



KUWAIT FINANCE HOUSE K.S.C.



THE FOURTH ANNUAL REPORT

1981

*In the name of Allah The Beneficent
The Merciful*



KUWAIT FINANCE HOUSE K.S.C.

INCORPORATED IN KUWAIT
ON 3 RABEA AL-AKHER 1397 A. H. CORRESPONDING TO
23rd MARCH 1977 A.D.

**REPORT OF THE BOARD OF DIRECTORS AND
THE BALANCE SHEET
1981**



His Highness
SHEIKH JABER AL-AHMED AL-SABAH
Amir of the State of Kuwait



His Highness
SHEIKH SAAD AL-ABDULLA AL-SABAH
Crown Prince, Prime Minister

THE BOARD OF DIRECTORS:

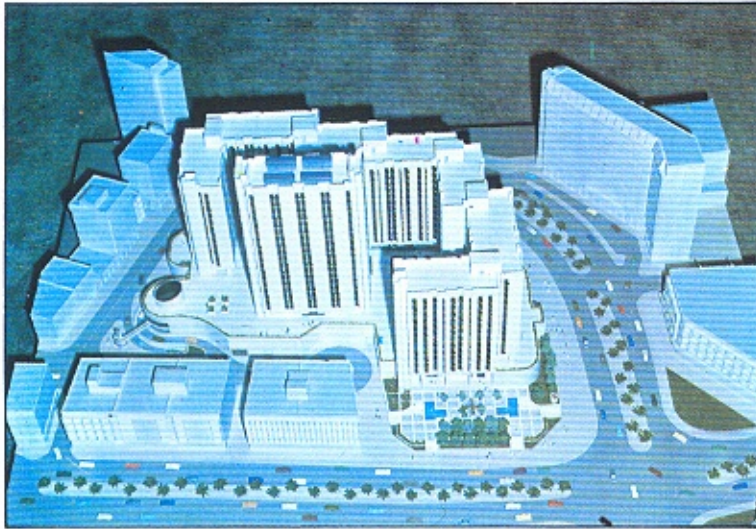
AHMED B. AL-YASSIN
CHAIRMAN

FAISAL A. AL-KHATRASH
VICE-CHAIRMAN

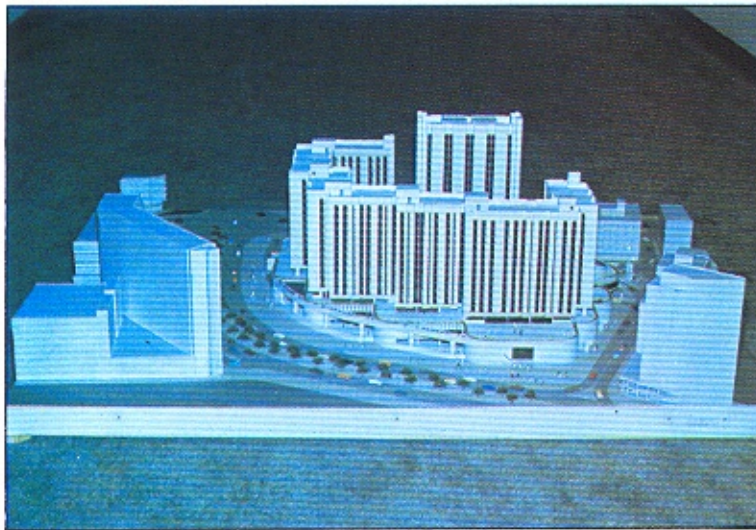
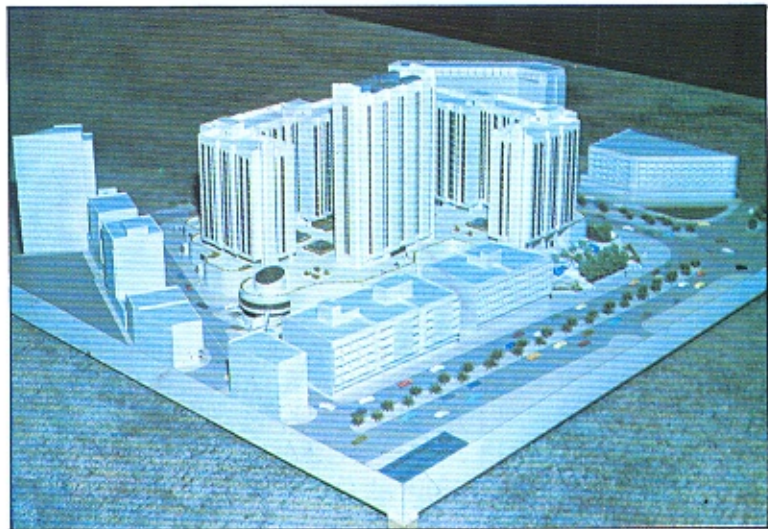
BADER A. AL-MUKHAZIEM
MANAGING DIRECTOR

MEMBERS:

ABDULJALIL A. AL-GHARABALLY
ABDULHAMID A. AL-OBAID
ALI A. AL-FOUZAN
ALI A. AL-MUDAF
MAHAMMED A. AL-KHODAIRY
MOHAMMED Y. AL-ROOMI
HAZA'A J. AL-HUSSAYN



Model of Muthana Building



*In the name of Allah The Beneficent
The Merciful*

*Praise be to Allah, blessings and
peace be upon the master of messengers
our prophet Mohammed, and be upon
his family and his companions*

The Report of the Board of Directors for the year ending on December 31, 1981.

DEAR SHAREHOLDERS,

Peace, mercy and blessings from Allah be upon you.

It is the pleasure of Kuwait Finance House to submit to you its report on the fourth financial year ending on December 31, 1981, thereby ending its fourth year of business with the guidance and help of Allah.

Kuwait Finance house has continued its drive with firm steps and continuous progress is being made toward the achievement of the goals and targets pursued. We give below a brief review of what has been achieved.

First: Banking Services

In this field we have spread the network of branches of Kuwait Finance House to various parts of the country. During this year branches at Farwaniyah, Faylaka and Faieha were opened beside the existing branches at Jahra, Riqqa, Sharq and Fahaheel. Preparations are underway for opening a branch at Salimiyah. Other branches will be opened subsequently. We hope that our services will extend to all parts of Kuwait in the near future with the will of Allah.

In foreign transfers, Kuwait Finance House has extended its banking services to cover the requirements of our clients all over the world at competitive prices for foreign exchange transactions and documentary credits. Our foreign exchange services to customers continues in the evenings beside the usual services provided during office hours at the main banking hall and branches of Kuwait Finance House.

This year, we took the initiative of providing our services to the pilgrims to Mecca by the presence of our representative in the pilgrimage mission. It was a successful step and we hope to provide this service on a wider scale in the coming years.

In order to expand the scope of its external activities, Kuwait Finance House has extended its list of foreign correspondents. Visits have been exchanged and meetings held with these correspondents to augment and strengthen relations which are conducted on Islamic interest-free basis.

Second: Investments

Our domestic commercial activities expanded considerably with various institutions, companies, societies and individuals. Our co-operation with these groups aimed at providing imported necessities to the consumers at reasonable prices. Commercial financing and services to the customers have been provided through documentary credits, Murabaha Sales and participations as is indicated in the balance sheet.

Real Estate Investments:

Kuwait Finance House continued its investments in real estate by means of spot and forward dealings. In its concerted efforts to make plots of land available, residential plots of land are given priority over investment plots and the finance required is provided. Kuwait Finance House keenly pursues an enlightened policy to alleviate the rise in rentals and in the value of residential plots of land.

Construction:

Work is now under way in the re-organisation and development of the construction department. The technical and organisational set-up of its different sections is being augmented to enable the department to efficiently follow-up the large projects owned by Kuwait Finance House such as the Muthana project and the Head Office building. The department also provides services to our clients in the fields of evaluation, execution and supervision of construction projects.

Muthana Project:

This project is composed of two phases. First: The preparatory phase of preparing the site for the construction work. The contract for this stage was awarded and amounted to KD 962,470 and this phase has been completed.

Second: This phase is the main part of construction, completion and maintenance of the building. The contract for this phase which amounted to KD 24.7 million has been awarded and the implementation is expected to take three years.

The Head Office Building:

The contract for the designs of the Head Office building of Kuwait Finance House has been signed. Moreover, the preparatory and preliminary stages have been designed. Revisions and adjustments are being carried out in preparation for the phase of implementation.

External Investments:

In our external activities, foreign trade relations with Islamic countries have developed in co-operation with the Islamic Development Bank at Jeddah. Beside enhancing our banking and investment relations with the existing Islamic institutions, we have participated in the establishment of new banks and companies in different Islamic countries. In participation with Dubai Islamic Bank and Bahrain Islamic Bank, we have established an Islamic investment company based in Bahrain. Studies are now being carried out for the establishment of an Islamic insurance company. Moreover, Kuwait Finance House has agreed to participate in the establishment of the Islamic Bank of Dacca and we hope that the authorities there will agree on the establishment of this bank.

Social Activities:

Kuwait Finance House activities are not confined to banking and investments. The scope of activities extends to cover social fields such as follows:

1. There is a Board of Directors Committee on Zakat. This committee undertakes the responsibilities of distributing Zakat to its beneficiaries. Assistance is provided for Islamic institutions and societies to build schools, mosques and clinics. Assistance is also provided to needy persons from both inside and outside Kuwait.

The committee sponsors a number of students sent abroad to study for higher degrees in various specialisations.

2. Kuwait Finance House provides Islamic loans (Qard Hassan) in certain cases provided that certain conditions are fulfilled.

Cultural Activities:

Kuwait Finance House holds regular cultural symposiums for its staff to enrich their understanding of Islamic concepts and transactions in order to enable them to provide better services to the customers.

Moreover, Kuwait Finance House spares no efforts in spreading the concepts of Islamic transactions. This is done through explanations and elaborations on these concepts in the media by means of lectures, discussions, interviews and issuing of books and booklets on



Banking Hall Sharq Branch

various Islamic financial issues. In this respect, the following books and booklets have so far been issued:

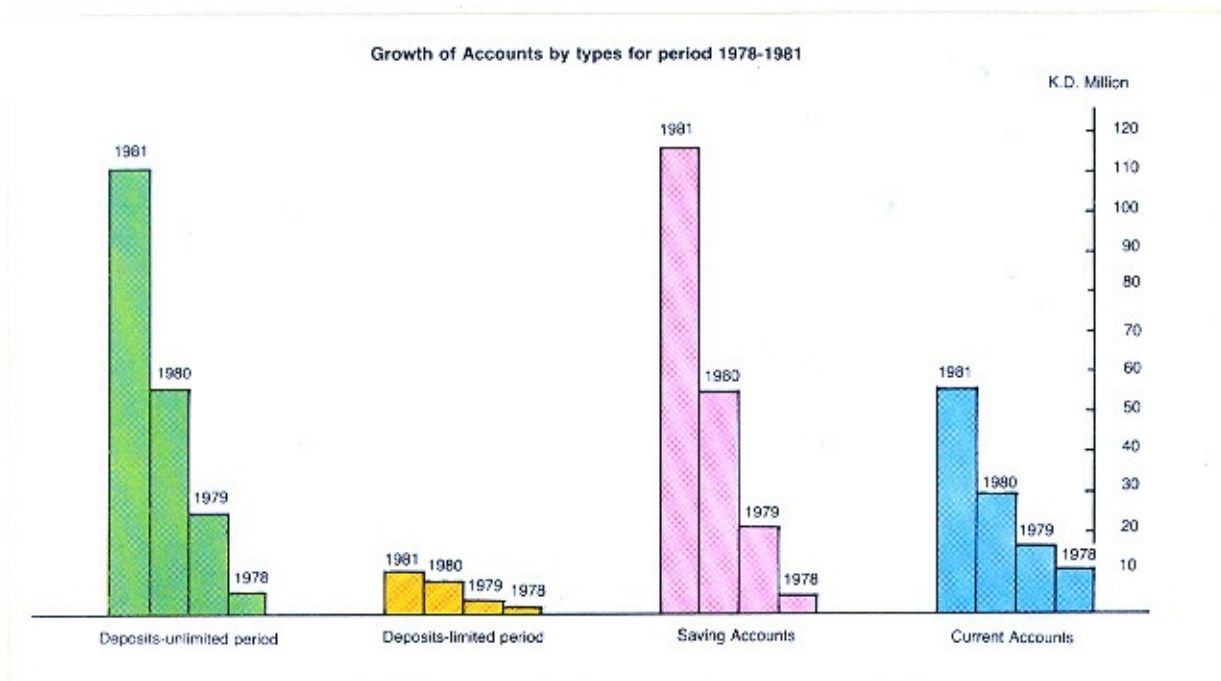
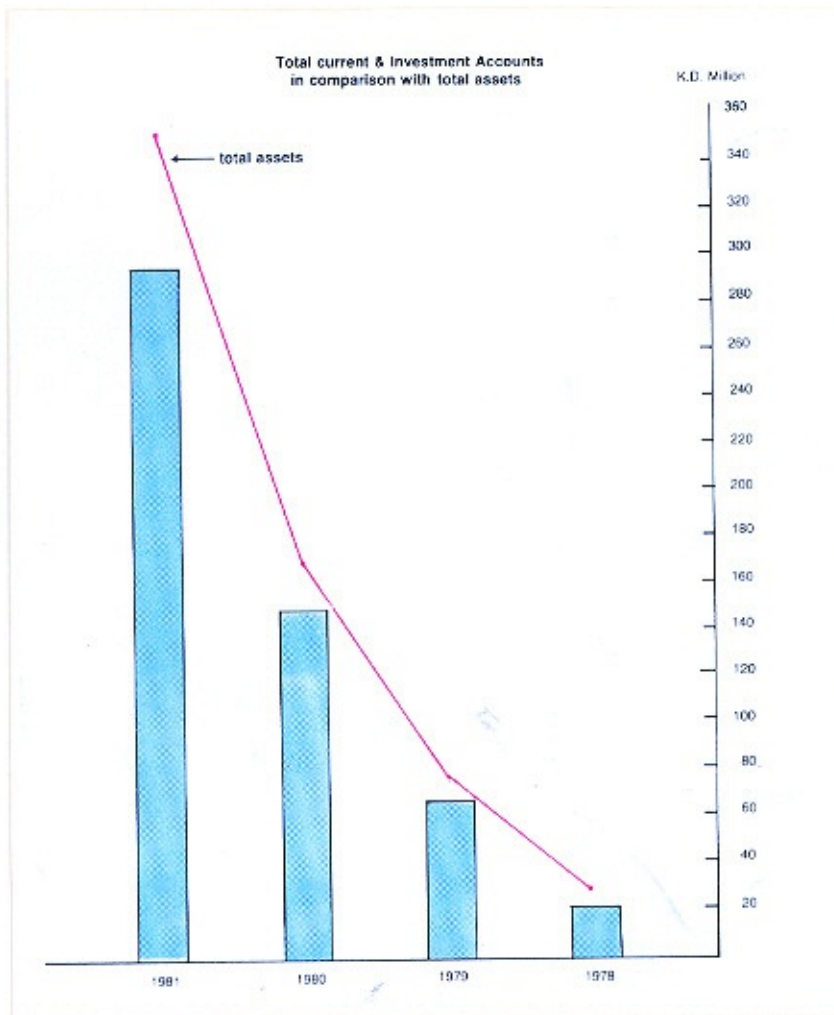
1. Guide Book of Kuwait Finance House.
2. Decisions and Recommendations of the Islamic Bank conference held in Dubai.
3. Fat'awa' on economic issues.
4. Forward Sale according to Shari'aa.
5. 'Zakat' on Cattle (An'am).
6. Fasting (S'eyam).



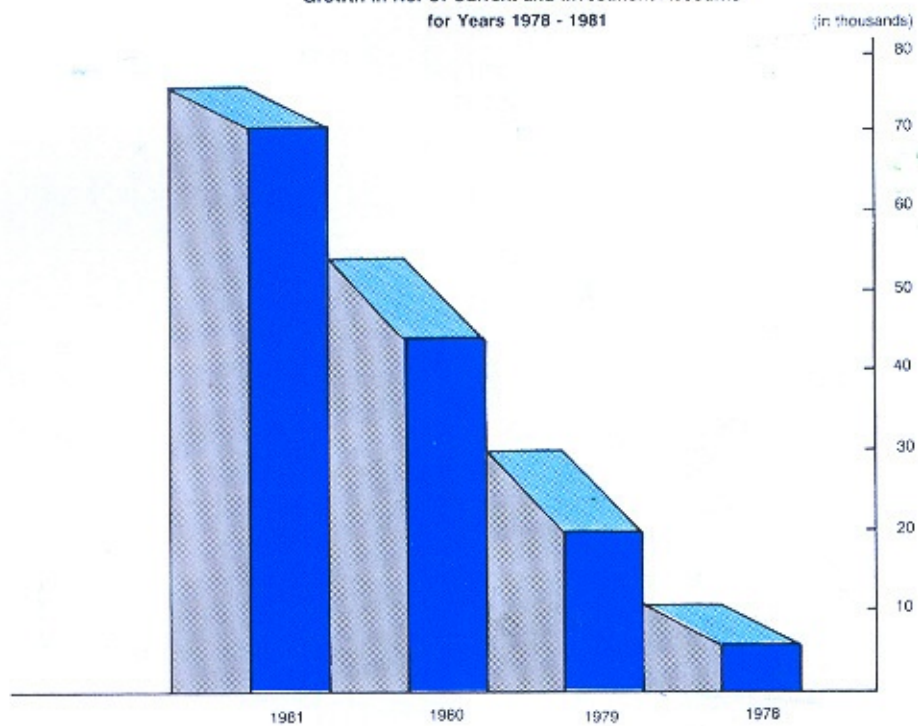
Faieha Branch



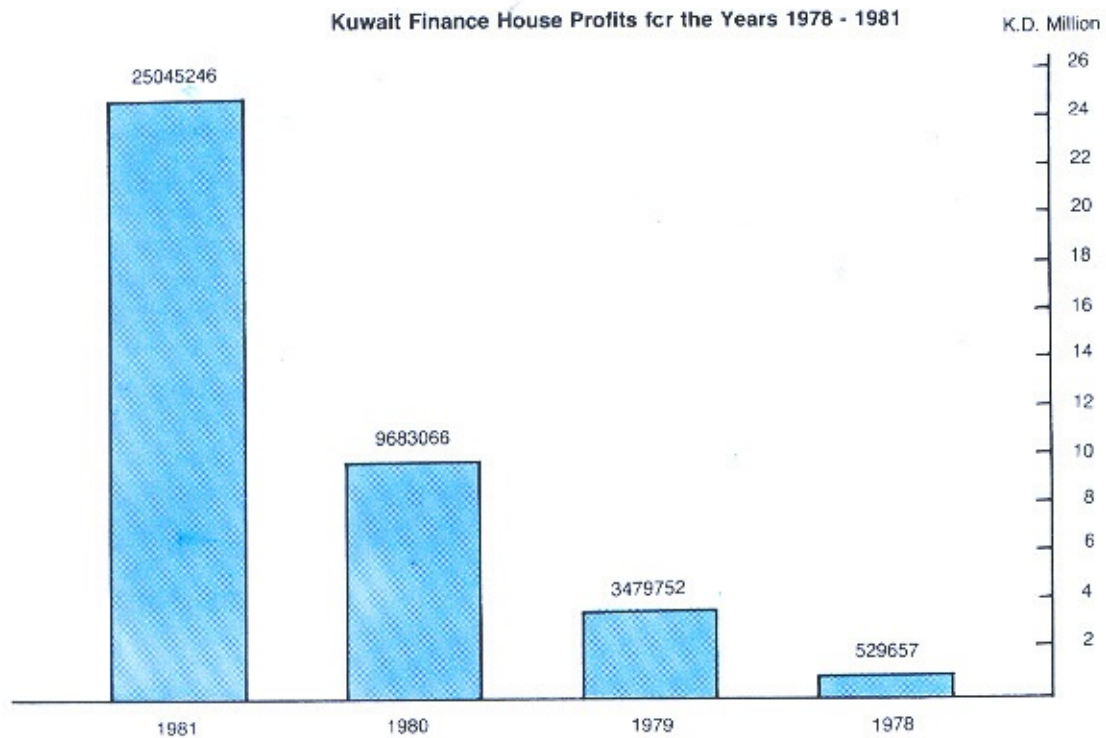
Banking Hall Faieha Branch



Growth In No. Of Current and Investment Accounts
for Years 1978 - 1981



Kuwait Finance House Profits for the Years 1978 - 1981





Shari'aa Supervision:

Kuwait Finance House has a Shari'aa supervisory body which reviews all our transactions to ensure that they comply with Islamic Shari'aa. The supervisory body also plays a vital role in enlightening the public and Kuwait Finance House customers on Shari'aa rulings on different financial transactions. This is done through answering enquiries and questions and by issuing 'Fat'awa' in various fields.

DEAR SHAREHOLDERS:—

To complete the review of our achievements, we herewith provide analysis of our balance sheet as at December 31, 1981.

Total assets amounted to KD 351,134,058 against KD 168,448,398 at 31.12.1980 which show a high growth rate of 108.5%.

On the liabilities side, the total value of deposits reached KD 294,119,443 against KD 148,623,069 at 31.12.1980 with a growth rate of 97.9%.

The unpaid part of the share capital had been recalled and thus the paid-up capital increased from KD 2,460,960 at 31.12.1980 to KD 9,567,730 at 31.12.1981.

On the assets side, it can be noticed that total cash balances with the Central Bank and other banks amounted to KD 55,316,027 against KD 31,241,601 at 31.12.1980. The applications of funds reached KD 295,818,031 compared with KD 137,206,797 at 31.12.1980 which depict a growth rate of 115.6%.

Our investments covered various fields including investments in documentary credits, Murabaha contracts, direct trading and participations, real estate investments in building and land, real estate bonds and plots of land, investments in construction and in other Islamic companies. The details of these investments are shown in the balance sheet.

The outcome of our investments during 1981 was the attainment of high profits which amounted to KD 25,045,246 which are 158.6% higher than the KD 9,683,066 profits of 1980.

The results are, no doubt, a big achievement which Allah helped Kuwait Finance House to attain.

The Board of Directors of Kuwait Finance House has decided to distribute profits at the rate of 9% to saving deposits, 12% to fixed time deposits and 13.5% to unlimited time deposits.

The Board of Directors recommends to the General Assembly the increase of the Share Capital of Kuwait Finance House by 50% by issuing shares as follows:—

1. Issue of 30% free bonus shares i.e. three shares for every ten shares.
2. Issue of 20% shares i.e. two shares for every ten shares, with a nominal value of KD 1.0 and a premium of KD 2.0 for every share.

In conclusion we turn our faces toward Almighty Allah expressing our gratitude and thanks for the success and prosperity He bestowed upon us. Then we extend our thanks to His Highness the Amir, Shaikh Jaber Al Ahmed Al Sabah and H.H. the Crown Prince, Shaikh Saad Al Abdullah Al Sabah and the esteemed government for their patronage and help to this institution.

I also extend my thanks to my brothers, the members of the Board of Directors who supported me in carrying out my duties. I also thank the administration and members of the staff for their concerted efforts to achieve these outstanding results. I reiterate my thanks to the Managing Director and General Manager, Bader Abdel Mohsin Al Mukhaizeem for his faithful and remarkable efforts praying to Allah to help us maintain our firm steps and successful drive.

AHMED BAZIE AL YASSIN
Chairman

THE WORLD ECONOMY

THE WORLD ECONOMY

Growth Rates:-

The global economic performance during 1981 was a continuation of the recession of the previous two years, during which the growth rate of the Western economies slowed down from 3.5% in 1979 to only 1.5% in 1981. However, 1981 is being considered the final stage of this trend. The world economy is expected to pull out very slowly from this recession in 1982.

During 1981 the Japanese economy growth rate was 3.5%, the highest among industrialised countries, followed by the U.S. economy which grew by 2.5%. The other industrial economies as a whole registered a negative growth rate of 1%. This overall sluggish growth was the outcome of the economic policies pursued by these countries with the primary goal of curbing inflation. The restrictive fiscal and monetary policies adopted resulted in lower growth rates and higher unemployment rates which rose on average from 7% in 1980 to 7.5% in 1981 and exceeded 9% in some countries.

These restrictive policies succeeded in dampening inflation rates which came down from 11% in 1980 to around 10% in 1981. However, there were wide divergencies between rates prevailing in different industrial countries. The lower rate of 5.5% prevailed in Japan and Germany while inflation rates were well above 10% in some European countries.

The global recession has caused a marked slackness in world demand for oil. There were considerable cuts in oil production in OPEC countries with adverse effects on growth rates of these economies. The economic performance of the developing countries deteriorated further in 1981. Growth rates slowed down to 4.7% coupled with high rates of inflation. These countries have faced various adverse factors during the year. Prices of primary products declined and world demand for exports of developing countries was weak due to the prevailing recession. Such factors contributed in worsening the external balances of these countries and undermined their ability to finance their requirements while being faced with heavier debt burdens due to the strength of the dollar and high interest rates.

The effect of global economic slowdown during the last three years was evident on the growth rate of world trade which slowed down from 6.5% in 1979 to 1.5% in 1980 and remained at this low level during 1981.

External Balances:-

The balances of payments of the industrialised countries showed marked improvements during 1981. Their aggregate current account deficit declined from US\$75 billion in 1980 to US\$35 billion in 1981. The U.S. and U.K. showed surpluses in their current balances while Japan succeeded in turning a deficit of US\$11 billion in 1980 into a surplus of US\$5.5 billion in 1981. The rest of the industrialised countries showed varied levels of current account deficits.

The current account surplus of OPEC countries fell sharply from US\$110 billion in 1980 to US\$60 billion in 1981. This fall was due mainly to the slackness of world demand for oil and the stability of oil prices.

The current accounts of developing countries deteriorated further in 1981 and the deficit rose from US\$60 billion in 1980 to US\$68 billion in 1981. This widening gap required more external borrowing which is becoming exceedingly difficult due to the already high level of debt burden, high interest rates prevailing and the strength of the dollar.

Fiscal and Monetary Developments:-

Fiscal and monetary policies pursued by the industrial countries during 1981 were similar to those adopted during 1980 with the emphasis being laid on fighting inflation. The outcome of restrictive monetary policies coupled with exchange rate developments was tight monetary growth. Consequently high interest rates prevailed during the year especially in the United States. Other industrial countries followed similar anti-inflationary policies while maintaining their external positions. West Germany which adopted a less strict monetary policy in the first half of 1981 was faced with a sharp outflow of funds and a worsening external position. To rectify this situation, strict monetary policy was adopted in the second half of 1981 and interest rates were raised to stem the outflow of funds.

Fiscal policies were supposed to play a supporting role for monetary policies by means of reducing budget deficits. However, the prevailing recession with high rates of unemployment stood in the way of adopting any firm budget balancing policies. Hence no concrete progress was made in the attempts of reducing budget deficits in industrial countries during 1981.

Exchange Rates:-

Exchange developments during 1981 were dominated by the impressive dollar strength, the weakening of the EMS currencies and the marked rebound of the Japanese Yen and the Sterling Pound.

The dollar was generally strong throughout the year, peaking during August then slightly falling afterwards but generally firm against most currencies. The main factors behind the strength of the dollar were the marked improvement in the U.S. current account, the high level of interest rates and the confidence that prevailed with the economic policies of the new administration.

The strength of the Japanese Yen, in spite of wide interest rate differentials, was a direct reflection of the outstanding improvement in the current account position of the country and the low rates of inflation.

As for the Sterling Pound, its strength was the result of high interest rates and the strong current account position reflecting British self-sufficiency in oil.

The weakening of the German Mark during the first half of 1981 reflected the large current account deficit of Germany coupled with low interest rates. During the second half, monetary conditions were tightened and the mark gained some ground. Later the resurgence of the mark led to the realignment of the EMS parities with the revaluation of the Mark and the Dutch Guilder and the devaluation of the French Franc and the Italian Lira. The realignment was essential to stem pressures on these economies due to the discrepancies in their external positions and rates of inflation.

Gold prices took a downward trend during 1981. The price per ounce fell off gradually from the peak of above \$800 early in the year to the low levels of below \$400. The price stabilised around \$400 at the close of 1981.

Since the supply of gold is relatively stable, the main factors behind price variations are on the demand side which is sensitive to economic and political turmoils. During 1981 the U.S. administration gave some consideration to restoring some monetary role for gold. The idea, if adopted in whatever form, could have direct drastic effects on future developments of gold prices. It is well known that gold prices took their upward trend after the suspension of the convertibility of the dollar into gold in 1971.



THE KUWAITI ECONOMY

THE KUWAITI ECONOMY

GDP and the External Sector:-

Developments in GDP during 1980 were characterised by moderation. GDP grew by 14.5% compared with 54% during 1979. Total GDP in current prices amounted to KD 7373.7 million according to the Central Bank estimates.

The main driving force in GDP growth is, of course, developments in the oil sector which has the overwhelming weight on the economy.

During 1980 the oil sector grew by 16.3% and its contribution to GDP amounted to KD 5156.8 million thereby raising its percentage share in GDP from 68.9% in 1979 to 69.9% in 1980. This increase was the outcome of various developments in the oil sector. Oil production was lower due to two factors. The first is the oil conservation policy of exporting less crude oil and more final products. The second factor was the slack world demand for oil. On the other hand, a positive factor was the 23.5% rise in oil prices during 1980.

The contribution of the non-oil sectors in GDP amounted to KD 2216.9 million which shows a growth rate of 10.5%, a slight improvement over the 8% growth rate during 1979. An encouraging indicator is that the manufacturing sector, the largest within the non-oil sectors, grew by 20% during 1980, raising its percentage share in GDP from 18.3% in 1979 to 19.8% in 1980. Moreover, the percentage shares of the transport, storage and communication sector and the financial institutions sector also increased during 1980. There are vast potentials for the growth of these sectors along the path toward diversifying the sources of national income.

Indicators available on oil production during 1981 and the state of over-supply and slack demand in world oil markets suggests that income from the oil sector will be adversely affected. Therefore, it can be expected that GDP growth rate during 1981 will slow down from the level of 1980.

These moderating influences were also reflected in the balance of payments which registered a surplus of KD 3.3 billion. This moderate increase of 7.3% over 1979 was the outcome of an increase of only 2.2% in the trade surplus. Exports rose by only 1.2% due to lower oil exports while imports increased by 26%. Consequently the current account surplus amounted to KD 4270 million, an increase of 8.8% over 1979.

The capital account showed a net capital outflow which amounted to KD 962 million which is 14.3% higher than 1979.

Fiscal Developments:-

The openness of the Kuwaiti economy to the world economy makes the impact of external developments directly felt by the local economy. Domestic economic policies always attempt to neutralise any destabilising or negative external influences.

During 1980/81 the developments in world oil markets adversely affected the oil sector. Nevertheless the 1981/82 general budget was set to overcome the negative effects of these developments on the national economy.

The new budget figures revealed that estimated revenues rose by 13.8% over the previous budget estimates to KD 5279 million. Oil revenues made up 96.5% of this amount. It is worthy of note that in spite of the aforementioned developments in world oil markets, oil revenues rose by 13.4%.

Non-oil revenues from various taxes and duties amounted to KD 182.3 million, making up the remaining 3.5% of total revenues. The main factor behind this low taxes contribution is that the state's financial and social policies endeavour to provide most services at nominal prices which do not reflect their real costs.

The estimated revenues were allocated as follows:-

FIRST:- General Reserve and Reserve for Future Generations:-

An amount of KD 674 million which is equivalent to 12.8% of total revenues, was added to the General Reserve Fund. This allocation is 9% less than that of the previous budget. However, an amount of KD 1500 million was added to the Reserve Fund for Future Generations, an increase of 62% over the previous budget.

Therefore, the total allocation for these two reserve funds amounted to KD 2174 million which is equivalent to 41.2% of total estimated revenues. This represents a 31% increase over the previous budget allocations for these reserve funds.

SECOND:- State Expenditure:-

An amount of KD 3007 million was allocated to meet expenditures of ministries and government departments. This amount represents 57.4% of total revenues and is 3.6% higher than the allocation of the previous budget. State expenditure is subdivided into three main parts:-

1) Ordinary Expenditure

The main components of this item are salaries, wages, general expenditure on different services, unclassified expenditures and transfer payments. The funds allocated to this item

amounted to KD 2138 million, 6.3% less than last year. This amount represents 71% of total state expenditure.

(ii) Development Expenditure

This item received KD 570 million which represents 19% of total state expenditure and is 28.4% higher than the previous budget allocation.

iii) Acquisition of Property:

The remaining 10% of state expenditure which amounted to KD 300 million was allocated to land acquisitions. This amount represents a 50% increase over the previous budget allocation.

THIRD:- Kuwait Fund for Economic Development

The remaining 1.4% of total estimated revenues which amounted to KD 75 million was ear-marked to raise the capital of Kuwait Fund for Economic Development which is a major vehicles in the state's drive to help the developing countries.

Monetary Developments:

The first nine months of 1981 were characterised by the slowdown of the outflow of funds in pursuit of external investment opportunities. This came about due to various factors. During the year Kuwaiti investors tended to commit more funds to the domestic opportunities which became more appealing with high returns especially when the attractive rise in world interest rates started to recede. Moreover, there was less external borrowing from the domestic markets. Another factor was that gold lost much of its lustre and funds which withdrew from speculations on gold were available in the market. The last factor was that funds that used to flow out to form new companies in the neighbouring Gulf states had ceased.

The combined effects of these developments was naturally positive on domestic liquidity which rose by 23.4% by the end of September to KD 3525.5 million compared with a growth rate of 20% during the same period of 1980. The improvement in the liquidity situation was reflected in the lower amounts of funds that the Central Bank usually injects into the system to alleviate liquidity shortages. By the end of September, the balance of commercial papers discounted at the Central Bank amounted to KD 265.9 million which is 11% lower than the balance at the end of 1980. This can be compared with an increase of 13.5% in this balance during the same period of 1980. Similarly swap balances came down by 39% from KD 301.3 million at the end of 1980 to KD 184.6 million by the end of September. Banks and financial institutions stepped up their purchases of the Central Bank bills, the balance of which rose by 33.7% to KD 144.4 million at the end of September 1981. Another important indicator of the abundance of liquidity was the downward trend of domestic interest rates from the high level that prevailed at the beginning of the year.

The growth of domestic banking activity showed some moderation during 1981. By the end of September, the consolidated balance sheet of the commercial banks amounted to KD 6670.3 million which represents an increase of 18% compared with 22% during the same period of 1980. Their capital and reserves rose by 6% compared with a rise of 14% during the same period in 1980.

The private sector deposits which represented 95% of total deposits amounted to KD 3261.2 million at the end of September. This represents an increase of 25% over 1980, compared with an increase of 22% during the same period of the year before. The percentage of deposits in foreign currencies remained stable at 19.3% of total deposits. Demand deposits grew considerably and their share in total deposits rose from 16% to 20% during the period under consideration.

During the first nine months, fund allocation patterns of the commercial banks revealed that the tendency toward foreign allocations has considerably shrunk. Foreign assets rose by only 6% to KD 1990.3 million compared with a growth of 22% during the same period of 1980.

Claims on the private sector amounted to KD 3170.6 million, an increase of 18.7% during the first nine months. This reflected the continued moderation in domestic credit expansion for the last three years. The rates of credit expansion during 1980 and 1979 were 21% and 34% respectively.

The overwhelming component of these claims on the private sector was in the form of credit facilities which amounted to KD 2886.5 million at the end of September, an increase of 19.3%.

The distribution of credit facilities over the various economic sectors revealed no changes in the usual patterns. Credit for trade represented 27.9% of total credit compared with 27.8% at the end of 1980. Personal loans made up 25.5% compared with 25.7% at the end of 1980. The share of loans for financial purposes was 23.4%. The percentage shares of construction, industry and agriculture were 16.2%, 5.6% and 1.4% respectively.

In spite of the efforts being exerted to direct credit to the productive sectors of the economy, the percentage share of those sectors actually fell by 1.9% by the end of September 1981 to 51% whereas this share was 52.9% at the end of 1980.

Shares Market:

During 1981 some new regulatory measures were announced regarding the shares market. The measures were aimed at giving more impetus to share market activity by widening the scope of transactions. Specific conditions were laid down to list the shares of some closed Kuwaiti shareholding companies on the stock market. The most important conditions stated that the paid up capital of such companies should not be less than KD 5 million, that they should be at least five years old and have made profits for the last two years. Another set of conditions were announced whereby the shares of some Gulf-based shareholding companies could be

traded on the stock market. These measures were followed by a strict ban on dealing in the shares of any other foreign companies whether inside the stock market or outside.

Based on these new measures the shares of five closed Kuwaiti shareholding companies and two Gulf companies were officially listed and traded on the stock market alongside the other 38 Kuwaiti shareholding companies. During 1981 the state offered to buy the shares of the private sector in the Kuwait Flour Mills Company.

Trading in shares during the first nine months of 1981 was very active. The total number of shares traded amounted to 181.8 million, which represents an increase of 37% over the amounts traded during the same period in 1980. The total value of shares traded amounted to KD 1338.1 million which is 7.7% higher than the value of shares traded during the same period in 1980. Trading peaked during the second quarter of the year but slowed down during the third quarter.

The highest rate of trading was on the group of service companies. Next came the group of industrial companies followed by the group of real estate companies. The volume of trading on the group of banks fell by 30% compared to the same period of 1980. Similarly, trading on the group of insurance companies fell by 21%.

The general average price index of shares rose by 26.4% during the first nine months of 1981 compared to the average of the last quarter of 1980. This is a considerable increase compared to the 4% rise during the same period of the year before. The largest price increases were recorded in the group of real estate companies (47%) followed by investment companies (39%) then transport companies (37.5%). Banks shares followed next with a rise of 22.2% in spite of the decline in the amounts traded. Prices of the group of insurance companies, which witnessed a decline of 21% in volumes traded, showed a downward trend during the first two quarters of 1981, but picked up slightly during the third quarter. So the price index of this group fell by around 1.4% during the first nine months of 1981.

It can be concluded that the shares market was active during 1981. The volume of shares traded during the first three quarters exceeded that of the whole of 1980 by 26%. The main factors behind this activity were the regulatory measures mentioned above and the end of the wave of establishing new companies in the Gulf. Besides, investors tended to invest locally due to the prevailing international economic conditions referred to earlier.

Other Developments:

Due to the lack of recent data on the other sectors of the economy, the balances of credit facilities for different sectors can be used as a rough indicator of the activities of those sectors.

Credit facilities for the trade sector increased by 20% to KD 805.7 million at the end of September 1981. This indicates that trade activity has picked up during this period if compared with the growth rate of 11% in these facilities during the same period of 1980.

There was also some improvement in construction activity. Credit facilities for this sector rose by 14.6% to KD 467.4 million compared with a 12% rise during the same period of 1980. Moreover, the budget allocations for this sector rose by 37% to KD 587 million.

Credit facilities extended to the industrial sector amounted to KD 162.5 million by September 1981, with a growth rate of only 2.7% compared with a rise of 40% during the year before. Industrial loans extended by the Industrial Bank of Kuwait during the first nine months amounted to KD 14.5 million which stands at less than half the loans extended during 1980 which amounted to KD 32.1 million. Using these two indicators, it can be concluded that industrial activity slowed down during 1981.

The agriculture and fisheries sector received KD 39.3 million which represents a decline of 2% during the first nine months of 1981. This compares unfavourably with the 33% rise of these facilities during the same period of 1980.





KUWAIT FINANCE HOUSE K.S.C.

**FINANCIAL STATEMENTS
31 DECEMBER 1981**

MULTAQ AL-MASOUD & CO.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
KUWAIT FINANCE HOUSE K.S.C.**

We have examined the financial statements of Kuwait Finance House K.S.C. set out on pages (36) to (44). Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary. We obtained all the information and explanations which we deemed necessary for the purpose of our examination.

In our opinion the financial statements present a fair view of the financial position of the Company at 31 December 1981 and of the results of its operations for the year then ended.

Also, in our opinion the financial statements comply with the Law of Commercial Companies and the Company's Articles of Association. In accordance with Article 164 of the Law of Commercial Companies we report that in our opinion proper books of account have been kept, an inventory was duly carried out and the contents of the Directors' Report relating to the financial statements are in agreement with the books of the Company. We are not aware that any violations of the law or of the Articles which may have had a material adverse effect on the business of the Company or its financial position have occurred during the year.

M.M. AL-MASOUD
R.A.A. NO. 8
OF MUTLAQ AL-MASOUD & CO.

D.A. DAHMAN, F.C.C.A.
R.A.A. NO. 28
OF MUTLAQ AL-MASOUD & CO.
Kuwait
16 January 1982



KUWAIT FINANCE BALANCE SHEET AT

	1981 KD	1980 KD
Cash and balances with banks	55,316,027	31,241,601
Advances to customers		
— Against letters of credit and murabaha	11,754,081	3,279,772
— Other (Note 4)	10,480,312	5,728,326
Accounts receivable and repayments	126,991,497	53,507,240
Trading investments in property (Note 5)	109,814,775	54,871,166
Stocks (Note 6)	1,501,498	1,102,994
Construction work-in-progress (Note 7)	1,631,160	1,226,358
TOTAL CURRENT ASSETS	317,489,350	150,957,457
Medium term accounts receivable	23,371,159	16,611,387
Investments and other assets (Note 8)	5,934,896	821,310
Fixed assets (Note 9)	4,338,653	58,244
TOTAL ASSETS	351,134,058	168,448,398
Customers' liability under letters of credit and guarantee	25,835,041	12,257,533
	376,969,099	180,705,931

The attached notes 1 to 21 form

AHMAD BAZIE AL-YASEEN
CHAIRMAN

**HOUSE K.S.C.
31 DECEMBER 1981**

	1981 KD	1980 KD
Current accounts	55,180,706	29,212,498
Investment accounts (Note 10)		
— Savings	116,692,035	55,082,233
— Deposits — limited period	10,555,004	7,950,091
— Deposits — unlimited period	111,691,698	56,378,247
Total current and investment accounts	294,119,443	148,623,069
Accounts payable and accruals (Note 11)	19,925,232	7,056,410
Depositors' share of profit (Note 12)	19,000,000	7,227,570
Proposed dividend (Note 17)	—	276,858
	<u>333,044,675</u>	<u>163,183,907</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	9,567,730	2,460,960
Statutory reserve (Note 14)	3,873,772	1,369,247
General reserve (Note 15)	4,647,881	1,434,284
TOTAL SHAREHOLDERS' EQUITY	<u>18,089,383</u>	<u>5,264,491</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>351,134,058</u>	<u>168,448,398</u>
Liabilities under letters of credit and guarantee	25,835,041	12,257,533
	<u>376,969,099</u>	<u>180,705,931</u>

part of these financial statements.

**BADER ABDULMOHSEN AL-MUKHAIZEM
MANAGING DIRECTOR AND GENERAL MANAGER**



KUWAIT FINANCE HOUSE K.S.C. PROFIT AND LOSS ACCOUNT

	Note	1981 KD	1980 KD
INCOME			
Banking operations		1,594,043	1,139,706
Real estate, commercial and construction operations		29,916,049	12,124,375
Rental income		1,916,791	1,251,358
Other income		587,555	20,852
		<u>34,014,438</u>	<u>14,536,291</u>
EXPENSES			
General and administration		3,234,874	2,616,470
Provision for decline in value of investments		2,081,687	1,387,646
Provision for bad and doubtful accounts receivable		3,426,761	500,000
Provisions for obsolete and slow moving stocks and anticipated losses on uncompleted contracts		225,870	349,109
		<u>8,969,192</u>	<u>4,853,225</u>
NET PROFIT FOR YEAR		<u>25,045,246</u>	<u>9,683,066</u>
APPROPRIATION OF NET PROFIT			
Statutory reserve	14	2,504,525	968,306
General reserve	15	2,504,525	968,306
Kuwait Institute for Scientific Advancement	16	177,036	74,360
Directors' fees		80,000	80,000
Depositors' share of net profit	12	19,000,000	7,227,570
Proposed dividend	17	369,144	276,858
Reserve accounts' share of net profit	18	410,016	87,666
		<u>25,045,246</u>	<u>9,683,066</u>

The attached notes 1 to 21 form part of these financial statements.



KUWAIT FINANCE HOUSE K.S.C. NOTES TO THE FINANCIAL STATEMENTS

1 — INCORPORATION

Kuwait Finance House K.S.C. is a Kuwaiti shareholding company incorporated in Kuwait and is registered as a bank with the Central Bank of Kuwait.

2 — ACTIVITIES

The principal activities of Kuwait Finance House K.S.C. include the provision of banking services, the purchase and sale of property and other trading activities including project construction for third parties. All activities are conducted in accordance with the teachings of Islam without practising usury.

3 — SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

The financial statements are prepared under the historical cost convention.

b) Property trading

Sales of properties are made on a credit and cash basis. Profits arising from all sales of property are taken to income at the date of sale.

c) Foreign currencies

Foreign currency transactions are recorded in Kuwaiti dinars at the approximate rates of exchange ruling at the date of the transactions. Gains and losses are taken to income.

Assets and liabilities in foreign currency at the year-end are translated at the rates of exchange ruling at that date and any resulting gains or losses are taken to income.

d) Depreciation

Freehold land is not depreciated. The cost of other fixed assets is written off by equal instalments over their expected useful lives.

e) Investment in property

Investments in property are carried at cost less provisions for decline in value.

f) Stocks

Stocks are valued at lower of cost and net realisable value, with due allowance for obsolete and slow moving items. Cost is determined on a specific identification basis.

g) Construction work-in-progress

Construction work-in-progress is stated at cost less provision for any anticipated losses and progress payments received. Cost includes materials and direct labour.

h) Profit recognition

Profit from long-term construction contracts is recognised on the completed contract method. Full provision is made for any anticipated losses on uncompleted contracts in the year such losses are first projected.

i) Accounts receivable

Accounts receivable from customers are stated in the balance sheet under appropriate headings less a general provision for doubtful accounts receivable. Medium term accounts receivable represent amounts due 12 months or more after the balance sheet date.

j) Employees' terminal benefits

Provision is made for amounts payable under the Kuwait Labour Law applicable to employees' accumulated periods of service.

4 — ADVANCES TO CUSTOMERS — OTHER

	1981 KD	1980 KD
Deposits with Islamic Financial Institutions	9,752,042	4,252,720
Others	728,270	1,475,606
	<u>10,480,312</u>	<u>5,728,326</u>

5 — TRADING INVESTMENTS IN PROPERTY

	1981 KD	1980 KD
Buildings	23,950,717	20,466,835
Plots	44,406,985	20,123,309
Land	35,276,093	13,537,295
Property bonds	9,729,899	2,210,959
	<u>113,363,694</u>	<u>56,338,398</u>
Less: Provision for decline in value	3,548,919	1,467,232
	<u>109,814,775</u>	<u>54,871,166</u>

The directors are of the opinion that the above investments are worth not less than the net amount stated above.

6 — STOCKS

	1981 KD	1980 KD
Motor vehicles	1,658,239	1,308,935
Foodstuffs	19,138	21,600
Spare parts	50,631	1,653
Goods in transit	251,263	53,655
	<u>1,979,271</u>	<u>1,385,843</u>
Less provision for obsolete and slowing moving items	477,773	282,849
	<u>1,501,498</u>	<u>1,102,994</u>

7 — CONSTRUCTION WORK-IN-PROGRESS

	1981 KD	1980 KD
Work-in-progress, net of provisions	1,741,331	1,495,225
Progress payments received	(110,171)	(268,867)
	<u>1,631,160</u>	<u>1,226,358</u>

8 — INVESTMENTS AND OTHER ASSETS

	1981 KD	1980 KD
Associated and subsidiary companies	1,142,270	357,400
Joint venture in real estate	227,500	227,500
Joint venture in commercial activities	791,628	—
Al Muthana Project	3,773,498	236,410
	<u>5,934,896</u>	<u>821,310</u>

9 — FIXED ASSETS

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Furniture and fittings	3 years
Plant and equipment	3 years
Motor vehicles	3 years

	Freehold land KD	Furniture and fittings KD	Plant, equipment and motor vehicles KD	Total KD
Cost:				
At 31 December 1980	—	197,867	237,127	434,994
Additions during year	3,978,000	234,382	252,875	4,465,257
Cost of disposals	—	—	(2,986)	(2,986)
At 31 December 1981	<u>3,978,000</u>	<u>432,249</u>	<u>487,016</u>	<u>4,897,265</u>
Depreciation:				
At 31 December 1980	—	156,035	220,715	376,750
Charge for year	—	95,798	89,050	184,848
Relating to disposals	—	—	(2,986)	(2,986)
At 31 December 1981	<u>—</u>	<u>251,833</u>	<u>306,779</u>	<u>558,612</u>
Net book amounts:				
At 31 December 1981	<u>3,978,000</u>	<u>180,416</u>	<u>180,237</u>	<u>4,338,653</u>
At 31 December 1980	<u>—</u>	<u>41,832</u>	<u>16,412</u>	<u>58,244</u>

10 — INVESTMENT ACCOUNTS

All deposit accounts are for a minimum period of one year. Investment deposits for unlimited periods are valid for one year and are automatically renewable for the same period unless the client notifies the Company to the contrary in writing at least three months before the due date. Deposit and savings accounts give authority for investment to Kuwait Finance House K.S.C. and receive or bear such proportion of the profits or losses as the Directors may determine at the end of each year.

11 — ACCOUNTS PAYABLE AND ACCRUALS	1981 KD	1980 KD
Trade payables	14,956,550	6,381,022
Advances from real estate customers	4,441,060	187,693
Accrued expenses	527,622	487,695
	<u>19,925,232</u>	<u>7,056,410</u>

12 — DEPOSITORS' SHARE OF NET PROFIT	1981 KD	1980 KD
	<u>19,000,000</u>	<u>7,227,570</u>

The above amounts are based on the Board's recommendation for payments at the following rates:

Savings accounts	9%	6¾%
Deposit accounts — limited period	12%	9%
Deposit accounts — unlimited period	13½%	10⅛%

13 — SHARE CAPITAL	1981 KD	1980 KD
Authorised and issued 10,000,000 shares of KD 1 each	10,000,000	10,000,000
Subscribed, allotted and called up 9,843,840 shares	9,843,840	2,460,960
Less: Final call in arrears	276,110	—
	<u>9,567,730</u>	<u>2,460,960</u>

The Company called up the remaining unpaid capital for payment by 24 December 1981 which period has been extended to 6 January 1982.

14 — STATUTORY RESERVE	1981 KD	1980 KD
Balance at beginning of year	1,369,247	400,941
Transfer for year	2,504,525	968,306
Balance at end of year	<u>3,873,772</u>	<u>1,369,247</u>

In accordance with the Law of Commercial Companies and the Company's Articles of Association, 10% of the net profit for the year has been transferred to statutory reserve.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when accumulated net profit is not sufficient for the payment of a dividend of that amount.

15 — GENERAL RESERVE

	1981 KD	1980 KD
Balance at beginning of year	1,434,284	398,293
Zakat paid during year	(70,088)	(19,981)
Transfer for year	2,504,525	968,306
Reserve accounts' share of net profit (Note 18)	410,016	87,666
Proposed dividend (Note 17)	369,144	—
Balance at end of year	<u>4,647,881</u>	<u>1,434,284</u>

In accordance with the Company's Articles of Association 10% of the net profit for the year has been transferred to general reserve. There are no restrictions on the distribution of this reserve.

16 — KUWAIT INSTITUTE FOR SCIENTIFIC ADVANCEMENT

Provision for contribution to KISA has been calculated as follows:-

	1981 KD	1980 KD
Net profit for year	25,045,246	9,683,066
Less: Transfer to statutory reserve	2,504,525	968,306
Depositors' share of net profit	19,000,000	7,227,570
	<u>21,504,525</u>	<u>8,195,876</u>
Income on which KISA is payable	3,540,721	1,487,190
Contribution at 5%	<u>177,036</u>	<u>74,360</u>

17 — PROPOSED DIVIDEND

The share capital's share of the net profit for the year has been calculated at the rate of 15% (1980 11.25%) as follows:

	1981 KD	1980 KD
On paid-up capital of KD 2,460,960	<u>369,144</u>	<u>276,858</u>

The Board of Directors is recommending to the general assembly to transfer the proposed dividend for the year to general reserve.

18 — RESERVE ACCOUNTS' SHARE OF NET PROFIT

Since the statutory reserve and general reserve balances together with the share capital are part of the invested funds, they are entitled to a share of the net profit for the year calculated at the same rate applied to share capital.