Twenty Fourth Annual Report

Year 2002

KUWAIT FINANCE HOUSE

بيتك

KFH

H.H. Sheikh Jaber Al Ahmad Al Jaber Al Sabah
The Amir of Kuwait

H.H. Sheikh Saad Al Abdullah Al Salem Al Sabah
Crown Prince and Prime Minister

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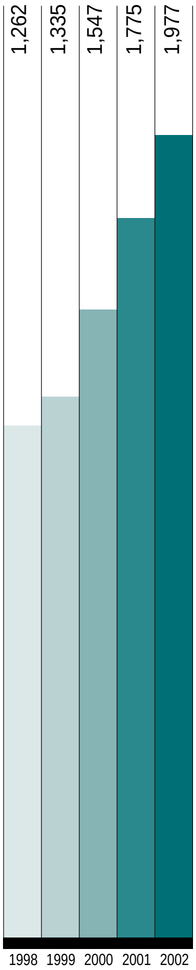
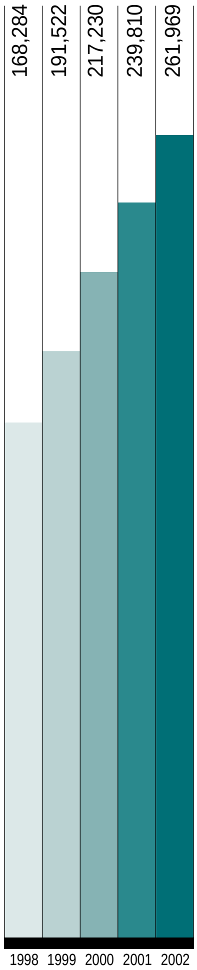
In the Name of Allah the Most Gracious, the Most Merciful

Ye who believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly.

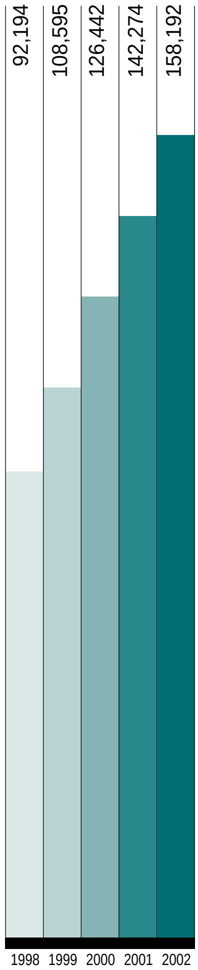
Al Baqara (278-279)
Al-Qura’an



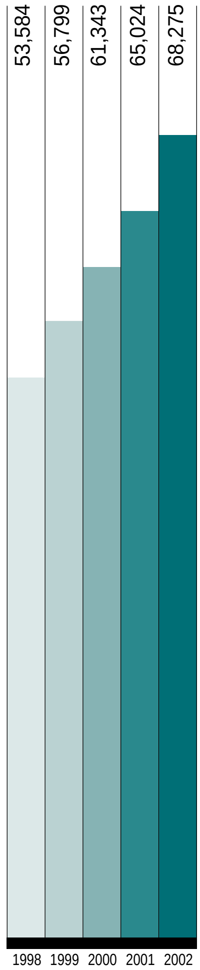
Depositors' Account Growth
(in Millions of Kuwaiti Dinars)



Shareholders' Funds Growth
(in thousands of Kuwaiti Dinars)



Reserves Growth
(in thousands of Kuwaiti Dinars)



Capital Growth
(in thousands of Kuwaiti Dinars)

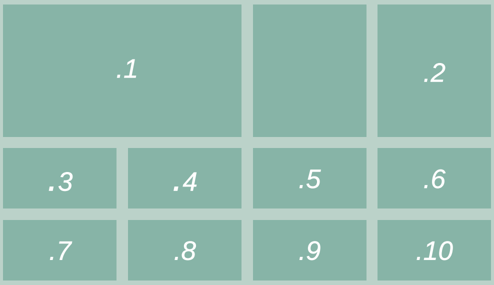
Financial Highlights

Kuwait Finance House

Kuwait Finance House, with its strong Islamic values, is a financial institution whose aim is to develop and promote Islamic banking worldwide. Kuwait Finance House offers unique yet competitive products and services directed to target markets for both depositors and shareholders. In accordance with the Islamic principles, Kuwait Finance House ensures that while working with the public professionally, the company guarantees an honourable relationship with its client base in particular and the Islamic community as a whole.

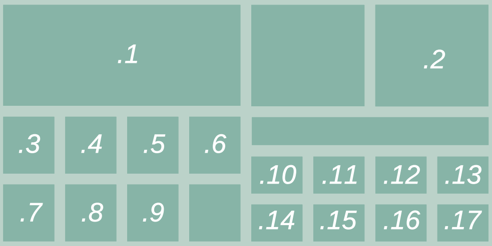
These values are continually reinforced and adhered to in all aspects of the company's operations. Its integrity and sincerity has maintained a quality service at all times. The employees of Kuwait Finance House are constantly encouraged to be efficient, creative and above all successful. Career enhancement is actively promoted with an ever-changing financial world, creating a healthy professional environment.

Board of Directors



1. ***Bader Abdul Muhsen Al-Mukhaizeem*** - *Chairman*
2. ***Sameer Yaqoub Al Nafeesi*** - *Vice-Chairman*
3. ***Sami Hussein Al-Anbaee*** - *Board Member*
4. ***Saud Abdul Aziz Al-Babtain*** - *Board Member*
5. ***Essam Saud Al-Rashed*** - *Board Member*
6. ***Ali Mohammed Al-Elaimi*** - *Board Member*
7. ***Dr. Fouad Abdullah Al Omar*** - *Board Member*
8. ***Mohammed Ali Al-Khudairi*** - *Board Member*
9. ***Meshaal Yousuf Al-Derbas*** - *Board Member*
10. ***Naser Abdul Muhsen Al-Merri*** - *Board Member*

Management

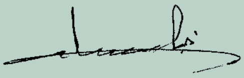


1. ***Jassar D. Al-Jassar*** - *General Manager*
2. ***Yousuf A. Al-Mailam*** - *Deputy General Manager*
3. ***Dr. Anwar Ahmed Al-Fuzaie*** - *Asst. General Manager, Head of the Legal Department.*
4. ***Salah A. Al-Bassam*** - *Assistant General Manager*
5. ***Emad A. Al-Thaqeb*** - *Assistant General Manager*
6. ***Fawaz S. Al-Othman*** - *Assistant General Manager*
7. ***Mohammed S. Al-Omar*** - *Assistant General Manager*
8. ***Wael Y. Al-Qatami*** - *Assistant General Manager*
9. ***Dr. Waleed Essa Al-Hasawi*** - *Assistant General Manager*
10. ***Ibrahim A. Al-Khamees*** - *Deputy Assistant General Manager*
11. ***Anwar Mohammed Al Bader*** - *Deputy Assistant General Manager*
12. ***Sa'ad M. Al-Surae'a*** - *Deputy Assistant General Manager*
13. ***Suliman A. Abdal Qader*** - *Deputy Assistant General Manager*
14. ***Essam Al-Tawhid*** - *Deputy Assistant General Manager*
15. ***Fahad M. Al-Othman*** - *Deputy Assistant General Manager*
16. ***Mohammed N. Al-Fozan*** - *Deputy Assistant General Manager*
17. ***Mahmood M. Al-Jeean*** - *Deputy Assistant General Manager*

Their Eminences

Members of Al-Fatwa and Shareea'a Supervisory Board

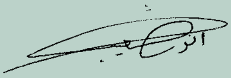
1. ***Sheikh Ahmad Bazie Al-Yaseen***
   Chairman



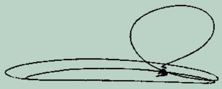
2. ***Sheikh Dr. Khalid Mathkour Al-Mathkour***
   Shareea'a Board Member

3. ***Sheikh Dr. Ajeel Jasem Al-Nashmi***
   Shareea'a Board Member

4. ***Sheikh Dr. Mohammed Fawzi Faidullah***
   Shareea'a Board Member



5. ***Sheikh Dr. Anwar Shuaib Abdulsalam***
   Shareea'a Board Member



6. ***Sheikh Dr. Mohammed Abdul Razaq Al-Tabtabae***
   Shareea'a Board Member

Report of Al-Fatwa and Shareea'a Supervisory Board

By following up the performance of Kuwait Finance House during the year ended 31 December 2002, we certify confidently that all activities were practiced in compliance with Islamic Shareea'a and no violations have occurred, to the best of our knowledge.

Chairman's Statement

It gives me great pleasure in welcoming you to the twenty-fourth Annual General Meeting of Kuwait Finance House (KFH) to present the twenty-fourth annual report for the year ended 31 December 2002.

In the name of Allah the most gracious and the most merciful. All praises to Allah, and peace be upon our prophet Mohammed, his family, his companions and his followers in all good deeds to the Day of Judgment.

Honorable brothers:

It gives me great pleasure in welcoming you to the twenty-fourth Annual General Meeting of Kuwait Finance House **(KFH)** to present the twenty-fourth annual report for the year ended 31 December 2002. The annual report includes the report of the Al-Fatwa and Shareea'a Supervisory Board and an outline of important accomplishments of **KFH** and developments in the domestic, regional and international markets. The report also includes consolidated financial statements of **KFH** and its subsidiary companies and auditors' report on these financial statements.

Key Accomplishments of KFH:

Since 1978, **KFH** has developed a solid market reputation as a key player in Islamic banking industry. This has been achieved through a carefully devised expansion strategy, and our continuous focus on customer service. We introduced a range of new investment products, and expanded our service offerings to customers in 2002 to attract a wide spectrum of customers. We introduced the 'one-stop banking' concept to our branches with a view to providing a comprehensive one-stop banking service throughout our network of 27 branches.

With the grace of Allah, **KFH** has shown stable growth over the last 25 years. This continued growth pattern reflects the success of management strategies and the financial robustness of the Bank. Other key contributory factors of this steady performance, include, credibility, trust, development of new products, investments in new technology, and dedicated, loyal and efficient management team.

During 2002, **KFH** received a number of regional and international awards, which affirmed the bank's financial strength, quality of its assets, and its status as one of the leading banks in the region. In a study carried out by Gulf Banking Consultants based on 2001 financial performance, **KFH** was ranked first among twenty-five Gulf based banks in terms of 'economic value'. The Project Finance Magazine, a Euromoney publication selected **KFH** for two major awards in the non-conventional financiers' category, reaffirming **KFH's** leadership in organizing and structuring Islamic finance for two important projects. The first award was given in connection with Lead Arranging the US$ 200 million refinancing facility for Equate. The second award was given for co-arranging the US$ 250 million Islamic facility for Shuweihat Power Station.

Financial Results:

Respected Gentlemen,

The results of financial year ended 31 December 2002 are as follows:

Balance Sheet:

Total assets by the end of the year amounted to KD 2554 million with an increase of KD 179 million from the year 2001. As for liabilities, depositors' accounts reached KD 1977 million with an increase of KD 202 million or 11% in comparison with the previous year, whereas the shareholders' funds reached KD 262 million with an increase of KD 22 million or 9% in comparison with the year 2001.

Operating Income:

Total operating income this year reached KD 146.5 million with an increase of KD 3.345 million or 2% and after accounting for the expenses and provisions, profit from operations before distribution to depositors is KD 113 million with an increase of KD 1.3 million or 1% as compared with the year 2001.

Net Profit:

The net profit reached to KD 54.6 million with an increase of KD 3.3 million or 6% as compared with the year 2001.

Distributions to Depositors:

Profits were distributed to the investment depositors for the financial year ended 31 December 2002 at the following rates:

Type of Account	2002	2001
Unconditional investment deposits for an unlimited period	4.50%	5.250%
Unconditional investment deposits for a limited period	4.00%	4.667%
Al-Sedra investment deposits	3.50%	4.083%
Investment savings accounts	3.00%	3.500%
Al-Baraem accounts	2.00%	2.330%
Shabab Al-Dira accounts	2.00%	2.330%

One-Stop Banking:

KFH has started implementing 'one-stop banking' concept in order to provide comprehensive banking services throughout its branch network. Already 7 branches have started to provide real estate services, and 14 branches have enhanced there

Despite a general slowdown in the local and international markets, KFH has sustained its growth pattern by expanding its customer base and financial and special consulting services. During the year we increased our housing finance and real estate investments.

service offerings to include Murabaha. This new 'one stop banking' concept is expected to improve our service quality and further expand our customer base and market share. In addition, the Bank also plans to add three more new branches to its existing network in 2003.

Strong Performance in the Domestic Market:

Despite a general slowdown in the local and international markets, **KFH** has sustained its growth pattern by expanding its customer base and financial and special consulting services. During the year we increased our housing finance and real estate investments, and introduced another product in this segment - "Lease to Own Property Service". This product has gained wide popularity among all segments of our customer base as it offers Shareea'a compliant leasing opportunities.
In another new step towards improving service delivery in the consumer finance market, we opened a separate branch for leasing related services.

During 2002 **KFH** conducted a number of exhibitions, the most important one being the 'racing show' for local car companies. We arranged joint marketing exercises in cooperation with several other reputed trading companies in automobiles, construction materials, furniture, and electric and electronic appliances. Many of these exhibitions were organised to cater to the growing demand of our customer base, and to promote awareness of our new products and services among the customers.

In another initiative to strengthen our domestic market activities, we made a strategic decision to increase our equity stake in Aref Investment Group. We increased **KFH** shareholding in this company from 30% to 52%, changing its status from an associate to a subsidiary. During the year, we also participated in launching the Safwa Investment Fund in collaboration with one of the local investment companies. The fund is a specialized vehicle for Shareea'a compliant share trading in companies listed on Kuwait Stock Exchange.

Technology and Internet:

KFH has placed utmost importance to its distribution network and delivery channels for its banking, investment, commercial and real estate services. In this respect, we have adopted state of the art technology in many facets. Our decision to adopt the latest technology has enabled us to provide more than a hundred different services to our customers on-line, free of any charges.

We introduced a comprehensive telephone banking service with the aim of saving costs, reducing lead-time and improving the overall efficiency of our service delivery. In another move to improve service, we introduced touch screens to our Farwaniya Branch as a trial run before introducing it throughout our branch network. This service enabled many customers to access **KFH** website. In addition to that, **KFH** provides many services and customer support through the call centre where customers can get personal response to their queries. Further, for the first time in Kuwait, **KFH** introduced the 'Fax-On-Time' service. This unique free-of-charge service allows the customers to access their accounts and receive information electronically twenty-four hours a day.

Moreover, **KFH** has embraced new technology in a number of other key areas to ensure a quick and efficient service delivery. Importantly, we have embarked on a new IT project to enhance the link between all our branches through cable as well as wirelessly, and to centralize all back-office operations.
In another important move in the IT side, we outsourced our facilities maintenance to one of our affiliate companies – International Turnkey Systems (ITS). We expect this to bring more favourable results in terms of systems improvement and cost efficiency.

Growth Trends in the Gulf:
In accordance with **KFH's** strategy of regional expansion, the Bank acquired a 20% equity stake in National Bank of Sharjah (NBS), which has been transformed from a conventional bank into an Islamic bank. NBS has 9 branches in the United Arab Emirates and has a capital of AED 367 million. The Government of Sharjah also has a substantial stake in NBS.

We established Kuwait Finance House Bahrain as a local Islamic bank during the year, which has a paid-up capital of BD 35 million (US$ 100 million). **KFH** Bahrain provides complete commercial banking products and services which include, customer deposits, investments management, foreign exchange related services, documentary credits, bills collection, trade finance, real estate finance and direct and indirect investments.

Continuing our regional expansion drive, during the year we entered the Oman market by establishing International Trading


pocket pc

House through one of our affiliated companies. This is a specialist consumer financing company, which will provide a range of instalment financing facilities in the Sultanate of Oman.

In 2002, we participated in an important regional project financing transaction - Al Hidd Power Station Project in Bahrain. Al Hidd is an important infrastructure development effort of the Kingdom of Bahrain to support its economic expansion. **KFH** participated in the US$ 55 million Islamic tranche of the total facility of US$ 342 million. Other key participants included BNP Paribas, HSBC and Bank of Bahrain and Kuwait. We also participated in another large project finance transaction in Abu Dhabi, UAE – The Shuwaihat project. The total financing for this project amounted to more than US$ 1.6 billion and it included US$ 250 million Islamic tranche.

Furthermore, with the intention of extending our continued support for the Islamic banking industry, we participated equally with Islamic Development Bank, Dubai Islamic Bank and Bahrain Islamic Bank to establish the Liquidity Management Centre (LMC) in Bahrain. LMC will function as a provider of short-term investment instruments to support the liquidity management function of international Islamic financial institutions.

KFH also participated in the establishment of the Council for Islamic Financial Services. The council will coordinate with the central banks and monetary agencies in setting up the monitoring parameters to supervise Islamic financial institutions within the framework of Islamic Shareea'a and international standards.

Global Expansion:

On the global front, **KFH** ventured into a number of new projects in partnership with major international institutions. These efforts have enabled us to diversify our product portfolio and to establish a strong image in the international market.

KFH increased the capital base of Kuwait Turkish Evkaf Finance House (KTEFH) by 160% to US$ 75 million. **KFH** owns 62% stake in KTEFH. It has a network of 30 branches and is considered to be the largest among the five Islamic banks in Turkey. KTEFH inaugurated a new branch in Manama, Bahrain, and plans to open another branch in Germany with a view to penetrating the European market.

In this year, we also participated in another important transaction to finance the purchase of an oil tanker for the Government of Brunei in cooperation with large regional and international banks. The total value of this lease transaction amounted to US$ 129 million.

Investment Opportunities:

We continued to expand the range of investment management products that we offer to our customers. This year we launched the US$ 100 million "Prime Industrial Properties Fund". This Fund, a latest addition to **KFH's** investment products is offered in two tranches. The first tranche amounting to US$ 47.5 million was offered in November 2002, and it was oversubscribed by more than three times. The remaining tranche will be launched in April 2003. This fund will concentrate on industrial real estate investments including warehouses and distribution centres.


BGC
Brunei Gas Carriers Sdn Bhd
December 2001
FIRST
INDUSTRIAL
Kuwait Finance House
and
HSBC
First Industrial Realty Trust
have formed a
$300 million Joint Venture
to purchase a national portfolio
of industrial properties
Structured and Arranged by
Deutsche Banc Alex. Brown
Deutsche Bank
JPMorgan
NORIMET
KUWAIT FINANCE HOUSE
بيت التمويل الكويتي

With the intention of further diversifying our investment products, **KFH** plans to offer an investment product denominated in Euro. This has been made possible after our acquisition of a portfolio of Swedish Post Office assets valued at Euro 330 million. These comprise of 15 warehouse buildings and are leased to the Swedish Post Office on a long-term basis. The new Fund will be structured to give an opportunity for our customers to invest in this lucrative investment portfolio.

Financing Projects:

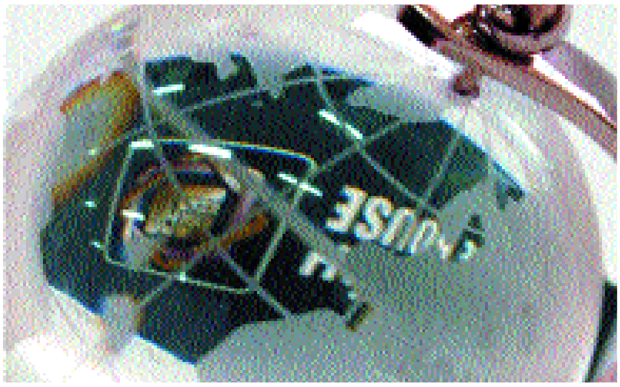
In another new transaction, **KFH** participated in financing the purchase of an Airbus plane for Emirates Airlines in cooperation with international Islamic institutions. The transaction value amounted to US$ 109 million of which 15% was financed by United Arab Emirates. Other key participants in the transaction included HSBC, Abu Dhabi Commercial Bank and Dubai Islamic Bank. This deal combined conventional and Islamic financing, which is a concept pioneered by **KFH** in the Equate financing transaction. This represented a significant achievement for the Islamic banking industry.

With the aim of expanding our services to Arab and international markets and in order to provide the best services to its customers, **KFH** declared the launch of a real estate Murabaha in Lebanon. This came as a response to the growing demand from our customers to offer services in line with our previous services to invest in residential properties in the United Kingdom.

KFH also plans to launch an aircraft leasing fund in the near future, namely, "MALC Fund" with a capital of US$ 200 million. MALC will purchase and lease commercial aircraft and is estimated to manage assets up to US$ 800 million.

Our Human Resources:

KFH takes pride in the quality and the level of skills of its work force. The bank now employs 41% local staff in its cadre and this percentage rises to 83% in the managerial positions. In this



respect, **KFH** participated in the holding of the first conference for Development of Human Resources in Kuwait in October 2002. The aim of **KFH** participation was to present **KFH** experience in developing and improving local employees as a successful model to develop local expertise for the rising demand in the Islamic financing industry.

Community Service:

With 25 years of experience, **KFH** has never missed any opportunity to develop and spread Islamic economic values. **KFH** participated in many Islamic conferences dealing with the integration of the new economic rules and theories with the Fiqh law. This has been accomplished through the hard work of the members of our Al-Fatwa and Shareea'a Supervisory Board. **KFH** organized and sponsored the Second Islamic Banks Conference on the theme - "Merging and the Challenges of Globalization" which was held under the patronage of His Excellency the Minister of Finance. A large number of economists from within and outside Kuwait attended the event. **KFH** also participated in the 9th International Islamic Conference held in Bahrain.

We were also involved in a number of developmental projects inside and outside Kuwait. In cooperation with the Kuwait Ministry of Health, **KFH** donated four million Kuwaiti Dinars to

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build a hospital for rehabilitation and treatment of drug addicts; the hospital is now 30% complete. By this **KFH** participates in the nation's fight against drug abuse and its negative social and economic effects on individuals and the society.

KFH also donated KD 350,000 to various public institutions in Kuwait as participation on its part to solve some social problems. These donations benefited more than seven organizations working in the fields of health, education, and special needs. **KFH** also donated KD 236,000 to build a new wing in the Health Care Hospital.

It gives me great pleasure to present you with a report about the most important events and economic fluctuations that prevailed in 2002 and the expectations of the future globally.

Growth Directions in the Kuwaiti Economy:
Despite the reduction in the actual quota of Kuwait oil production by 13%, more than what was estimated in the national budget, the stability in oil prices during the year 2002 contributed in lessening the sharp decline in the Kuwaiti economic performance. The strong external reserve position and continued inflow of United Nations compensation for damages caused by Iraqi invasion supported this performance. These factors increased liquidity in the domestic market and stimulated the activity in the capital markets, making the Kuwait Stock Exchange one of the best performing stock exchanges in 2001-02.

Kuwait achieved a budget surplus of KD 590.2 million for the fiscal year 2001-02 which is 6% of the Gross Domestic Product. This helped stabilize the inflation rate.

The Government expenditure witnessed a positive growth during the year 2002 which impacted positively on expenditures on construction and maintenance projects, higher level of liquidity, increase in housing loans by the government and decrease in interest rates, which led to the improvement in return on investments in real estate commercial and investment properties and clear increase in turnover in real estate market.

The exchange rate of Kuwaiti dinar enjoyed stability in 2002 where the Kuwait government took a decision in October 2002 to peg Kuwaiti dinar to US dollar instead of a basket of currencies, starting from January 2003. This decision goes in line with the proposed unified Gulf currency, which is to be finalized by the year 2010. In response to the changes in the international market, and to maintain the stability of Kuwaiti dinar, the Central Bank of Kuwait reduced the interest rate twice during 2002 with 0.5% point cut each time to bring the rate to 3.25%.

New developments in the regulatory front included the introduction of the Anti Money Laundering Law. The new law seeks to prevent money-laundering activities in line with the ongoing international efforts to prevent such activity.

Kuwait Investment Authority (KIA) finalized the privatization of the Bank of Kuwait and the Middle East with the aim of expanding private sector participation in economic development. This was achieved by divesting the government holding of 24.68% at a price of 300 fils per share at a total value of KD 93.4 million.

KIA applied a new approach to indirectly transfer its shareholding in local companies to the public by encouraging establishment of local investment funds. KIA will participate up to 50% in such funds. This will lead to the reduction in the government shareholdings in some local companies, and will promote the ongoing privatisation efforts.

Growth Trends in the Gulf Cooperation Council Countries:

Despite the political crisis in the region that prevailed in the last quarter of the year 2002, the strength of the oil prices during the last two years reflected positively on the economic performance of the GCC countries with regards to growth rates and current account surplus.

Projections show that during the year 2003 the GCC countries will continue their economic growth despite any fluctuations in oil prices due to concerns on Iraq.

Amongst the GCC countries, Saudi Arabia holds a leading position in terms of economic performance. The Saudi economy offered many new opportunities for the private sector to invest in the promising sectors including communication and power sectors. This contributed to the 3% to 4% growth in the non-oil sector. The year 2002 witnessed a turning point when the Saudi Arabian Monetary Agency offered three banking licenses to foreign banks.

Qatar's economy achieved a noticeable growth of 3% in the year 2002. The Sultanate of Oman showed a GDP growth of 2.5% underpinned by increased exports of natural gas amounting to US$ 1,200 million. UAE slowed down during the year with growth of only 1.7% in 2002. On the other hand, Bahrain's economy achieved a GDP growth of 3.8% in 2002.

Trends in International Growth:

The world economy is trying to regain its growth path by expanding international trading and industrial production. After a comparatively commendable performance in the first quarter of 2002, the growth patterns reversed towards the latter part of

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the year. This was attributed to the weakness in the financial markets, the stock markets and the decrease in the US dollar exchange rate since March 2002. Other contributing factors included the deteriorating investment climate in the financial markets of Latin America and Turkey. The IMF forecasts a lacklustre growth for the year 2003. There is considerable scepticism on worldwide economic outlook and a fear of world recession. Therefore, economic policies in developed countries need to be in line with the slowing down of economic growth.

Major industrial countries witnessed moderate economic growth during the year 2002. In the US, the GDP grew by 2.2% in the year 2002 as compared to 0.3% during 2001. It showed a strong growth in the first quarter of 2002 and then it started slowing down because of the uncertainties in the underlying economic fundamentals and the looming corporate scandals in large US corporations. Added to this, stock market scandals further depressed investor confidence leading to a dramatic fall in the Dow Jones Index by 28.6% when it declined to its lowest level in 2002.

In the Euro Zone the growth rates receded to 0.9% during the fiscal year 2002, compared to 1.5% during 2001. This slowdown was linked to poor economic performance in the US and Japan. This impacted the export growth of the Euro Zone, and consequently industrial output decreased in Germany, France, Italy and Spain – the largest industrial nations in Europe. This decline also included the private service sector in Germany. The economic growth rate in Germany went down from 0.6% to 0.5%, in France from 1.8% in 2001 to 1.2% in 2002, and in Italy 1.8% to 0.7%.

As for the UK the economic growth rate went down from 1.9% in 2001 to 1.7% in 2002. A strong Sterling, and consequently a weak demand for UK products, and fall in aviation industry and tourism business added to the woes.

Japan also suffered an economic deterioration for the second consecutive year to reach 0.5% in 2002 in comparison with 0.3% previously. This came as a result of the increase in unemployment and the decrease in private investment as well as the private consumption. Japan suffered a reduction in the profits of many of its large industrial companies and it did not accomplish any noticeable progress in the adoption of its economic reform program to revive its economy. Non-performing loans of the banking sector caused further trouble.

With regards to unemployment levels in the industrial countries, on average they rose by around 5.9% to 6.4% in 2002. US, Japan, Germany and France, witnessed an increase in unemployment levels, while UK witnessed a marginal decrease.

The inflation rates in the industrial countries declined in 2002. It slowed down from 2.8% in 2001 to 1.5% in 2002 in the US, from 2.2% to 1.4% in the UK and from 2.2% to 2.1% in the Euro Zone. Japan continued with a negative inflation of 1%, reflecting its continued economic problems.

Finally, we thank Allah for His blessings and for what we have accomplished and we plead to Allah to reward the efforts of **KFH** and what is beneficial to our dear country under the guidance and leadership of His Highness, the Amir of Kuwait, Sheikh Jaber Al Ahmed Al Jaber Al Sabah and His Highness, the Crown Prince and Prime Minister Sheikh Saad Al Abdullah Al Salem Al Sabah, may Allah protect them.

I express my sincere thanks to all public authorities and our dear customers who are always in support of this great Islamic institution.

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

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Auditors' Report

To the Shareholders of Kuwait Finance House K.S.C.

We have audited the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and Subsidiaries as of 31 December 2002, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the company's articles of association, that an inventory was duly carried out and 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 have occurred during the year ended 31 December 2002 that might have had a material effect on the business of the company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2002.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

JASSIM AHMAD AL-FAHAD
LICENCE NO. 53 A
AL-FAHAD & CO.
DELOITTE & TOUCHE

6 January 2003
Kuwait

Consolidated Balance Sheet

31 December 2002

	Notes	2002 KD 000's	2001 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	3	147,882	80,574
Short-term international murabaha		458,916	572,974
Receivables	4	1,285,361	1,179,845
Leased assets	5	107,662	51,764
Investments	6	250,763	208,456
Trading properties		112,098	108,698
Investment properties	7	104,684	96,338
Other assets		62,164	47,517
Property and equipment		24,847	29,321
TOTAL ASSETS		2,554,377	2,375,487
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	8	12,640	81,934
Depositors' accounts	9	1,976,861	1,775,156
Other liabilities		102,572	86,475
TOTAL LIABILITIES		2,092,073	1,943,565
DEFERRED REVENUE		175,724	172,513
FAIR VALUE RESERVE	10	5,771	2,923
MINORITY INTEREST		18,840	16,676
EQUITY			
Share capital	11	68,275	65,024
Proposed issue of bonus shares	12	3,414	3,251
Reserves	13	158,191	142,274
		229,880	210,549
Proposed cash dividend	12	32,089	29,261
TOTAL EQUITY		261,969	239,810
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY		2,554,377	2,375,487

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

JASSAR DAKHEEL AL-JASSAR
(GENERAL MANAGER)

The attached notes 1 to 25 form part of these consolidated financial statements.

Consolidated Statement of Income

Year ended 31 December 2002

	Notes	2002 KD 000's	2001 KD 000's
OPERATING INCOME			
Murabaha, Istisna'a and leasing		110,538	115,214
Subvention of government debt bonds		-	201
Investment income		22,221	16,487
Fee and commission income		9,459	7,449
Net gain from dealing in foreign currencies		833	1,142
Other operating income		3,473	2,687
		146,524	143,180
OPERATING EXPENSES			
General and administration		22,263	19,576
Depreciation		6,966	6,637
Provision for impairment		2,499	3,967
		31,728	30,180
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST		114,796	113,000
Minority interest		1,894	1,446
PROFIT FROM OPERATIONS BEFORE DISTRIBUTION TO DEPOSITORS		112,902	111,554
Distribution to depositors	9	56,582	58,382
		56,320	53,172
Contribution to Kuwait Foundation for the Advancement of Sciences		562	794
Directors' fees		90	80
PROFIT BEFORE NATIONAL LABOUR SUPPORT TAX		55,668	52,298
National Labour Support tax		1,055	971
NET PROFIT FOR THE YEAR		54,613	51,327
BASIC EARNINGS PER SHARE	14	80 fils	75 fils

The attached notes 1 to 25 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2002

			Reserves						
	Share capital KD 000's (Note 11)	Proposed issue of bonus shares KD 000's (Note 12)	Share premium KD 000's (Note 13)	Statutory reserve KD 000's (Note 13)	Voluntary reserve KD 000's (Note 13)	Treasury shares KD 000's	Sub total KD 000's	Proposed cash dividends KD 000's (Note 12)	Total equity KD 000's
At 31 December 2000	61,343	3,681	7,708	98,265	21,210	(741)	126,442	25,764	217,230
Movements during 2001:									
Issue of bonus shares	3,681	(3,681)	-	-	-	-		-	-
Zakat	-	-	-	-	(2,809)	-	(2,809)	-	(2,809)
Cash dividends paid	-	-	-	-	-	-	-	(25,764)	(25,764)
Net movement in treasury shares	-	-	-	-	-	(173)	(173)	-	(173)
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	13,497	-	-	13,497	-	13,497
Transfer to voluntary reserve	-	-	-	-	5,317	-	5,317	-	5,317
Proposed issue of bonus shares	-	3,251	-		-	-	-	-	3,251
Proposed cash dividend	-	-	-	-	-	-	-	29,261	29,261
At 31 December 2001	65,024	3,251	7,708	111,762	23,718	(914)	142,274	29,261	239,810
Movements during 2002:									
Issue of bonus shares	3,251	(3,251)	-	-	-	-		-	-
Zakat	-	-	-	-	(3,205)	-	(3,205)	-	(3,205)
Cash dividends paid	-	-	-	-	-	-	-	(29,261)	(29,261)
Net movement in treasury shares	-	-	-	-	-	12	12	-	12
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	13,478	-	-	13,478	-	13,478
Transfer to voluntary reserve	-	-	-	-	5,632	-	5,632	-	5,632
Proposed issue of bonus shares	-	3,414	-	-	-	-	-	-	3,414
Proposed cash dividend	-	-	-	-	-	-	-	32,089	32,089
At 31 December 2002	68,275	3,414	7,708	125,240	26,145	(902)	158,191	32,089	261,969

The attached notes 1 to 25 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2002

	Notes	2002 KD 000's	2001 KD 000's
OPERATING ACTIVITIES			
Net profit for the year		54,613	51,327
Adjustment for:			
Depreciation		6,966	6,637
Provision for impairment		2,499	3,967
Operating profit before changes in operating assets and liabilities		64,078	61,931
(Increase) decrease in operating assets:			
Exchange of deposits - given		(26,624)	-
Receivables		(92,871)	(232,532)
Leased assets		(55,318)	26,090
Trading properties		(3,160)	(14,147)
Other assets		(15,763)	(15,227)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		(69,294)	74,319
Depositors' accounts		201,705	228,091
Other liabilities		18,263	14,956
Deferred revenue		3,211	7,006
Net cash from operating activities		24,227	150,487
INVESTING ACTIVITIES			
Redemption of government debt bonds		-	19,087
Purchase of investments		(38,413)	(50,971)
Purchase of investment properties		(6,053)	(43,329)
Purchase of property and equipment		(11,096)	(10,643)
Proceeds from sale of property and equipment		6,355	3,712
Net cash used in investing activities		(49,207)	(82,144)
FINANCING ACTIVITIES			
Cash dividends paid		(29,261)	(25,764)
Payment of Zakat		(3,205)	(2,809)
Net cash used in financing activities		(32,466)	(28,573)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(57,446)	39,770
Cash and cash equivalents at 1 January		362,527	322,757
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	305,081	362,527

The attached notes 1 to 25 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2002

1. ACTIVITIES

The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiaries (the group) for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the board of directors on 6 January 2003.

The group comprises Kuwait Finance House (the parent company) and its subsidiaries. The parent company is a public shareholding company incorporated in Kuwait on 23 March 1977 and 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 parent company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

Details of the consolidated subsidiaries are included in Note 15.

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

The parent company operates through 27 local branches (2001: 26) and employed 1,393 employees as of 31 December 2002 (2001: 1,353).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in conformity with Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The consolidated financial statements are prepared under the historical cost convention, except for the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous year.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2002, Al Enma'a Real Estate Company K.S.C. (Closed) for the year ended 31 October 2002, The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed) for the year ended 31 October 2002 and Al Muthana Investments Company K.S.C. (Closed) for the year ended 30 September 2002. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

The financial statements used in consolidation are drawn up to different reporting dates, hence adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and 31 December 2002, the reporting date of the parent company.

One of the consolidated subsidiaries uses an accounting policy other than that adopted in the consolidated financial statements for certain assets. Hence, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

Other subsidiaries listed in Note 6 are not significant to the financial position or results of the group and, accordingly, are not consolidated. Similarly, investments in associated companies listed in Note 6 are not significant and, accordingly, are not accounted for under the equity method of accounting. These investments are classified as "available for sale" investments.

Notes to the Consolidated Financial Statements

31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term international murabaha

Short-term international murabaha are financial assets originated by the parent company and represent deals with high credit quality international banks and financial institutions with a residual maturity of upto three months from the balance sheet date. These are stated at amortised cost.

Receivables

Receivables are financial assets originated by the group and principally comprise Murabaha and Istisna'a receivables. These are stated at amortised cost.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows discounted at original profit rates, recognised in the consolidated statement of income. For receivables, the future anticipated, cash flows would include anticipated recoveries from guarantees and collateral.

In addition, a provision is made to cover impairment which, although not specifically identified, are deemed to be present in the group's portfolio of receivables. These are estimated based on the historical patterns of losses in each component, the credit ratings allocated to the debtors, the current economic investment in which the debtors operate and Central Bank of Kuwait guidelines.

Leased assets

This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be sufficiently lower than fair value of such assets at the time when such option is exercised.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

Investments

Investments are classified as available for sale investments.

Investments are initially recognised at cost and are subsequently remeasured to fair value. Changes in fair value are reported in the fair value reserve until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain or loss previously included within the fair value reserve is included within gain on sale of available for sale investments in the consolidated statement of income.

Notes to the Consolidated Financial Statements

31 December 2002

Trading properties

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

Investment properties

Investment properties are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties other than freehold land which is deemed to have an indefinite life. The carrying amounts are reviewed at each balance sheet date on an individual basis by reference to their fair value to assess whether they are recorded in excess of their recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Impairment losses, if any, are recognised in the consolidated statement of income where carrying values exceed the recoverable amount.

Fair Values

Investments

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment, or the underlying net asset base of the investment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Investment properties

For local investment properties, fair value is determined by the group's specialist resources which have recent experience in the local property market. For overseas investment properties, fair value is determined based on external valuations by independent, registered real estate valuers.

Financial assets and liabilities

For financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Revenue recognition

i) Income from Murabaha and Istisna'a is recognised on a time apportionment basis.
ii) Income from leased assets is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.
iii) Rental income from investment properties is recognised on a time apportionment basis.
iv) Dividend income, including dividend income on own shares (held on behalf of depositors), is recognised when the right to receive payment is established.
v) Fee and commission income is recognised at the time the related services are provided.

Notes to the Consolidated Financial Statements

31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat

Zakat is calculated at 2.577% on the reserves of the parent company (excluding proposed distributions) at the end of the year before transfers to reserves for the year, and paid under the direction of the parent company's Fatwa and Shareea'a Supervisory Board. Zakat is charged to voluntary reserve.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis, as to realise the assets and liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with banks and financial institutions, international murabaha contracts and exchange of deposits maturing within three months of contract date.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly are not included in these consolidated financial statements.

3. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2002 KD 000's	2001 KD 000's
Cash	25,317	18,062
Balances with the Central Bank of Kuwait	13,787	50,122
Balances with banks and financial institutions - current accounts	10,871	12,390
Balances with banks and financial institutions - exchange of deposits	97,907	-
Cash and balances with banks and financial institutions	147,882	80,574
Short-term international murabaha – maturing within 3 months of contract date	183,823	281,953
Exchange of deposits – maturing after 3 months of contract date	(26,624)	-
Cash and cash equivalents	305,081	362,527

In accordance with Islamic Shareea'a, no interest is receivable on amounts due from banks and financial institutions.

Notes to the Consolidated Financial Statements

31 December 2002

The parent company exchanges deposits with high credit quality banks and financial institutions in local and foreign currencies with the legal right reserved to set off such deposits exchanged in the event that a bank or a financial institution becomes insolvent. The gross balances of deposits exchanged were as follows:

	2002 KD 000's	2001 KD 000's
Due from banks and financial institutions	392,570	249,889
Due to banks and financial institutions	(306,114)	(329,593)
	86,456	(79,704)

Included in the consolidated balance sheet as net balances:

	2002 KD 000's	2001 KD 000's
In assets:		
Cash and balances with banks and financial institutions - exchange of deposits	97,907	-
In liabilities:		
Due to banks and financial institutions - exchange of deposits (Note 8)	(11,451)	(79,704)
	86,456	(79,704)

The fair value of cash and balances with banks and financial institutions do not differ from their respective book values.

4. RECEIVABLES

Receivables principally comprise Murabaha and Istisna’a balances and are stated net of provision for impairment.

The composition of receivables is as follows:

	2002 KD 000's	2001 KD 000's
Trading and manufacturing	129,418	120,214
Banks and financial institutions	286,164	248,049
Construction and real estate	398,920	387,707
Individuals	551,226	503,366
Other	24,247	22,010
	1,389,975	1,281,346
Less: provision for impairment	(104,614)	(101,501)
	1,285,361	1,179,845

Notes to the Consolidated Financial Statements

31 December 2002

4. RECEIVABLES (continued)

The movement in the provision for impairment during the year was as follows:

	2002 KD 000's	2001 KD 000's
Balance at 1 January	101,501	107,450
Provided during the year	3,134	53
Amounts written off during the year	(21)	(6,002)
Balance at 31 December	104,614	101,501

Provisions include certain amounts in respect of debts purchased by the Central Bank of Kuwait. Such provisions must be ceded to the Central Bank of Kuwait when they are no longer required.

Whenever necessary, murabaha receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Real estate murabaha receivables are secured by mortgage on the underlying property.

Receivables from banks and financial institutions comprise mainly murabaha transactions with high credit quality "AA" rated banks.

The group's receivables are principally concentrated in Kuwait.

The fair values of receivables do not differ from their respective book values.

5. LEASED ASSETS

The net investment comprises the following:

	2002 KD 000's	2001 KD 000's
Gross investment	114,365	56,154
Unearned revenue	(4,382)	(1,490)
Provision for impairment	(2,321)	(2,900)
	107,662	51,764

The future minimum lease payments receivable in the aggregate are as follows:

	2002 KD 000's	2001 KD 000's
Within one year	47,510	16,182
One to five years	40,124	23,653
Later than five years	26,731	16,319
	114,365	56,154

The unguaranteed residual value of the leased assets at 31 December 2002 is estimated at KD Nil (2001: KD Nil).

Notes to the Consolidated Financial Statements

31 December 2002

6. INVESTMENTS

	2002 KD 000's	2001 KD 000's
Investments in securities and managed portfolios	115,302	110,506
Investments in unconsolidated subsidiaries and associated companies:		
Unconsolidated subsidiaries	93,598	37,295
Associated companies	41,863	60,655
	250,763	208,456
Investments carried at fair value	115,302	110,506
Investments carried at cost less impairment	135,461	97,950
	250,763	208,456

Included in investments in securities and managed portfolios is an amount of KD 4,099 thousand (2001: KD 3,564 thousand) which represents the group's investment in 5,594 thousand (2001: 5,280 thousand) of its own shares on behalf of depositors, equivalent to 0.82% of the total issued share capital at 31 December 2002 (2001: 0.81%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares continue to be classified under investments in securities and managed portfolios.

The details of the group's unconsolidated subsidiaries and associated companies are as follows:

Unconsolidated subsidiaries:

	Interest in equity %	Country of registration	Principal activities
Gulf International Automobile Trading Company K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
Kuwait Finance House B.S.C.	100	Bahrain	Islamic banking services
Malaysian KFH Capital Sdn. Bhd	100	Malaysia	Investment holding company
Zaafran Investment Limited	100	Cayman	Financial services
International Turnkey Systems Company K.S.C. (Closed)	85	Kuwait	Development of computer software and hardware
Aviation Lease and Finance Company K.S.C. (Closed)	85	Kuwait	Leasing and financing of aircraft
Aviation Lease and Finance Company	80	Bermuda	Leasing and financing of aircraft
KFH Ijarah House (Malaysia) Sdn. Bhd	70	Malaysia	Leasing, finance and murabaha
Human Investment Corporation for Training and Consulting K.S.C. (Closed)	69	Kuwait	Training services
Nakheel United Real Estate Company K.S.C. (Closed)	67	Kuwait	Real estate investment and trading
Kuwait Turkish Evkaf Finance House	62	Turkey	Islamic banking services
Aref Investment Group K.S.C. (Closed)	52	Kuwait	Islamic investments

Notes to the Consolidated Financial Statements

31 December 2002

6. INVESTMENTS (continued)

Associated companies:

	Interest in equity %	Country of registration	Principal activities
Kuwait Auction Company K.S.C. (Closed)	40	Kuwait	Auctioning services
Al Salaam Hospital Company K.S.C. (Closed)	38	Kuwait	Health care
First Takaful Insurance Company K.S.C. (Closed)	27	Kuwait	Islamic Takaful insurance
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments
A'ayan Leasing & Investment Company K.S.C. (Closed)	25	Kuwait	Leasing and Islamic investments
Liquidity Management Centre Company B.S.C. (Closed)	25	Bahrain	Islamic banking and financial services
National Bank of Sharjah PJSC	20	United Arab Emirates	Islamic banking services

7. INVESTMENT PROPERTIES

	2002 KD 000's	2001 KD 000's
At 1 January	96,338	57,897
Additions	16,181	60,148
Disposals, at net book value	(6,053)	(16,819)
Depreciation charged for the year	(1,825)	(1,580)
Impairment losses released (recognised)	43	(3,308)
At 31 December	104,684	96,338

	2002 KD 000's	2001 KD 000's
Cost	129,794	119,666
Accumulated depreciation	(16,388)	(14,563)
Impairment	(8,722)	(8,765)
	104,684	96,338

Included in investment properties is an investment in Al-Muthana Complex in Kuwait which is constructed on land leased from the Government of Kuwait. The ownership of the building, as well as any results from the activities relating to the investment, are attributed only to the shareholders of the parent company.

The fair value of the investment properties at the balance sheet date is KD 116,890 thousand (2001: KD 106,619 thousand).

Notes to the Consolidated Financial Statements

31 December 2002

8. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2002 KD 000's	2001 KD 000's
Balances due to banks and financial institutions - current accounts	1,189	2,230
Balances due to banks and financial institutions - exchange of deposits (Note 3)	11,451	79,704
	12,640	81,934

In accordance with Islamic Shareea'a, no interest is payable on accounts due to banks and financial institutions, the fair values of balances due to banks and financial institutions do not differ from their respective book value.

9. DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the parent company comprise the following:

i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the parent company guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the parent company on the grounds of Islamic Shareea'a.

ii) Investment deposits comprise deposits for unlimited periods, limited periods and savings accounts. Unlimited investment deposits are initially valid for one year and are automatically renewable for the same period unless notified to the contrary in writing by the depositors. Investment deposits for a limited period are initially valid for one year and are renewable only by specific instructions from the depositors concerned. Investment savings accounts are valid for an unlimited period.

In all cases the investment deposits receive a proportion of the profit as the board of directors of the parent company determines, or bear a share of loss based on the results of the financial year.

The parent company generally invests approximately 90% of investment deposits for an unlimited period (Mustamera), 80% of investment deposits for a limited period, 70% investment deposits for an unlimited period (Al-Sedra), 70% of short term investment deposits and 60% of investment savings accounts. The parent company guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered Qard Hasan from depositors to the parent company, on the grounds of Islamic Shareea'a. Investing such Qard Hasan is made at the discretion of the board of directors of the parent company and the results of which are attributable to the shareholders of the parent company.

Notes to the Consolidated Financial Statements

31 December 2002

9. DEPOSITORS' ACCOUNTS (continued)

b) On the basis of the results for the year the board of directors of the parent company determined the depositors' share of profit at the following rates:

	2002 % per annum	2001 % per annum
Investment deposits for an unlimited period ("Mustamera")	4.500	5.250
Investment deposits for a limited period ("Muhaddadah")	4.000	4.667
Investment deposits for an unlimited period ("Al-Sedra")	3.500	4.083
Short-term investment deposits ("Thulatheeyah")	1.730	2.950
Investment savings accounts ("Tawfeer")	3.000	3.500

c)The fair values of depositors' accounts do not differ from their respective book values.

10. FAIR VALUE RESERVE

The adoption of IAS 39 during 2001 resulted in a credit adjustment reported in the fair value reserve. Management of the parent company is of the opinion that since a significant proportion of this reserve is attributable to its depositors and would be allocated to depositors on realisation, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

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

	2002 KD 000's	2001 KD 000's
Balance at 1 January	2,923	1,716
Change in fair value during the year	3,028	1,207
Realised during the year	(180)	-
Balance at 31 December	5,771	2,923

11. SHARE CAPITAL

The Extraordinary General Assembly of the shareholders of the parent company held on 18 February 2002, approved an increase in the authorised and paid-up share capital by the issuance of 32,512 thousand (2001: 36,810 thousand) bonus shares of 100 fils each. The bonus shares were issued by a transfer from profits for the year ended 31 December 2001. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2002 comprises 682,749 thousand (2001: 650,237 thousand) shares of 100 fils each.

12. PROPOSED CASH DIVIDEND AND ISSUE OF BONUS SHARES

The board of directors of the parent company have proposed cash dividend of 47% for the year ended 31 December 2002 (2001: 45%) and an issue of bonus shares of 5% (2001: 5%) of paid-up share capital. This proposal is subject to the approval of the Ordinary General Assembly of the shareholders of the parent company and completion of legal formalities. Proposed dividend are shown as a separate component of equity.

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13. RESERVES

The Extraordinary General Assembly of the parent company held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the net profit for the year to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the parent company. As a result, an amount of KD 13,478 thousand equivalent to approximately 24% (2001: KD 13,497 thousand equivalent to approximately 25%), of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to statutory reserve. The Ordinary General Assembly may resolve to discontinue such annual transfers, if proposed by the board of directors of the parent company.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and useable at the discretion of the Ordinary General Assembly in ways that may be deemed beneficial to the parent company. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to voluntary reserve.

The share premium account is not available for distribution.

14. BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the year of KD 54,613 thousand (2001: KD 51,327 thousand) and the weighted average number of ordinary shares outstanding during the year of 681,688 thousand (2001: 682,106 thousand) after adjusting for treasury shares held by the group.

15. CONSOLIDATED SUBSIDIARIES

Details of consolidated subsidiaries are set out below:

Name	Country of registration	Interest in equity %	Principal activities
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	Real estate, investment, trading and management.
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	Kuwait	100	Contracting, trading and project management.
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	Islamic investments.

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16. 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:

	2002 KD 000's	2001 KD 000's
Acceptances and letters of credit	29,021	23,934
Guarantees	112,212	90,727
	141,233	114,661
Capital commitments	102,968	82,439

17. RELATED PARTY TRANSACTIONS

Certain related parties (directors and officers of the group, their families and companies of which they are principal owners) were depositors and credit customers of the parent company, in the ordinary course of business. Transactions with the directors are approved by the Ordinary General Assembly of the shareholders of the parent company. The year end balances of related parties included in the balance sheet are considered insignificant.

18. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the parent company's Board of Directors and a continuous assessment of the group's open positions, current and expected exchange rate movements. The group where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

The group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2002 KD 000's equivalent	2001 KD 000's equivalent
U.S. Dollars	97,893	2,909
Sterling Pounds	(10,686)	(8,590)
Japanese Yen	(253)	(880)
Euros	111	681
Gulf Cooperation Council currencies	(12,610)	(14,559)
Others	1,039	390

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19. SEGMENTAL ANALYSIS

Primary segment information

For management purposes the parent company is organised into three major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, international murabaha investments, exchange of deposits with banks and financial institutions and international banking relationships.

Investment: Managing direct investments, investments in subsidiaries, associated companies and international leasing.

Retail and corporate banking: Providing a range of banking services and investment products to corporate and individual customers, providing commodity and real estate murabaha finance, local leasing, wakala and Istisna'a facilities.

31 December 2002	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	147,882	-	-	-	147,882
Short-term international murabaha	444,172	14,744	-	-	458,916
Receivables	220,946	7,261	1,048,488	8,666	1,285,361
Leased assets	-	69,406	38,256	-	107,662
Investments	-	250,763	-	-	250,763
Trading properties	-	112,098	-	-	112,098
Investment properties	-	104,684	-	-	104,684
Other assets	-	5,318	50,641	6,205	62,164
Property and equipment	393	188	15,416	8,850	24,847
	813,393	564,462	1,152,801	23,721	2,554,377
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	12,640	-	-	-	12,640
Depositors' accounts	130	67,578	1,682,325	226,828	1,976,861
Other liabilities	40	3,759	60,110	38,663	102,572
Deferred revenue	7,490	-	168,234	-	175,724
Fair value reserve	-	5,771	-	-	5,771
Minority interest	-	-	-	18,840	18,840
Equity	-	-	-	261,969	261,969
	20,300	77,108	1,910,669	546,300	2,554,377
Revenue	23,839	18,570	98,616	5,499	146,524
Profit from operations before distribution to depositors	18,338	14,435	77,447	2,682	112,902

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19. SEGMENTAL ANALYSIS (continued)

31 December 2001	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	80,574	-	-	-	80,574
Short-term international murabaha	572,974	-	-	-	572,974
Receivables	184,487	5,341	982,066	7,951	1,179,845
Leased assets	-	44,367	7,397	-	51,764
Investments	-	208,456	-	-	208,456
Trading properties	-	108,698	-	-	108,698
Investment properties	-	96,338	-	-	96,338
Other assets	-	3,599	38,909	5,009	47,517
Property and equipment	443	207	13,829	14,842	29,321
	838,478	467,006	1,042,201	27,802	2,375,487
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	81,934	-	-	-	81,934
Depositors' accounts	117	60,683	1,510,672	203,684	1,775,156
Other liabilities	59	294	47,610	38,512	86,475
Deferred revenue	4,420	-	168,093	-	172,513
Fair value reserve	-	2,923	-	-	2,923
Minority interest	-	-	-	16,676	16,676
Equity	-	-	-	239,810	239,810
	86,530	63,900	1,726,375	498,682	2,375,487
Revenue	31,930	15,741	91,203	4,306	143,180
Profit from operations before distribution to depositors	25,300	13,238	71,017	1,999	111,554

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Secondary segment information

The group operates in different geographical areas. A geographical analysis based on location of assets is as follows:

	Assets		Liabilities, deferred revenue, fair value reserve, minority interest and equity		Contingencies and commitments under letters of credit and guarantees	
	2002 KD 000's	2001 KD 000's	2002 KD 000's	2001 KD 000's	2002 KD 000's	2001 KD 000's
Geographical areas:						
Kuwait and the rest of Middle East	2,102,549	1,771,374	2,548,357	2,352,678	102,167	80,263
North America	92,070	207,244	757	9,159	2,419	1,146
Western Europe	333,574	384,824	4,498	12,761	7,257	5,733
Others	26,184	12,045	765	889	29,390	27,519
	2,554,377	2,375,487	2,554,377	2,375,487	141,233	114,661

	Local		International		Total	
	2002 KD 000's	2001 KD 000's	2002 KD 000's	2001 KD 000's	2002 KD 000's	2001 KD 000's
Revenue	120,422	110,327	26,102	32,853	146,524	143,180
Profit from operations before distribution to depositors	92,452	85,626	20,450	25,928	112,902	111,554

20. CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

The distribution of assets by industry sector was as follows:

	2002 Assets KD 000's	2001 Assets KD 000's
Trading and manufacturing	187,272	190,604
Banks and financial institutions	1,070,727	1,074,650
Construction and real estate	742,784	616,016
Others	553,594	494,217
	2,554,377	2,375,487

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21. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

All policies relating to credit including the determination of approval limits are approved by the parent company's Board of Directors.

The group manages credit risk on both an individual counterparty and portfolio or product line basis together with geographical and business diversification to avoid undue concentration of risk. Credit limits or individual transactions resulting in credit risk are approved in accordance with appropriately defined procedures for the assessment of creditworthiness, collateral requirements and approval limits by the group's management and executive credit committees. Security is obtained when considered appropriate and is considered by management in the determination of provisions. The group's credit granting process including the subsequent monitoring, timely identification of defaults and determination of provisions are subject to periodic independent internal reviews.

22. LIQUIDITY RISK

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

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The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2002 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	2002 Total KD 000's
Assets					
Cash and balances with banks and financial institutions	121,258	26,624	-	-	147,882
Short-term international murabaha	458,916	-	-	-	458,916
Receivables	172,430	282,114	187,179	643,638	1,285,361
Leased assets	4,490	4,325	33,475	65,372	107,662
Investments	-	-	-	250,763	250,763
Trading properties	-	-	112,098	-	112,098
Investment properties	-	-	-	104,684	104,684
Other assets	36,378	-	19,932	5,854	62,164
Property and equipment	-	-	-	24,847	24,847
	793,472	313,063	352,684	1,095,158	2,554,377
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	12,640	-	-	-	12,640
Depositors' accounts	924,994	261,879	161,525	628,463	1,976,861
Other liabilities	67,041	5,794	29,737	-	102,572
Deferred revenue	26,894	21,172	30,708	96,950	175,724
Fair value reserve	-	-	-	5,771	5,771
Minority interest	-	-	-	18,840	18,840
Equity	-	-	-	261,969	261,969
	1,031,569	288,845	221,970	1,011,993	2,554,377

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22. LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2001 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	2001 Total KD 000's
Assets					
Cash and balances with banks and financial institutions	80,574	-	-	-	80,574
Short-term international murabaha	572,974	-	-	-	572,974
Receivables	165,853	181,987	185,622	646,383	1,179,845
Leased assets	5,096	2,936	5,254	38,478	51,764
Investments	-	-	-	208,456	208,456
Trading properties	-	-	108,698	-	108,698
Investment properties	-	-	-	96,338	96,338
Other assets	28,941	-	14,820	3,756	47,517
Property and equipment	-	-	-	29,321	29,321
	853,438	184,923	314,394	1,022,732	2,375,487
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	81,934	-	-	-	81,934
Depositors' accounts	753,836	227,829	147,575	645,916	1,775,156
Other liabilities	60,124	2,865	23,486	-	86,475
Deferred revenue	23,430	18,577	30,345	100,161	172,513
Fair value reserve	-	-	-	2,923	2,923
Minority interest	-	-	-	16,676	16,676
Equity	-	-	-	239,810	239,810
	919,324	249,271	201,406	1,005,486	2,375,487

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23. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions, trends and management's estimate of long and short term changes in fair value.

The group is not exposed to any risk in terms of the repricing of its liabilities since in accordance with Islamic Shareea'a the group does not provide contractual rates of return to its depositors.

24. FINANCIAL INSTRUMENTS

In the ordinary course of business, the group uses primary financial instruments such as cash and balances with or due to banks and other financial institutions, investments in securities and managed portfolios, receivables and payables. The group does not make use of derivative financial instruments. Information about fair values of financial assets and liabilities are disclosed in the related notes to the consolidated financial statements.

25. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2002 amounted to KD 324,278 thousand (2001: KD 339,784 thousand).