

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

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

31 MARCH 2001

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


We have reviewed the accompanying interim condensed consolidated balance sheet of Kuwait Finance House K.S.C. and its Subsidiary at 31 March 2001, and the related statements of income, cash flows and changes in equity for the three month period then ended. These interim condensed financial statements are the responsibility of the parent company's management. Our responsibility is to issue a report on these interim condensed financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of parent company 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 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, in our opinion the condensed consolidated financial statements are in agreement with the books of the group. 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 parent company have occurred that might have had a material effect on the business of the parent company or on its financial position.

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



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14 April 2001

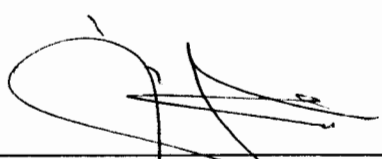
Kuwait

Kuwait Finance House K.S.C. and Subsidiary

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

31 March 2001

		<i>31 March</i> <i>2001</i> <i>(unaudited)</i> <i>KD 000's</i>	<i>31 December</i> <i>2000</i> <i>(Audited)</i> <i>KD 000's</i>	<i>31 March</i> <i>2000</i> <i>(unaudited)</i> <i>KD 000's</i>
ASSETS				
Cash and balances with banks and other financial institutions	4	123,159	133,295	40,507
Short-term international murabaha	4	367,176	357,330	178,148
Receivables		1,132,278	1,070,519	1,142,244
Leased assets		76,652	80,064	79,740
Government debt bonds	5	18,558	19,087	60,337
Investments		304,896	303,455	270,526
Property and equipment		27,463	27,448	22,229
Other assets		39,062	34,414	35,233
TOTAL ASSETS		2,089,244	2,025,612	1,828,964
LIABILITIES, MINORITY INTEREST AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		11,270	7,615	21,184
Depositors' accounts		1,604,857	1,547,065	1,386,658
Other liabilities		88,237	71,940	64,710
TOTAL LIABILITIES		1,704,364	1,626,620	1,472,552
DEFERRED REVENUE		166,280	165,507	163,074
MINORITY INTEREST		15,489	16,255	15,310
EQUITY				
Share capital	6	65,024	61,343	60,207
Proposed issue of bonus shares		-	3,681	-
Proposed cash dividends		-	25,764	-
Reserves		138,087	126,442	117,821
TOTAL EQUITY		203,111	217,230	178,028
TOTAL LIABILITIES, DEFERRED REVENUE, MINORITY INTEREST AND EQUITY		2,089,244	2,025,612	1,828,964


 BADER ABDULMOHSEN AL-MUKHAIZEEM
 (CHAIRMAN AND MANAGING DIRECTOR)

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

Kuwait Finance House K.S.C. and Subsidiary

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Period ended 31 March 2001

	<i>Note</i>	<i>3 months ended 31 March 2001 KD 000's</i>	<i>3 months ended 31 March 2000 KD 000's</i>
OPERATING INCOME			
Murabaha, Istisna 'a and leasing		28,913	26,204
Subvention on government debt bonds	5	132	753
Investment income		6,223	9,055
Fees and commissions		1,450	1,108
Net gain from dealing in foreign currencies		226	436
Miscellaneous		511	396
		<u>37,455</u>	<u>37,952</u>
OPERATING EXPENSES			
General and administration		3,939	3,907
Depreciation		1,548	1,112
Provisions		1,594	3,699
		<u>7,081</u>	<u>8,718</u>
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST			
Minority interest		(214)	(297)
		<u>30,374</u>	<u>29,234</u>
PROFIT FROM OPERATIONS BEFORE DISTRIBUTION TO DEPOSITORS			
Estimated distribution to depositors	7	(17,427)	(17,169)
		<u>12,733</u>	<u>11,768</u>
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(185)	(171)
		<u>12,548</u>	<u>11,597</u>
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS			
		<u>12,548</u>	<u>11,597</u>
BASIC EARNINGS PER SHARE			
		<u>19 fils</u>	<u>18 fils</u>

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

Kuwait Finance House K.S.C. and Subsidiary

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Period ended 31 March 2001

	<i>Note</i>	<i>3 months ended 31 March 2001 KD 000's</i>	<i>3 months ended 31 March 2000 KD 000's</i>
OPERATING ACTIVITIES			
Net profit for the period		12,548	11,597
Adjustment for:			
Minority interest		214	297
Depreciation		1,548	1,112
		<u>14,310</u>	<u>13,006</u>
Operating profit before changes in operating assets and liabilities:		14,310	13,006
Increase in receivables		(61,759)	(132,651)
Decrease (increase) in leased assets		3,412	(4,140)
(Increase) decrease in trading properties		(2,296)	4,088
(Increase) decrease in other assets		(4,648)	7,045
Increase in due to banks and other financial institutions		3,655	15,495
Increase in depositors' accounts		57,792	51,715
Increase (decrease) in other liabilities		16,297	(714)
Increase in deferred revenue		773	6,856
		<u>27,536</u>	<u>(39,300)</u>
Net cash from (used in) operating activities		27,536	(39,300)
INVESTING ACTIVITIES			
Redemption of government debt bonds		529	342
Sale of non-trading investments		2,350	6,072
Purchase of property and equipment		(1,475)	(1,734)
Proceeds from sale of property and equipment		270	1,012
		<u>1,674</u>	<u>5,692</u>
Net cash from investing activities		1,674	5,692
FINANCING ACTIVITIES			
Dividends paid		(25,764)	(22,720)
Payment of Zakat		(2,756)	(2,344)
Minority interest		(980)	-
		<u>(29,500)</u>	<u>(25,064)</u>
Net cash used in financing activities		(29,500)	(25,064)
NET DECREASE IN CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS			
		(290)	(58,672)
Cash and balances with banks and other financial institutions at beginning of the period		490,625	277,327
		<u>490,625</u>	<u>277,327</u>
CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS AT END OF THE PERIOD	4	<u>490,335</u>	<u>218,655</u>

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

Kuwait Finance House K.S.C. and Subsidiary

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

31 March 2001

	Reserves							Total shareholders' funds KD 000's	
	Share capital KD 000's	Proposed Issue of bonus shares KD 000's	Proposed cash dividends KD 000's	Statutory KD 000's	Share premium KD 000's	Cumulative changes in fair values KD 000's	Voluntary KD 000's		Treasury shares KD 000's
At 1 January 2000	56,799	3,408	22,720	84,929	5,641	-	18,715	(690)	191,522
Dividends	3,408	(3,408)	(22,720)	-	-	-	-	-	(22,720)
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	-	-	11,597	-	11,597
Net movement in treasury shares	-	-	-	-	-	-	-	(27)	(27)
Zakat	-	-	-	-	-	-	(2,344)	-	(2,344)
At 31 March 2000	60,207	-	-	84,929	5,641	-	27,968	(717)	178,028
At 1 January 2001	61,343	3,681	25,764	98,265	7,708	-	21,210	(741)	217,230
Restatement in accordance with IAS 39	-	-	-	-	-	1,716	-	-	1,716
Dividends	3,681	(3,681)	(25,764)	-	-	-	-	-	(25,764)
Net movement in cumulative changes in fair value	-	-	-	-	-	(257)	-	-	(257)
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	-	-	12,548	-	12,548
Net movement in treasury shares	-	-	-	-	-	-	-	394	394
Zakat	-	-	-	-	-	-	(2,756)	-	(2,756)
At 31 March 2001	65,024	-	-	98,265	7,708	1,459	31,002	(347)	203,111

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2001

1 ACTIVITIES

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. and subsidiary (the group) for the period ended 31 March 2001 were authorised for issue in accordance with a resolution of the board of directors on 14 April 2001.

Kuwait Finance House K.S.C. (the parent company) is a public shareholding company incorporated in Kuwait and is engaged in providing banking services and related services including the purchase and sale of properties, leasing, project construction and other trading activities without practising usury.

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

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

The company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

2 BASIS OF PRESENTATION

These 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 2000, with the exception of accounting policies which have been revised due to the implementation of IAS 39 "Financial Instruments: Recognition and Measurement and IAS 40 "Investment Property" " as from 1 January 2001.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2001.

3 ACCOUNTING POLICIES

Revisions to accounting policies subsequent to the implementation of IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" as from 1 January 2001 are as follows:

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 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.

Investments

i) Investment properties

Investment properties are classified as "rental properties" and "other property investments".

Rental properties:

Rental properties are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties other than freehold land which is deemed to have an indefinite life. The carrying amounts are reviewed at each balance sheet date on an individual basis by reference to their fair value to assess whether they are recorded in excess of their recoverable amount. Provisions for impairment losses, if any, are made where carrying values exceed the recoverable amount.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2001

3 ACCOUNTING POLICIES (continued)*Other property investments:*

Other property investments comprising participations in real estate funds, portfolios, projects and certain buildings are held for capital appreciation. These investments are remeasured and carried at fair value on an individual basis. No adjustment was required on remeasuring to fair value on 1 January 2001. Unrealised fair value gains and losses, if any, on other property investments subsequent to 1 January 2001 are recognised in the statement of income.

ii) Trading properties

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

iii) Investments in securities and managed portfolios

Previously, the group carried all quoted investments at the lower of cost or market value and all unquoted investments at cost, less provision for any decline in value which is other than temporary. Subsequent to the implementation of IAS 39, the group reclassified such investments as "available for sale" and remeasured these to fair value. The gain or loss on remeasuring to fair value on 1 January 2001 was taken to equity as part of the reserves under the heading "cumulative changes in fair values reserve". Unrealised fair value gains and losses, if any, on available for sale investments subsequent to 1 January 2001 are reported in the cumulative changes in fair values reserve until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in other income.

Effect of the changes in accounting policies

In accordance with the transitional provisions of the new accounting standard, the group has accounted for the changes arising from the implementation of IAS 39 and IAS 40 with effect from 1 January 2001.

4 CASH AND CASH EQUIVALENTS

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

	<i>31 March 2001 KD 000's</i>	<i>31 December 2000 KD 000's</i>	<i>31 March 2000 KD 000's</i>
Cash and balances with banks and other financial institutions	123,159	133,295	40,507
Short-term International Murabaha	367,176	357,330	178,148
	<u>490,335</u>	<u>490,625</u>	<u>218,655</u>

5 GOVERNMENT DEBT BONDS

The subvention on government debt bonds is payable semi annually in arrears and has been accrued at a rate of 5.620% (2000: 5.05%) per annum for the period ended 31 March 2001.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2001

6 SHARE CAPITAL

The extraordinary general assembly meeting of the parent company held on 19 February 2001 approved an increase in the authorised share capital from KD 61,343 to KD 65,024 by way of an issue of 6% bonus shares amounting to 36,810,000 shares.

7 ESTIMATED DISTRIBUTION TO DEPOSITORS AND NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS

Management of the parent company is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the net profit for the period attributable to shareholders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 31 March 2001, or for the year ending 31 December 2001.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the parent company in accordance with the company's articles of association, based on the annual audited results for the year ending 31 December 2001.

For the purpose of these interim condensed consolidated financial statements, the net profit for the period ended 31 March 2001 attributable to shareholders has been credited to the voluntary reserve.

8 CUMULATIVE CHANGES IN FAIR VALUES

	<i>KD 000's</i>
Balance at 31 December 2000	-
Difference on restatement to fair value at 1 January 2001	1,716
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Net unrealised losses	(257)
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Balance at 31 March 2001	1,459
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9 CONTINGENCIES AND COMMITMENTS

- a) 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 2001 KD 000's</i>	<i>31 December 2000 KD 000's</i>	<i>31 March 2000 KD 000's</i>
Acceptances and letters of credit	30,307	32,660	24,151
Guarantees	88,581	86,592	83,010
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	118,888	119,252	107,161
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Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2001

9 CONTINGENCIES AND COMMITMENTS (continued)

- b) At the balance sheet date there were capital commitments amounting to KD 18,692 thousand (2000: KD 4,323,765 thousand) in respect of certain investments.

10 NET OPEN FOREIGN CURRENCY POSITION

	<i>31 March 2001 KD 000's equivalent</i>	<i>31 December 2000 KD 000's equivalent</i>	<i>31 March 2000 KD 000's equivalent</i>
Net assets (liabilities) in major foreign currencies:			
U.S. Dollars	25,561	40,680	50,417
Sterling Pounds	(8,748)	(5,430)	(4,692)
Japanese Yen	(594)	870	34
Euro	1,093	1,020	420
Others	100	1,492	1,045
	<u>17,412</u>	<u>38,632</u>	<u>47,224</u>

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 credit customers of the parent company, in the ordinary course of business. Transactions with related parties are approved by the Ordinary General Assembly of the shareholders of the parent company. The period end balances of related parties included in the balance sheet are considered insignificant.

12 GEOGRAPHICAL SEGMENTS

Primary segment information

For management purposes the company is organised into four major business segments:

	<i>Treasury 31 March 2001 KD 000's</i>	<i>Investment 31 March 2001 KD 000's</i>	<i>Retail and corporate banking 31 March 2001 KD 000's</i>	<i>Other groups 31 March 2001 KD 000's</i>	<i>Total 31 March 2001 KD 000's</i>
Revenue	8,632	6,694	21,194	935	37,455
Net profit	362	5,316	6,860	10	12,548
Total assets	698,360	391,583	967,117	32,184	2,089,244
Total liabilities, deferred revenue, minority interest and equity	20,064	55,301	1,569,870	444,009	2,089,244

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

31 March 2001

12 GEOGRAPHICAL SEGMENTS continued

Primary segment information (continued)

	<i>Treasury</i>	<i>Investment</i>	<i>Retail and corporate banking</i>	<i>Other groups</i>	<i>Total</i>
	<i>31 March 2000</i>	<i>31 March 2000</i>	<i>31 March 2000</i>	<i>31 March 2000</i>	<i>31 March 2000</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>
Revenue	6,676	10,405	20,277	594	37,952
Net profit	180	7,610	3,506	301	11,597
Total assets	476,799	407,749	915,207	29,209	1,828,964
Total liabilities, deferred revenue, minority interest and equity	33,079	47,983	1,362,524	385,378	1,828,964

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 2001</i>	<i>31 March 2000</i>	<i>31 March 2001</i>	<i>31 March 2000</i>	<i>31 March 2001</i>	<i>31 March 2000</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>
Revenue	24,658	31,676	12,797	6,276	37,455	37,952
Net profit	8,167	9,631	4,381	1,966	12,548	11,597
Total assets	1,586,072	1,428,248	503,172	400,716	2,089,244	1,828,964
Total liabilities, deferred revenue, minority interest and equity	2,086,693	1,823,145	2,551	5,819	2,089,244	1,828,964

13 COMPARATIVE FIGURES

For the period ended 31 March 2000 short-term international murabaha and deferred revenue are separately disclosed on the balance sheet to conform to the current period and 31 December 2000 presentation.