

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

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

30 JUNE 2014



Building a better
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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF KUWAIT FINANCE HOUSE K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group") as at 30 June 2014 and the related interim condensed consolidated statements of income and comprehensive income for the three month and six month periods then ended and the related interim condensed consolidated statements of changes in equity and cash flows for the six month period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 25 of 2012 as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the six month ended 30 June 2014 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, to the best of our knowledge and belief, we have not become aware of any 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 six month period ended 30 June 2014 that might have had a material effect on the business of the Bank or on its financial position.

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AL AIBAN, AL OSAIMI & PARTNERS

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Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Period ended 30 June 2014

	Notes	<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Six months ended</i>	
		<i>30 June 2014</i>	<i>30 June 2013</i>	<i>30 June 2014</i>	<i>30 June 2013</i>
CONTINUED OPERATIONS					
REVENUES					
Financing income		141,006	142,574	287,327	287,048
Finance cost and estimated distribution to depositors	3	61,653	57,723	124,753	116,520
Net finance income		79,353	84,851	162,574	170,528
Investment income		29,156	50,647	64,489	78,442
Fee and commission income		19,079	20,155	36,865	41,680
Share of result of associates and joint ventures		1,804	10,634	1,954	17,087
Net gain from foreign currencies		3,447	5,778	8,337	15,004
Other income		23,473	6,146	43,363	19,702
Total operating income		156,312	178,211	317,582	342,443
EXPENSES					
Staff costs		46,707	39,847	90,646	76,797
General and administrative expenses		31,201	31,850	66,872	59,659
Depreciation and amortization		18,098	17,870	36,598	34,200
Total expenses		96,006	89,567	194,116	170,656
Net operating income		60,306	88,644	123,466	171,787
Provisions		23,252	60,495	46,981	105,388
Profit for the period from continued operations before tax and zakat		37,054	28,149	76,485	66,399
Profit for the period from discontinued operations before tax and zakat		168	-	256	-
Profit before tax and zakat		37,222	28,149	76,741	66,399
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		296	276	567	508
National Labour Support Tax (NLST)		560	333	1,127	615
Zakat (based on Zakat Law No. 46/2006)		213	127	417	221
Reversal of directors' fees	9	-	-	-	(385)
Profit for the period		36,153	27,413	74,630	65,440
Attributable to:					
Equity holders of the Bank		28,512	26,821	54,568	49,822
Non-controlling interests		7,641	592	20,062	15,618
		36,153	27,413	74,630	65,440
Basic and diluted earnings per share attributable to the equity holders of the bank	4	6.69 fils	6.89 fils	12.81 fils	12.99 fils

The attached notes 1 to 14 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)

Period ended 30 June 2014

		<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Six months ended</i>	
<i>Notes</i>		<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
		<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Profit for the period		36,153	27,413	74,630	65,440
Other comprehensive income (loss)					
<i>Other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods:</i>					
Change in fair value of financial assets available for sale during the period	5	376	(10,415)	8,534	(9,814)
Change in fair value of currency swaps, profit rate swaps, and forward foreign exchange contracts for the period	5	18	(126)	42	(113)
Realised loss on financial assets available for sale during the period	5	1,592	490	1,693	1,575
Impairment losses transferred to the interim condensed consolidated statement of income	5	4,102	-	9,129	-
Share of other comprehensive income (loss) of associates and joint ventures	5	702	(1,019)	1,000	200
Exchange differences on translation of foreign operations	6	24,127	(7,224)	(13,343)	(617)
Other comprehensive income (loss) for the period		30,917	(18,294)	7,055	(8,769)
Total comprehensive income		67,070	9,119	81,685	56,671

The attached notes 1 to 14 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2014

		<i>KD 000's</i>		
			<i>(Audited)</i>	
	<i>Notes</i>	<i>30 June 2014</i>	<i>31 December 2013</i>	<i>30 June 2013</i>
ASSETS				
Cash and balances with banks and financial institutions	7	1,347,909	1,070,486	1,053,559
Short-term murabaha		3,293,546	2,431,742	2,044,562
Receivables		6,076,867	5,648,570	5,933,005
Trading properties		175,477	288,928	277,350
Leased assets		1,951,831	1,938,479	1,835,909
Financial assets available for sale		1,188,437	1,215,823	1,407,592
Investment in associates and joint ventures		606,900	617,594	505,828
Investment properties		515,928	524,342	592,857
Other assets		550,656	490,732	753,852
Intangible assets		56,441	57,098	-
Property and equipment		810,628	812,593	710,509
Leasehold rights		121,457	125,320	-
Assets classified as held for sale		35,753	66,353	9,068
TOTAL ASSETS		16,731,830	15,288,060	15,124,091
LIABILITIES, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY				
LIABILITIES				
Due to banks and financial institutions		3,311,768	2,468,526	2,126,431
Depositors' accounts		10,726,959	10,103,986	10,314,783
Other liabilities		719,372	748,740	760,337
		14,758,099	13,321,252	13,201,551
Liabilities directly associated with assets classified as held for sale		3,348	13,587	-
TOTAL LIABILITIES		14,761,447	13,334,839	13,201,551
FAIR VALUE RESERVE	5	6,837	(13,561)	(17,346)
FOREIGN EXCHANGE TRANSLATION RESERVE	6	(111,782)	(98,439)	(54,090)
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK				
Share capital	8	433,185	383,350	383,350
Share premium		720,333	720,333	720,333
Proposed issue of bonus shares	8	-	49,835	-
Treasury shares		(51,944)	(56,118)	(48,784)
Reserves		576,817	582,497	569,214
Profit for the period attributable to equity holders of the Bank		54,568	-	49,822
		1,732,959	1,679,897	1,673,935
Proposed cash dividend	8	-	48,968	-
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		1,732,959	1,728,865	1,673,935
Non-controlling interests		342,369	336,356	320,041
TOTAL EQUITY		2,075,328	2,065,221	1,993,976
TOTAL LIABILITIES, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY		16,731,830	15,288,060	15,124,091

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MOHAMMAD NASER AL-FOUZAN
(ACTING CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 14 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 30 June 2014

KD 000's

	Attributable to equityholders of the Bank										Non-controlling interests	Total equity			
	Reserves														
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Employees' share options reserve	Treasury shares reserve	Sub total	Profit for the period			Sub total	Proposed cash dividend	Sub total
At 31 December 2012 (Audited)	290,416	464,767	29,042	(54,028)	271,578	286,973	4,246	6,675	569,472	-	1,299,669	28,429	1,328,098	311,318	1,639,416
Movements during the period:															
Issue of bonus shares (Note 8)	29,042	-	(29,042)	-	-	-	-	-	-	-	-	-	-	-	-
Issue of shares for cash	63,892	255,566	-	-	-	-	-	-	-	-	319,458	-	319,458	-	319,458
Cash dividends paid (Note 8)	-	-	-	-	-	-	-	-	-	-	(28,429)	(28,429)	(28,429)	-	(28,429)
Net movement in treasury shares	-	-	-	5,244	-	-	-	(258)	(258)	-	4,986	-	4,986	-	4,986
Cash dividend paid to non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,849)	(1,849)
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	49,822	49,822	-	49,822	(5,046)	(5,046)
Profit for the period	-	-	-	-	-	-	-	-	-	49,822	49,822	-	49,822	15,618	65,440
At 30 June 2013	383,350	720,333	-	(48,784)	271,578	286,973	4,246	6,417	569,214	49,822	1,673,935	-	1,673,935	320,041	1,993,976
At 31 December 2013 (Audited)	383,350	720,333	49,835	(56,118)	283,584	287,942	4,246	6,725	582,497	-	1,679,897	48,968	1,728,865	336,356	2,065,221
Movements during the period:															
Zakat Paid	-	-	-	-	-	(6,020)	-	-	(6,020)	-	(6,020)	-	(6,020)	-	(6,020)
Issue of bonus shares (Note 8)	49,835	-	(49,835)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid (Note 8)	-	-	-	-	-	-	-	-	-	-	(48,968)	(48,968)	(48,968)	-	(48,968)
Sale of treasury shares	-	-	-	4,174	-	-	-	-	-	-	4,174	-	4,174	-	4,174
Profit from sale of treasury shares	-	-	-	-	-	-	-	340	340	-	340	-	340	-	340
Cash dividend paid to non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,671)	(2,671)
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	54,568	54,568	-	54,568	(11,378)	(11,378)
Profit for the period	-	-	-	-	-	-	-	-	-	54,568	54,568	-	54,568	20,062	74,630
At 30 June 2014	433,185	720,333	-	(51,944)	283,584	281,922	4,246	7,065	576,817	54,568	1,732,959	-	1,732,959	342,369	2,075,328

The attached notes 1 to 14 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

Period ended 30 June 2014

	Note	<i>KD 000's</i>	
		<i>Six months ended</i>	
		<i>30 June 2014</i>	<i>30 June 2013</i>
OPERATING ACTIVITIES			
Profit for the period		74,630	65,440
Adjustment to reconcile profit to net cash flows:			
Depreciation and amortization		36,598	34,200
Provisions		46,981	105,388
Gain on sale of financial assets available for sale		(7,522)	(9,235)
Dividend income		(4,401)	(7,529)
Sukook income		(15,640)	(12,951)
Gain on cancellation of aircraft contract		-	(7,119)
Share of results of associates and joint ventures		(1,954)	(17,087)
Gain on sale of investment properties		(18,383)	(3,027)
Other investment income		(2,740)	(15,807)
Finance cost		37,400	32,349
		<u>144,969</u>	<u>164,622</u>
Changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Receivables		(634,486)	(228,182)
Leased assets		(17,500)	(194,363)
Trading properties		113,451	(21,425)
Other assets		(43,387)	245,497
Leasehold rights		3,863	-
Intangible assets		657	-
Statutory deposit with Central Banks		(74,599)	(89,777)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		843,242	(128,419)
Depositors' accounts		622,973	922,107
Other liabilities		(55,335)	14,269
Finance cost paid		(37,400)	(32,349)
Net cash flows from operating activities		<u>866,448</u>	<u>651,980</u>
INVESTING ACTIVITIES			
Purchase of financial assets available for sale, net		(5,300)	(19,580)
Purchase of investment properties		(33,470)	(56,881)
Proceeds from sale of investment properties		73,972	18,775
Purchase of property and equipment		(50,830)	(32,262)
Proceeds from sale of property and equipment		19,662	25,316
Purchase of investment in associates and joint ventures		(46,863)	(48,602)
Proceeds of sale of associates and joint ventures		49,157	-
Dividend income received		7,439	7,529
Sukook income received		15,640	12,951
Cash proceeds from cancellation of aircraft contracts		-	7,119
Net cash flows from (used in) investing activities		<u>29,407</u>	<u>(85,635)</u>
FINANCING ACTIVITIES			
Issue of share capital		-	319,458
Cash dividends paid		(48,968)	(28,429)
Cash dividends paid to non-controlling interests of a subsidiary		(2,671)	(1,849)
Sale of treasury shares		4,514	4,986
Net cash flows (used in) generated from financing activities		<u>(47,125)</u>	<u>294,166</u>
INCREASE IN CASH AND CASH EQUIVALENTS		848,730	860,511
Cash and cash equivalents at 1 January		1,959,000	992,362
CASH AND CASH EQUIVALENTS AT 30 JUNE	7	<u><u>2,807,730</u></u>	<u><u>1,852,873</u></u>

The attached notes 1 to 14 form part of the interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2014

1 INCORPORATION AND REGISTRATION

The interim condensed consolidated financial information of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group") for the six month period ended 30 June 2014 were authorised for issue by the Bank's Board of Directors on 9 July 2014.

The shareholders' annual general assembly held on 23 March 2014 approved the audited consolidated financial statements of the Group for the year ended 31 December 2013.

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 Sharee'a, as approved by the Bank's Fatwa and Sharee'a Supervisory Board.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has 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 information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013. The annual consolidated financial statements for the year ended 31 December 2013 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 made on all applicable credit facilities (net of certain categories of collaterals) that are not provided specifically.

Operating results for the six month period ended 30 June 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

New standards or amendments which are effective as of 1 January 2014

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, as none of the entities in the Group qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)

These amendments are effective for annual periods beginning on or after 1 January 2014 and clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment has not resulted in material impact on the financial position or performance of the Group.

IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Though these amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards or amendments which are effective as of 1 January 2014 (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments have not resulted in material impact on the financial position or performance of the Group.

New and revised IASB Standards, but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's interim condensed consolidated financial information are listed below. The Group intends to adopt those standards when they become effective.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 mandatory effective date of IFRS 9 and transition disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

3 FINANCE COST AND ESTIMATED DISTRIBUTION TO DEPOSITORS AND PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITYHOLDERS OF THE BANK

The 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 Bank's equityholders should not be relied upon to indicate distribution of profit to all parties concerned for the period of six month period ended 30 June 2014 or for the year ending 31 December 2014.

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 2014.

In addition to the above, the total comprehensive income (as per the interim condensed consolidated statement of comprehensive income) is presented for compliance with the requirements of the revised IAS 1 and is not appropriate for the purpose of determining the estimated distribution to depositors or the profit for the period attributable to the Bank's equityholders.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2014

**4 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITYHOLDERS
OF THE BANK**

Basic earnings per share is calculated by dividing the profit for the period attributable to equityholders of the Bank by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group.

Diluted earnings per share is calculated by dividing the profit for the period attributable to equityholders of the Bank by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares.

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Profit for the period attributable to equityholders of the Bank (thousands KD)	<u>28,512</u>	<u>26,821</u>	<u>54,568</u>	<u>49,822</u>
Weighted average number of shares outstanding during the period (thousands shares)	<u>4,262,111</u>	<u>3,893,246</u>	<u>4,260,116</u>	<u>3,836,010</u>
Basic and diluted earnings per share	<u>6.69 fils</u>	<u>6.89 fils</u>	<u>12.81 fils</u>	<u>12.99 fils</u>

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares (See Note 8).

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

5 FAIR VALUE RESERVE

Changes in the fair value of financial assets available for sale, currency swaps, profit rate swaps and forward foreign exchange contracts are reported in the fair value reserve. Other reserves represent change in the ownership interest in subsidiaries without loss of control. The management of the Bank is of the opinion that these reserves are attributable to both the depositors and equityholders. As a result, the reporting of these reserves as a separate item on the interim condensed consolidated financial position enables a fairer presentation than its inclusion under equity attributable to the equityholders of the Bank.

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

	30 June 2014		(Audited) 31 December 2013		30 June 2013
	Financial assets available for sale	Currency swaps, profit rate swaps and forward foreign exchange contracts	Other reserves	Total	Total
Balance at the beginning of the period/year	(6,358)	1,717	(8,920)	(9,194)	(9,194)
Change in fair value of financial assets available for sale during the period/year	8,534	-	-	8,534	(9,814)
Change in fair value of currency swaps, profit rate swaps, and forward foreign exchange contracts during the period/year	-	42	-	42	(113)
Realised loss (gain) on financial assets available for sale during the period/year	1,693	-	-	1,693	1,575
Impairment losses transferred consolidated statement of income	9,129	-	-	9,129	-
Share of other comprehensive income of associates and joint ventures	1,000	-	-	1,000	200
Balance at the end of the period/year	13,998	1,759	(8,920)	6,837	(17,346)

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6 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates. The management of the Bank is of the opinion that this reserve is attributable to both the depositors and equityholders. As a result, the reporting of this reserve as a separate item on the interim condensed consolidated statement of financial position enables a fairer presentation than its inclusion under equity attributable to the equityholders of the Bank.

7 CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>		
	<i>30 June</i>	<i>(Audited)</i>	<i>30 June</i>
	<i>2014</i>	<i>31 December</i>	<i>2013</i>
Cash	214,336	147,087	113,849
Balances with Central Banks	675,331	535,639	445,446
Balances with banks and financial institutions - current accounts	438,242	384,341	389,833
Balances with banks and financial institutions - exchange of deposits	20,000	3,419	104,431
Cash and balances with banks and financial institutions	<u>1,347,909</u>	<u>1,070,486</u>	<u>1,053,559</u>
Short-term murabaha - maturing within 3 months of contract date	1,493,327	732,279	598,020
Tawarruq balances with Central Bank of Kuwait (included within short-term international murabaha)	500,036	615,178	610,169
Less: Statutory deposits with Central Banks	<u>(533,542)</u>	<u>(458,943)</u>	<u>(408,875)</u>
Cash and cash equivalents	<u><u>2,807,730</u></u>	<u><u>1,959,000</u></u>	<u><u>1,852,873</u></u>

8 SHARE CAPITAL, PROPOSED ISSUE OF BONUS SHARES AND CASH DIVIDENDS PAID

Bonus shares of 13% (2012: 10%) on outstanding shares amounting KD 49,835 thousands and cash dividends of 13 fils per share (2012: 10 fils per share) proposed for the year ended 31 December 2013, to the Bank's shareholders on record as of the date of the general assembly, were approved by the Bank's ordinary general assembly of the shareholders held on 23 March 2014.

Accordingly, the authorised, issued, and fully paid share capital as at 30 June 2014 comprise of 4,331,851 thousand (31 December 2013: KD 3,833,496 thousand and 30 June 2013: KD 3,833,496 thousand) shares of 100 fils each.

9 DIRECTORS' FEES

In the ordinary general assembly meeting of the shareholders of the Bank for the year ended 31 December held on 23 March 2014 has approved directors' fees proposed for the year ended 31 December 2013.

In the ordinary general assembly meeting of the shareholders of the Bank for the year ended 31 December 2012 held on 7 April 2013, the shareholders approved Directors' fees of KD 520 thousand (2011: KD 260 thousand) for the year ended 31 December 2012, and the Bank as a result reversed KD 385 thousand in the interim condensed consolidated financial information for the six month period ended 30 June 2013 (Note 11).

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10 CONTINGENCIES AND COMMITMENTS

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

	<i>KD 000's</i>		
	<i>30 June 2014</i>	<i>(Audited) 31 December 2013</i>	<i>30 June 2013</i>
Acceptances and letters of credit	251,713	239,822	242,991
Letter of guarantees	1,406,934	1,403,771	1,374,210
Contingences	<u>1,658,647</u>	<u>1,643,593</u>	<u>1,617,201</u>
Capital commitments	<u>1,839,403</u>	<u>1,747,938</u>	<u>1,846,617</u>

11 RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, 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.

At Annual General Assembly of the Bank held on 23 March 2014, new board of director's was elected. Accordingly, all related parties' balances with chairman and members of the new board of directors as at 30 June 2014 have been disclosed (if any), while any recognized gains resulted from related parties' transactions with predecessor members for the period from 1 January 2014 to 23 March 2014 and with new members for the period from 24 March 2014 to 30 June 2014 have been disclosed.

The balances included in the interim condensed consolidated statement of financial position are as follows:

	<i>KD 000's</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>30 June 2014</i>	<i>(Audited) 31 December 2013</i>	<i>30 June 2013</i>
					<i>Total</i>		
Related parties							
Receivables	-	77,760	12,071	21,134	110,965	173,934	249,168
Due to banks and financial institutions	1,356,906	7,045	-	3,602	1,367,553	1,068,761	895,689
Depositors' accounts	-	12,112	11,025	21,436	44,573	72,084	55,589
Commitments and contingencies	936	7,770	17	32,155	40,878	21,439	16,144
Investment managed by related party	-	-	-	45,482	45,482	45,522	28,706

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11 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties included in the interim condensed consolidated statement of income are as follows:

	<i>Major shareholders</i>	<i>Associates</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>KD 000's</i>	
					<i>30 June 2014</i>	<i>30 June 2013</i>
Financing income	-	1,662	334	1,094	3,090	4,533
Investment income	-	-	-	150	150	-
Fee and commission income	-	33	2	463	498	564
Finance costs	7,622	45	-	328	7,995	4,115

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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11 RELATED PARTY TRANSACTIONS (continued)

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

	The number of Board Members or Executive Officers			The number of related parties			Values		KD 000's
	30 June 2014	31 December 2013	30 June 2013	30 June 2014	31 December 2013	30 June 2013	(Audited) 31 December 2013	30 June 2013	
Board Members									
Finance facilities	29	22	32	3	2	2		8,372	14,892
Credit cards	11	8	12	1	3	3		14	25
Deposits	58	49	62	15	44	45		7,247	6,483
Collateral against finance facilities	11	9	17	-	-	-		17,744	20,814
Executive Officers									
Finance facilities	26	24	23	3	5	3		4,026	3,746
Credit cards	22	10	16	1	1	1		32	45
Deposits	54	48	42	31	41	36		2,799	2,715
Collateral against finance facilities	15	16	13	2	3	2		7,512	5,309

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11 RELATED PARTY TRANSACTIONS (continued)

The transactions included in the interim condensed consolidated statement of income are as follows:

	Bank	Subsidiaries	KD 000's	
			30 June 2014	30 June 2013
Board Members				
Finance income	7	237	244	298
Executive officers				
Finance income	50	40	90	77
	<u>57</u>	<u>277</u>	<u>334</u>	<u>375</u>

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	Bank	Subsidiaries	KD 000's	
			30 June 2014	30 June 2013
Salaries, allowances and bonuses of key management personnel	966	7,632	8,598	6,738
Termination benefits of key management personnel	194	707	901	793
Remuneration of chairman and board members *	-	1,319	1,319	524
Reversal of Chairman and Board Members Remuneration (Note 9)	-	-	-	(385)
	<u>1,160</u>	<u>9,658</u>	<u>10,818</u>	<u>7,670</u>

* Remuneration of chairman and board members includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

12 SEGMENTAL ANALYSIS

Segment information

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

30 June 2014	KD 000's				Total
	Treasury	Investment	Banking	Other	
Total assets	4,935,840	2,576,969	7,855,620	1,363,401	16,731,830
Total liabilities	2,823,850	227,503	10,834,312	875,782	14,761,447
Operating income	46,505	63,489	152,461	55,127	317,582
Profit (loss) before tax and zakat	12,173	20,268	63,083	(18,783)	76,741

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

12 SEGMENTAL ANALYSIS (continued)

Segment information (continued)

					<i>KD 000's</i>
<i>30 June 2013</i>	<i>Treasury</i>	<i>Investment</i>	<i>Banking</i>	<i>Other</i>	<i>Total</i>
Total assets	4,604,543	2,489,717	6,688,342	1,341,489	15,124,091
Total liabilities	1,657,361	238,631	10,522,889	782,670	13,201,551
Operating income	42,994	78,871	178,765	41,813	342,443
Profit (loss) before tax and zakat	5,880	25,674	58,995	(24,150)	66,399

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2014, the Group held the following classes of financial instruments measured at fair value:

				<i>KD 000's</i>
<i>30 June 2014</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Quoted shares	44,120	-	-	44,120
Unquoted shares	-	19,618	44,244	63,862
Managed funds	112,638	-	3,085	115,723
Mutual funds	34,314	7,317	-	41,631
Sukok	579,703	94,490	68,151	742,344
Forward contracts	6,422	-	-	6,422
Profit rate swaps	-	1,378	-	1,378
Currency swaps	1,384	-	-	1,384
Total	778,581	122,803	115,480	1,016,864

				<i>KD 000's</i>
<i>31 December 2013 (Audited)</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Quoted shares	56,066	-	-	56,066
Unquoted shares	-	9,839	54,199	64,038
Managed Funds	102,891	2,063	2,580	107,534
Mutual funds	35,537	4,758	-	40,295
Sukok	462,316	82,850	45,285	590,451
Forward contracts	13,622	-	-	13,622
Profit rate swaps	-	1,295	-	1,295
Currency swaps	713	-	-	713
Total	671,145	100,805	102,064	874,014

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

13 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

30 June 2013

				<i>KD 000's</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Quoted shares	54,680	-	-	54,680
Unquoted shares	-	7,914	96,701	104,615
Managed portfolio	75,059	-	10,007	85,066
Mutual funds	13,469	17,605	-	31,074
Sukok	239,252	99,838	37,593	376,683
Forward contracts	5,240	-	-	5,240
Profit rate swaps	-	1,511	-	1,511
Currency swaps	8,761	-	-	8,761
Total	396,461	126,868	144,301	667,630

The valuation technique or pricing models are used primarily for unquoted equities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data.

Financial assets available for sale classified as level 2 are valued using observable market inputs. For unquoted equity investments, a valuation technique that uses prices and other relevant information generated by the market transactions involving identical similar/assets, liabilities or a group of assets and liabilities is used to determine value. For managed portfolio and mutual funds, fair value is used, where it is determined through the valuation of underlying assets using the latest market transaction. Sukook are valued using the latest market price. Forward contracts, profit rate swaps, and currency swaps are valued by discounting all future expected cash-flows using directly observable and quoted Interest Rate curves and Spot/Forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

Description of significant unobservable inputs to valuation

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments. In case of financial assets available for sale, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value, other than for debt instruments would only impact equity (through OCI) and, would not have an effect on profit or loss.

No transfers have been made between the levels of hierarchy.

14 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank at 30 June 2014 amounted to KD 601,831 thousand (31 December 2013: KD 622,422 thousand and 30 June 2013: KD 629,897 thousand).

Fee and commission income include fees of KD 1,325 thousand (30 June 2013: KD 857 thousand) arising from trust and fiduciary activities.