

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

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

30 SEPTEMBER 2004

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

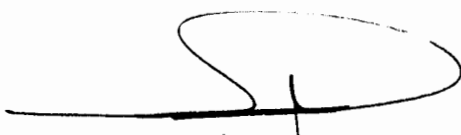
We have reviewed the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and Subsidiaries at 30 September 2004, and the related consolidated statements of income, changes in equity and cash flows for the nine month period then ended. These interim condensed consolidated financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.


We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

Furthermore, based on our review, the interim condensed consolidated financial statements are in agreement with the books of the company. We further report that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association of the company have occurred 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 review, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.


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


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

3 October 2004

Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

30 September 2004

		<i>3 months ended</i> <i>30 September</i> <i>2004</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 September</i> <i>2003</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2004</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2003</i> <i>KD 000's</i>
OPERATING INCOME					
Murabaha, Istisna'a and leasing income		34,046	26,671	100,072	78,794
Investment income		8,559	13,321	32,117	32,585
Fee and commission income		3,577	2,866	10,029	7,258
Net gain (loss) from dealing in foreign currencies		262	(1,587)	895	(929)
Other operating income		2,509	963	4,137	2,515
		<u>48,953</u>	<u>42,234</u>	<u>147,250</u>	<u>120,223</u>
OPERATING EXPENSES					
General and administrative expenses		7,848	8,076	23,219	18,466
Depreciation		1,112	1,864	4,130	5,604
Provision for impairment		2,528	1,981	5,134	3,481
		<u>11,488</u>	<u>11,921</u>	<u>32,483</u>	<u>27,551</u>
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST		<u>37,465</u>	<u>30,313</u>	<u>114,767</u>	<u>92,672</u>
Minority interest		(512)	(698)	(1,692)	(1,831)
PROFIT FROM OPERATIONS BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS		<u>36,953</u>	<u>29,615</u>	<u>113,075</u>	<u>90,841</u>
Estimated distribution to depositors	3	(20,176)	(16,524)	(63,037)	(51,072)
PROFIT FOR THE PERIOD		<u>16,777</u>	<u>13,091</u>	<u>50,038</u>	<u>39,769</u>
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(167)	(131)	(500)	(397)
Provision for National Labour Support tax		(299)	(273)	(893)	(819)
NET PROFIT FOR THE PERIOD	3	<u>16,311</u>	<u>12,687</u>	<u>48,645</u>	<u>38,553</u>
BASIC EARNINGS PER SHARE	4	<u>21 fils</u>	<u>17 fils</u>	<u>63 fils</u>	<u>51 fils</u>

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET (UNAUDITED)

30 September 2004

		(Audited)	
	30 September 2004	31 December 2003	30 September 2003
	Note	KD 000's	KD 000's
ASSETS			
Cash and balances with banks and financial institutions		113,072	129,208
Short-term international murabaha		450,521	369,369
Receivables		1,447,109	1,457,494
Leased assets		480,054	287,990
Investments		513,103	433,410
Trading properties		108,775	141,210
Investment properties		103,972	100,852
Other assets		73,518	63,021
Property and equipment		68,995	58,556
TOTAL ASSETS		3,359,119	3,041,110
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY			
LIABILITIES			
Due to banks and financial institutions		24,364	63,676
Depositors' accounts		2,636,228	2,300,161
Other liabilities		156,956	169,864
TOTAL LIABILITIES		2,817,548	2,533,701
DEFERRED REVENUE		183,285	182,410
FAIR VALUE RESERVE	5	37,415	19,776
MINORITY INTEREST		20,509	19,934
EQUITY			
Share capital	6	78,141	71,689
Proposed issue of bonus shares	6	-	4,301
Reserves		173,576	172,752
Net profit for the period		48,645	-
Proposed cash dividend		300,362	248,742
		-	35,844
TOTAL EQUITY		300,362	284,586
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY		3,359,119	3,041,110

BADER ABULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

JASSAR DAKHEEL AL-JASSAR
(GENERAL MANAGER)

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

30 September 2004

	Reserves									
	Share capital KD 000's	Proposed issue of bonus shares KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares KD 000's	Sub total KD 000's	Net profit for the period KD 000's	Proposed cash dividends KD 000's	Total equity KD 000's
At 1 January 2003	68,275	3,414	7,708	125,240	26,145	(902)	158,191	-	32,089	261,969
Movements during the period:										
Issue of bonus shares	3,414	(3,414)	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	71	-	-	-	71	-	-	71
Zakat	-	-	-	-	(3,607)	-	(3,607)	-	-	(3,607)
Cash dividends paid	-	-	-	-	-	-	-	-	(32,089)	(32,089)
Net movement in treasury shares	-	-	-	-	-	219	219	-	-	219
Net profit for the period	-	-	-	-	-	-	-	38,553	-	38,553
At 30 September 2003	71,689	-	7,779	125,240	22,538	(683)	154,874	38,553	-	265,116
At 1 January 2004	71,689	4,301	7,826	137,251	28,542	(867)	172,752	-	35,844	284,586
Movements during the period:										
Issue of bonus shares (Note 6)	4,301	(4,301)	-	-	-	-	-	-	-	-
Issue of shares for cash (Note 6)	2,151	-	4,774	-	-	-	4,774	-	-	6,925
Cash received on cancellation of share options	-	-	10	-	-	-	10	-	-	10
Zakat	-	-	-	-	(4,010)	-	(4,010)	-	-	(4,010)
Cash dividends paid	-	-	-	-	-	-	-	-	(35,844)	(35,844)
Net movement in treasury shares	-	-	-	-	-	50	50	-	-	50
Net profit for the period	-	-	-	-	-	-	-	48,645	-	48,645
At 30 September 2004	78,141	-	12,610	137,251	24,532	(817)	173,576	48,645	-	300,362

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

30 September 2004

	<i>Note</i>	9 months ended 30 September 2004 KD 000's	9 months ended 30 September 2003 KD 000's
OPERATING ACTIVITIES			
Net profit for the period		48,645	38,553
Adjustment for:			
Depreciation		4,130	5,604
Provision for impairment		5,134	3,481
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		57,909	47,638
<i>(Increase) decrease in operating assets:</i>			
Exchange of deposits		(8,548)	(54,465)
Receivables		79,262	(146,447)
Leased assets		(191,920)	(136,117)
Trading properties		32,445	(25,561)
Other assets		13,418	(8,644)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		(39,313)	38,280
Depositors' accounts		336,067	329,520
Other liabilities		(13,034)	65,419
Deferred revenue		875	4,724
		<hr/>	<hr/>
Net cash from operating activities		267,161	114,347
INVESTING ACTIVITIES			
Purchase of investments		(62,193)	(142,565)
(Purchase) sale of investment properties		(4,363)	3,710
Purchase of property and equipment		(37,873)	(30,913)
		<hr/>	<hr/>
Net cash used in investing activities		(104,429)	(169,768)
FINANCING ACTIVITIES			
Issue of shares		6,925	-
Cash received on cancellation of shares options		10	71
Cash dividends paid		(35,844)	(32,089)
Payment of Zakat		(4,010)	(3,607)
Net movement in treasury shares		50	219
		<hr/>	<hr/>
Net cash used in financing activities		(32,869)	(35,406)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		129,863	(90,827)
Cash and cash equivalents at the beginning of the period		238,426	305,081
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8	368,289	214,254

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 September 2004

1 ACTIVITIES

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. and Subsidiaries (the group) for the period ended 30 September 2004 were authorised for issue in accordance with a resolution of the board of directors on 3 October 2004.

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

For details of consolidated subsidiaries please see Note 7.

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

2 BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the group have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2003.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2004.

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

Management of the parent company is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the estimated distribution to depositors and the net profit for the period attributable to shareholders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 30 September 2004, or for the year ending 31 December 2004.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the parent company in accordance with the parent company's articles of association, based on the annual audited results for the year ending 31 December 2004.

4 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the period of KD 48,645 thousand (30 September 2003: KD 38,553 thousand) and the weighted average number of ordinary shares outstanding during the period of 770,749 thousand (30 September 2003: 759,072 thousand) after adjusting for treasury shares held by the group.

The basic earnings per share of the comparative period has been restated on account of the bonus shares issued during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 September 2004

5 FAIR VALUE RESERVE

The adoption of International Accounting Standard 39: Financial Instruments: Recognition and Measurement 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:

	<i>30 September</i> <i>2004</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2003</i> <i>KD 000's</i>	<i>30 September</i> <i>2003</i> <i>KD 000's</i>
Balance at beginning of the period	19,776	5,771	5,771
Change in fair value during the period	17,804	13,188	7,458
(Gain) loss realised during the period	(165)	428	428
Impairment loss recognised during the period	-	389	337
Balance at end of the period	<u>37,415</u>	<u>19,776</u>	<u>13,994</u>

6 SHARE CAPITAL

The extraordinary general assembly meeting of the parent company held on 16 February 2004 approved an increase in the authorised share capital from KD 71,689 thousand to KD 78,141 thousand by way of an issue of 6% bonus shares amounting to KD 4,301 thousand and 21,506,575 shares under an employee share purchase scheme amounting to KD 2,151 thousand. The employee share purchase scheme shares were issued at par value of 100 fils and premium of 222 fils per share.

7 CONSOLIDATED SUBSIDIARIES

Details of consolidated subsidiaries are set out below:

<i>Name</i>	<i>Country of registration</i>	<i>Interest in equity</i> %	<i>Principal activities</i>
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

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 September 2004

8 CASH AND CASH EQUIVALENTS

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

	30 September 2004	<i>(Audited)</i> 31 December 2003	30 September 2003
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Cash and balances with banks and financial institutions	113,072	129,208	163,766
Short-term international murabaha – maturing within 3 months of contract date	263,764	109,218	131,577
Exchange of deposits – maturing after 3 months of contract date	(8,547)	-	(81,089)
	<u>368,289</u>	<u>238,426</u>	<u>214,254</u>

9 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:

	30 September 2004	<i>(Audited)</i> 31 December 2003	30 September 2003
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Acceptances and letters of credit	42,552	41,420	35,664
Guarantees	160,114	122,308	126,519
	<u>202,666</u>	<u>163,728</u>	<u>162,183</u>
Capital commitments	<u>201,577</u>	<u>98,836</u>	<u>81,013</u>

10 CURRENCY RISK

The group had the following net exposures denominated in foreign currencies:

	30 September 2004	<i>(Audited)</i> 31 December 2003	30 September 2003
	<i>KD 000's equivalent</i>	<i>KD 000's equivalent</i>	<i>KD 000's equivalent</i>
U.S. Dollars	35,567	106,380	106,218
Sterling Pounds	1,204	(7,843)	(7,929)
Japanese Yen	690	36	844
Euros	1,489	722	1,929
Gulf Co-operation Council currencies	(13,177)	(12,465)	(11,315)
Others	1,043	1,243	985

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)

30 September 2004

11 RELATED PARTY TRANSACTIONS

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

12 SEGMENTAL ANALYSIS

Primary segment information

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

30 September 2004

	<i>Treasury</i> <i>KD 000's</i>	<i>Investment</i> <i>KD 000's</i>	<i>Retail and</i> <i>corporate</i> <i>banking</i> <i>KD 000's</i>	<i>Other</i> <i>segments</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Operating income	12,870	34,121	94,496	5,763	147,250
Net profit for the period	2,831	12,648	31,436	1,730	48,645
Total assets	664,280	841,626	1,799,324	53,889	3,359,119
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	33,467	132,651	2,504,591	688,410	3,359,119

30 September 2003

	<i>Treasury</i> <i>KD 000's</i>	<i>Investment</i> <i>KD 000's</i>	<i>Retail and</i> <i>corporate</i> <i>banking</i> <i>KD 000's</i>	<i>Other</i> <i>segments</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Operating income	9,920	20,587	85,616	4,100	120,223
Net profit for the period	2,094	7,100	28,209	1,150	38,553
Total assets	826,721	737,253	1,413,768	25,948	3,003,690
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	60,055	98,592	2,235,234	609,809	3,003,690

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 September 2004

12 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The group operates in different geographical areas as designated below:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>30 September 2004</i>	<i>30 September 2003</i>	<i>30 September 2004</i>	<i>30 September 2003</i>	<i>30 September 2004</i>	<i>30 September 2003</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Operating income	<u>131,119</u>	<u>101,180</u>	<u>16,131</u>	<u>19,043</u>	<u>147,250</u>	<u>120,223</u>
Net profit for the period	<u>43,082</u>	<u>32,127</u>	<u>5,563</u>	<u>6,426</u>	<u>48,645</u>	<u>38,553</u>
Total assets	<u>2,906,735</u>	<u>2,509,516</u>	<u>452,384</u>	<u>494,174</u>	<u>3,359,119</u>	<u>3,003,690</u>
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	<u>3,341,027</u>	<u>2,989,625</u>	<u>18,092</u>	<u>14,065</u>	<u>3,359,119</u>	<u>3,003,690</u>

13 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 30 September 2004 amounted to KD 213,953 thousand (31 December 2003: KD 243,951 thousand, 30 September 2003: KD 224,329 thousand).

14 COMPARATIVE INFORMATION

Certain comparative information has been reclassified for better presentation. This reclassification does not affect previously reported net profit or shareholders' equity.