Total assets	<u>2,822,084</u>	<u>2,748,404</u>	<u>717,719</u>	<u>448,252</u>	<u>3,539,803</u>	<u>3,196,656</u>
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	<u>3,516,579</u>	<u>3,174,728</u>	<u>23,224</u>	<u>21,928</u>	<u>3,539,803</u>	<u>3,196,656</u>

13 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the bank at 31 March 2005 amounted to KD 156,666 thousand (31 December 2004: KD 155,266 thousand and 31 March 2004: KD 218,962 thousand).