

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

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

31 MARCH 2007

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**REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO
THE BOARD OF DIRECTORS OF KUWAIT FINANCE HOUSE K.S.C.**

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Kuwait Finance House K.S.C. (the bank) and Subsidiaries (the group) as at 31 March 2007 and the related consolidated statements of income, changes in equity and cash flows for the three-month period then ended and explanatory notes. The directors of the bank are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, 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.



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Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Period ended 31 March 2007

	Note	3 months ended 31 March 2007 KD 000's	3 months ended 31 March 2006 KD 000's
INCOME			
Murabaha, Istisna'a and leasing income		93,828	80,418
Investment income	3	74,758	42,482
Fee and commission income		12,570	10,255
Net gain (loss) from dealing in foreign currencies		1,482	(1,172)
Other income		3,239	2,651
		<u>185,877</u>	<u>134,634</u>
EXPENSES			
Staff costs		20,065	13,747
General and administrative expenses		8,946	9,785
Murabaha and ijara costs		15,721	7,003
Depreciation		7,284	10,790
Provision for impairment		11,828	4,470
		<u>63,844</u>	<u>45,795</u>
PROFIT BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS			
Estimated distribution to depositors	4	(61,560)	(42,363)
PROFIT AFTER ESTIMATED DISTRIBUTION TO DEPOSITORS			
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(531)	(381)
Provision for National Labour Support tax		(1,163)	(628)
PROFIT FOR THE PERIOD			
		<u>58,779</u>	<u>45,467</u>
Attributable to:			
Equity holders of the bank	4	51,374	37,140
Minority interest		7,405	8,327
		<u>58,779</u>	<u>45,467</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
	5	<u>36 fils</u>	<u>26 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)

At 31 March 2007

	(Unaudited) 31 March 2007 KD 000's	(Audited) 31 December 2006 KD 000's	(Unaudited) 31 March 2006 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	211,049	231,996	192,975
Short-term international murabaha	825,374	1,050,599	694,104
Receivables	3,461,493	2,778,166	2,223,375
Leased assets	650,855	647,939	576,972
Available for sale investments	612,029	583,351	509,732
Investment in associates	250,141	210,538	157,949
Trading properties	135,490	90,463	89,742
Investment properties	210,519	207,423	180,876
Other assets	99,496	128,327	80,164
Property and equipment	380,803	384,989	245,563
TOTAL ASSETS	6,837,249	6,313,791	4,951,452
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	1,023,238	1,080,004	369,449
Depositors' accounts	4,259,089	3,729,930	3,398,489
Other liabilities	343,721	289,325	206,624
TOTAL LIABILITIES	5,626,048	5,099,259	3,974,562
DEFERRED REVENUE	316,910	299,263	246,160
FAIR VALUE RESERVE	6 61,590	66,654	51,864
FOREIGN EXCHANGE TRANSLATION RESERVE	7 10,673	8,683	10,601
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
Share capital	8 140,904	122,525	122,525
Share premium	188,994	188,788	188,465
Proposed issue of bonus shares	-	18,379	-
Reserves	297,154	302,958	224,341
Net profit for the period attributable to equity holders of the bank	51,374	-	37,140
	678,426	632,650	572,471
Proposed cash dividend	-	69,839	-
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	678,426	702,489	572,471
Minority interest	143,602	137,443	95,794
TOTAL EQUITY	822,028	839,932	668,265
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY	6,837,249	6,313,791	4,951,452

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMED SULAIMAN AL-OMAR
(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)

Period ended 31 March 2007

	Attributable to equity holders of the bank										Minority interest KD 000's	Total equity KD 000's		
	Reserves													
	Share capital KD 000's	Share premium KD 000's	Proposed issue of bonus shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Employee share options			Treasury shares KD 000's	Sub total KD 000's			Profit for the period KD 000's	Proposed cash dividends KD 000's
At 31 December 2005	109,397	188,465	13,128	169,386	60,944	-	-	229,052	(1,278)	540,042	60,168	600,210	80,420	680,630
Movements during the period														
Issue of bonus shares	13,128	-	(13,128)	-	-	-	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	(5,091)	-	-	(5,091)	-	(5,091)	-	(5,091)	-	(5,091)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	(60,168)	(60,168)	-	(60,168)
Net movement in treasury shares	-	-	-	-	-	-	-	380	380	380	-	380	-	380
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	7,047	7,047
Profit for the period	-	-	-	-	-	-	-	-	-	37,140	-	37,140	8,327	45,467
At 31 March 2006	122,525	188,465	-	169,386	55,853	-	-	224,341	(898)	572,471	-	572,471	95,794	668,265
At 31 December 2006	122,525	188,788	18,379	186,115	112,910	4,237	302,958	(304)	632,650	702,489	69,839	702,489	137,443	839,932
Movements during the period														
Issue of bonus shares (Note 8)	18,379	-	(18,379)	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	206	-	-	-	-	-	-	-	206	-	206	-	206
Zakat	-	-	-	-	(5,804)	-	(5,804)	-	-	(5,804)	-	(5,804)	-	(5,804)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	(69,839)	(69,839)	-	(69,839)
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(1,246)	(1,246)
Profit for the period	-	-	-	-	-	-	-	-	(304)	51,374	-	51,374	7,405	58,779
At 31 March 2007	140,904	188,994	-	186,115	107,106	4,237	297,154	(304)	678,426	678,426	-	678,426	143,602	822,028

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)

Period ended 31 March 2007

	<i>Note</i>	<i>3 months ended 31 March 2007 KD 000's</i>	<i>3 months ended 31 March 2006 KD 000's</i>
OPERATING ACTIVITIES			
Profit for the period		58,779	45,467
Adjustment for:			
Depreciation		7,284	10,790
Provision for impairment		11,828	4,470
Dividend income		(3,987)	(3,763)
Gain on sale of investments		(27,648)	(2,458)
Share of the accumulated retained earnings of the newly consolidated subsidiary as of 1 January 2006		-	(5,090)
Share of results of associates		(11,027)	(18,664)
		<u>35,229</u>	<u>30,752</u>
Changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Exchange of deposits		-	4,727
Receivables		(564,726)	(112,122)
Leased assets		(4,360)	25,017
Trading properties		(45,027)	3,267
Other assets		28,955	(11,999)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		(56,766)	87,832
Depositors' accounts		529,159	209,145
Other liabilities		53,334	(7,647)
Deferred revenue		17,648	10,921
Net cash (used in) from operating activities		<u>(6,554)</u>	<u>239,893</u>
INVESTING ACTIVITIES			
Net (purchase) sale of available for sale investments		(17,968)	41,153
Net (purchase) sale of investment properties		(3,667)	3,046
Purchase of property and equipment		(2,515)	(148,101)
(Net purchase) sale of investment in associates		(24,109)	4,563
Dividend income received		3,987	3,763
Net cash used in investing activities		<u>(44,272)</u>	<u>(95,576)</u>
FINANCING ACTIVITIES			
Issue of shares			
Cash dividends paid		(69,839)	(60,168)
Cash received on cancellation of share options		206	-
Payment of zakat		(5,804)	(5,091)
Net movement in treasury shares		-	380
Net cash used in financing activities		<u>(75,437)</u>	<u>(64,879)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(126,263)	79,438
Cash and cash equivalents at 1 January		<u>883,141</u>	<u>701,582</u>
CASH AND CASH EQUIVALENTS AT 31 MARCH	9	<u>756,878</u>	<u>781,020</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)

At 31 March 2007

1 ACTIVITIES

The interim condensed consolidated financial statements of the group for the period ended 31 March 2007 were authorised for issue in accordance with a resolution of the bank's board of directors on 9 April 2007.

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

Basis of presentation

The interim condensed consolidated financial statements of the group have been prepared in accordance with IAS 34, Interim Financial Reporting except as noted below.

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 2006.

The annual consolidated financial statements for the year ended 31 December 2006 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described below.

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the Central Bank of Kuwait and IFRS. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2007.

3 INVESTMENT INCOME

During the period ended 31 March 2007, the bank disposed of its entire investment in one of its real estate funds and recorded a gain of KD 27,570 thousand after retaining KD 16,288 thousand for taxation and other expenses pending finalisation of tax liability with the concerned tax authorities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2007

4 ESTIMATED DISTRIBUTION TO DEPOSITORS AND 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 profit for the period attributable to equity holders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 31 March 2007, or for the year ending 31 December 2007.

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 2007.

5 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

Basic and diluted earnings per share are based on the profit for the period attributable to equity holders of the bank of KD 51,374 thousand (31 March 2006: KD 37,140 thousand) and the weighted average number of ordinary shares outstanding during the period of 1,408,532 thousand (31 March 2006: 1,408,174 thousand) after adjusting for treasury shares held by the group.

The basic and diluted earnings per share of the comparative periods have been restated for bonus shares issued during 2007.

6 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 this reserve is attributable to both the depositors and equity holders. As a result, 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 in the fair value reserve is analysed as follows:

	<i>(Unaudited)</i> 31 March 2007 KD 000's	<i>(Audited)</i> 31 December 2006 KD 000's	<i>(Unaudited)</i> 31 March 2006 KD 000's
Balance at the beginning of the period/year	66,654	62,092	62,092
Change in fair values during the period/year	(4,688)	9,486	(10,228)
Loss (gain) realised during the period/year	363	(7,697)	-
Share of changes in associates' fair value reserves	(739)	2,773	-
Balance at the end of the period/year	<u>61,590</u>	<u>66,654</u>	<u>51,864</u>

7 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates.

Management of the bank is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2007

8 SHARE CAPITAL

The ordinary and extraordinary general assembly meeting of the shareholders of the bank held on 19 February 2007 approved an increase in the authorised share capital from KD122,525 thousand to KD 140,904 thousand by way of issuance of 15% bonus shares amounting to KD 18,379 thousand and by issuance of 306,313 thousand shares with a nominal value of 100 fils per share amounting to KD 30,631 thousand plus premium of 900 fils per share amounting to KD 275,681 thousand. As at 31 March 2007, the bonus shares have been issued, and the rights issue have not been subscribed.

9 CASH AND CASH EQUIVALENTS

	<i>(Unaudited)</i> 31 March 2007 KD 000's	<i>(Audited)</i> 31 December 2006 KD 000's	<i>(Unaudited)</i> 31 March 2006 KD 000's
Cash	44,616	45,901	37,974
Balances with Central Banks	112,772	141,942	65,548
Balances with banks and financial institutions – current accounts	53,661	42,880	85,657
Balances with banks and financial institutions – exchange of deposits	-	1,273	3,796
Cash and balances with banks and financial institutions	<u>211,049</u>	<u>231,996</u>	<u>192,975</u>
Short-term international murabaha – maturing within 3 months of contract date	174,579	428,390	588,045
Tawarruq balances with Central Bank of Kuwait (included with short-term international murabaha)	<u>371,250</u>	<u>222,755</u>	-
Cash and cash equivalents	<u><u>756,878</u></u>	<u><u>883,141</u></u>	<u><u>781,020</u></u>

10 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>(Unaudited)</i> 31 March 2007 KD 000's	<i>(Audited)</i> 31 December 2006 KD 000's	<i>(Unaudited)</i> 31 March 2006 KD 000's
Acceptances and letters of credit	173,709	147,975	40,870
Guarantees	458,842	414,056	208,362
	<u>632,551</u>	<u>562,031</u>	<u>249,232</u>
Capital commitments	<u><u>790,335</u></u>	<u><u>667,406</u></u>	<u><u>80,439</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2007

11 RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the group, their families, associated companies and companies of which they are the principal owners) were depositors and finance 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 equity holders of the bank. The balances included in the interim condensed consolidated financial statements are as follows:

	<i>Major shareholders KD 000's</i>	<i>Associates KD 000's</i>	<i>Board Members and Executive Officers KD 000's</i>	<i>Other related parties KD 000's</i>	<i>TOTAL 3 month ended 31 March</i>	
					<i>2007 KD 000's</i>	<i>2006 KD 000's</i>
Related parties						
Receivables	284	30,010	2,819	12,949	46,062	20,802
Due to banks and financial institutions	-	-	-	16,817	16,817	31,271
Depositors accounts	4,811	38,282	7,789	14,470	65,352	21,650
Commitments and contingencies	1,648	2,084	-	-	3,732	2,997

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 31 March 2007

12 SEGMENTAL ANALYSIS

Primary segment information

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

31 March 2007 (Unaudited)			Retail and corporate banking	Other segments	Total
	Treasury KD 000's	Investment KD 000's	KD 000's	KD 000's	KD 000's
Income	17,744	76,979	84,165	6,989	185,877
Profit before estimated distribution to depositors	13,596	50,129	56,411	1,897	122,033
Total assets	917,949	2,187,364	3,458,784	273,152	6,837,249
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	1,050,447	250,407	4,767,036	769,359	6,837,249

31 March 2006 (Unaudited)			Retail and corporate banking	Other segments	Total
	Treasury KD 000's	Investment KD 000's	KD 000's	KD 000's	KD 000's
Income	12,290	60,004	56,498	5,842	134,634
Profit before estimated distribution to depositors	8,110	39,594	37,280	3,855	88,839
Total assets	527,789	1,426,454	2,906,668	90,541	4,951,452
Total liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity	369,449	168,014	3,841,516	572,473	4,951,452

Secondary segment information

	Local		International		Total	
	31 March 2007 KD 000's	31 March 2006 KD 000's	31 March 2007 KD 000's	31 March 2006 KD 000's	31 March 2007 KD 000's	31 March 2006 KD 000's
Income	96,995	106,412	88,882	28,222	185,877	134,634
Profit before estimated distribution to depositors	76,452	70,217	45,581	18,622	122,033	88,839

13 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the bank at 31 March 2007 amounted to KD 614,939 thousand (31 December 2006: KD 467,356 thousand and 31 March 2006: KD 316,421 thousand).