

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2001

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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 its Subsidiary (the group) as of 31 December 2001, 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 parent 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

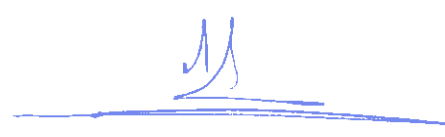
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2001, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the group 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 parent 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 2001 that might have had a material effect on the business of the group 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 2001.



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DELOITTE & TOUCHE

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 KD 000's	2000 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	3	80,574	133,295
Short-term international murabaha	3	572,974	357,330
Receivables	4	1,179,845	1,070,519
Leased assets	5	51,764	80,064
Government debt bonds		-	19,087
Investments in securities and managed portfolios	6	208,456	154,497
Trading properties		108,698	91,062
Investment properties	7	96,338	57,897
Other assets		47,517	34,413
Property and equipment		29,321	27,448
TOTAL ASSETS		2,375,487	2,025,612
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	8	81,934	7,615
Depositors' accounts	9	1,775,156	1,547,065
Other liabilities		86,475	71,940
TOTAL LIABILITIES		1,943,565	1,626,620
DEFERRED REVENUE		172,513	165,507
FAIR VALUE RESERVE	10	2,923	-
MINORITY INTEREST		16,676	16,255
EQUITY			
Share capital	11	65,024	61,343
Proposed issue of bonus shares	12	3,251	3,681
Reserves	13	142,274	126,442
Proposed cash dividend	12	29,261	25,764
TOTAL EQUITY		239,810	217,230
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY		2,375,487	2,025,612


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


JASSAR DAKHEEL AL-JASSAR
(GENERAL MANAGER)

The attached notes 1 to 23 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2001

	<i>Notes</i>	<i>2001</i> KD 000's	<i>2000</i> KD 000's
OPERATING INCOME			
Murabaha, Istisna'a and leasing		115,214	112,804
Subvention of government debt bonds		201	2,666
Investment income		16,487	18,593
Fee and commission income		7,449	5,486
Net gain from dealing in foreign currencies		1,142	1,940
Other operating income		2,687	2,584
		<u>143,180</u>	<u>144,073</u>
OPERATING EXPENSES			
General and administration		19,576	18,024
Depreciation		6,637	5,118
Provision for impairment		3,967	4,766
		<u>30,180</u>	<u>27,908</u>
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST			
		113,000	116,165
Minority interest		1,446	1,241
PROFIT FROM OPERATIONS BEFORE DISTRIBUTION TO DEPOSITORS			
		111,554	114,924
Distribution to depositors	9	58,382	66,522
		53,172	48,402
Contribution to Kuwait Foundation for the Advancement of Sciences		794	701
Directors' fees		80	80
PROFIT BEFORE NATIONAL LABOUR SUPPORT TAX			
		52,298	47,621
National Labour Support tax		971	-
NET PROFIT FOR THE YEAR			
		<u>51,327</u>	<u>47,621</u>
BASIC EARNINGS PER SHARE			
	14	<u>79 fils</u>	<u>74 fils</u>

The attached notes 1 to 23 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2001

	Reserves							Total equity KD 000's	
	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)
At 31 December 1999	56,799	3,408	5,641	84,929	18,715	(690)	108,595	22,720	191,522
Movements during 2000:									
Issue of bonus shares	3,408	(3,408)	-	-	-	-	2,067	-	3,203
Issue of shares for cash	1,136	-	2,067	-	-	-	(2,345)	-	(2,345)
Zakat	-	-	-	-	(2,345)	-	-	-	(22,720)
Cash dividends paid	-	-	-	-	-	(51)	(51)	(22,720)	(51)
Net movement in treasury shares	-	-	-	13,336	-	-	13,336	-	13,336
Transfer to statutory reserve	-	-	-	-	-	-	4,840	-	4,840
Transfer to voluntary reserve	-	-	-	-	4,840	-	-	-	4,840
Proposed issue of bonus shares	-	3,681	-	-	-	-	-	-	3,681
Proposed cash dividends	-	-	-	-	-	-	-	25,764	25,764
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)
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 dividends	-	-	-	-	-	-	-	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

The attached notes 1 to 23 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2001

	Note	2001 KD 000's	2000 KD 000's
OPERATING ACTIVITIES			
Net profit for the year		51,327	47,621
Adjustment for:			
Minority interest		1,446	1,241
Depreciation		6,637	5,118
Provision for impairment		3,967	4,766
		<u>63,377</u>	<u>58,746</u>
Operating profit before changes in operating assets and liabilities		63,377	58,746
<i>(Increase) decrease in operating assets:</i>			
Receivables		(109,379)	(63,080)
Leased assets		26,090	(4,291)
Trading properties		(14,147)	(13,797)
Other assets		(15,227)	5,824
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		74,319	1,926
Depositors' accounts		228,091	212,122
Other liabilities		14,535	6,516
Deferred revenue		7,006	9,289
		<u>274,665</u>	<u>213,255</u>
Net cash from operating activities		274,665	213,255
INVESTING ACTIVITIES			
Redemption of government debt bonds		19,087	41,592
Purchase of investments in securities and managed portfolios		(50,971)	(14,078)
(Purchase) sale of investment properties		(43,329)	3,265
Purchase of property and equipment		(10,643)	(13,106)
Proceeds from sale of property and equipment		3,712	4,232
		<u>(82,144)</u>	<u>21,905</u>
Net cash (used in) from investing activities		(82,144)	21,905
FINANCING ACTIVITIES			
Issue of shares		-	3,203
Cash dividends paid		(25,764)	(22,720)
Minority interest		(1,025)	-
Payment of Zakat		(2,809)	(2,345)
		<u>(29,598)</u>	<u>(21,862)</u>
Net cash used in financing activities		(29,598)	(21,862)
NET INCREASE IN CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS			
		162,923	213,298
Cash and balances with banks and financial institutions at 1 January		490,625	277,327
		<u>653,548</u>	<u>490,625</u>
CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS AT 31 DECEMBER	3	<u>653,548</u>	<u>490,625</u>

The attached notes 1 to 23 form part of these consolidated financial statements.

1 ACTIVITIES

The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiary (the group) for the year ended 31 December 2001 were authorised for issue in accordance with a resolution of the board of directors on 7 January 2002.

Kuwait Finance House K.S.C. (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.

Al-Enma'a Real Estate Company K.S.C. (Closed) (the subsidiary) is a closed shareholding company incorporated in Kuwait and is engaged primarily in real estate investment, trading and management activities. The parent company has a 54.78% interest in the subsidiary.

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 26 local branches (2000: 25). The group employed 2,381 employees as of 31 December 2001 (2000: 2,080).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

The group has adopted IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Properties" for the year ended 31 December 2001. Implementation of IAS 39 has resulted in certain changes in the accounting policies of the group in respect of recognition and measurement of financial instruments. No adjustment resulted on the adoption of IAS 40 as the group adopted the cost model which requires investment properties to be carried at depreciated cost less impairment. In accordance with the transitional provisions of IAS 39, the group has accounted for the changes in accounting policies with effect from 1 January 2001 and has not restated comparatives.

The adoption of IAS 39 has resulted in a credit adjustment reported in the "fair value reserve" on the balance sheet.

Accounting convention

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2001, and of the subsidiary for the year ended 31 October 2001. 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 31 October 2001, the reporting date of the subsidiary and 31 December 2001, the reporting date of the parent company.

The consolidated subsidiary 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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" and are carried at cost since fair values are not determinable. For each investment, an assessment is made at each balance sheet date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, the estimated recoverable amount of that investment is determined and an impairment loss recognised for the difference between the recoverable amount and the carrying amount. Any impairment loss is recognised in the consolidated statement of income.

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 mainly comprise Murabaha and Istisna'a. These are stated at amortised cost including provision for impairment.

Murabaha is the sale of commodities 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.

The provision for impairment of receivables covers losses where there is objective evidence that probable losses are present in components of the receivables at the balance sheet date. These are estimated based on the historical patterns of losses in each component, the credit ratings allocated to the debtors, the current economic environment in which the debtors operate and Central Bank of Kuwait guidelines.

Leased assets

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

Investments in securities and managed portfolios

Previously, the group carried all quoted investments at the lower of cost or market value and all unquoted investments at cost, less provision for any decline in value which was other than temporary. Subsequent to the implementation of IAS 39, the group reclassified such investments as "available for sale" and remeasured these to fair value except investment in unconsolidated subsidiaries and associated companies. The gain or loss on remeasuring to fair value on 1 January 2001 is reported under the heading "fair value reserve" on the consolidated balance sheet. Unrealised fair value gains and losses, if any, on available for sale investments 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 investment income in the consolidated statement of income.

Trading properties

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Previously the group classified its investments properties into rental properties, trading properties and other properties. Subsequent to the implementation of IAS 40, the group reclassified them to investment properties and trading 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. Provisions for impairment losses, if any, are made where carrying values exceed the recoverable amount.

Provision for impairment of assets

An asset is impaired if its carrying amount exceeds its estimated 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. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific asset, or a group of similar assets, may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

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.

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.

Fair values

Fair values are determined on the basis of: quoted market bid prices at the close of business on the balance sheet date for exchange traded assets; management's estimate of value determined on the basis of a multiple of expected future earnings or by reference to the current market value of another instrument which is substantially the same or based on the underlying net asset base in respect of unquoted equity investments; open market valuations based upon the opinion of external valuers and the group's own specialist resources which have recent experience in the location and category of property being valued in respect of trading and investment properties; expected future cash flows in respect of receivables (net of provisions) and for other assets and liabilities, management's estimate of the amount at which these assets could be exchanged for cash on the basis of an arms length transaction or a liability settled to the satisfaction of creditors. 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.

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.

31 December 2001

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Cash	18,062	22,632
Balances with the Central Bank of Kuwait	50,122	24,344
Balances with banks and financial institutions - current accounts	12,390	72,372
Balances with banks and financial institutions - exchange of deposits	-	13,947
	<u>80,574</u>	<u>133,295</u>
Short-term international murabaha	572,974	357,330
	<u>653,548</u>	<u>490,625</u>

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

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:

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Due from banks and financial institutions	249,889	317,331
Due to banks and financial institutions	(329,593)	(309,898)
	<u>(79,704)</u>	<u>7,433</u>

Included in the consolidated balance sheet as net balances:

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
In assets:		
Due from banks and financial institutions	-	13,947
In liabilities:		
Due to banks and financial institutions	(79,704)	(6,514)
	<u>(79,704)</u>	<u>7,433</u>

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

31 December 2001

4 RECEIVABLES

Receivables mainly comprise Murabaha and Istisna'a and are stated net of provision for impairment.

The composition of receivables is as follows:

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Trading and manufacturing	120,214	131,626
Banks and financial institutions	248,049	202,675
Construction and real estate	387,707	363,658
Individuals	503,366	459,535
Other	22,010	20,475
	<u>1,281,346</u>	<u>1,177,969</u>
Less: provision for impairment	(101,501)	(107,450)
	<u>1,179,845</u>	<u>1,070,519</u>

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

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Balance at 1 January	107,450	106,716
Provided during the year	53	2,153
Amounts written off during the year	(6,002)	(1,419)
	<u>101,501</u>	<u>107,450</u>

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 concentrated in Kuwait.

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

31 December 2001

5 LEASED ASSETS

This represents net investment in assets leased for periods which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide a purchase option to lessees at a price equal to the estimated residual value of the gross investment outstanding at the time when such option is exercised. The net investment comprises the following:

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Gross investment	56,154	82,418
Unearned revenue	(1,490)	(1,664)
Provision for impairment	(2,900)	(690)
	<u>51,764</u>	<u>80,064</u>

The unguaranteed residual value of the leased assets at 31 December 2001 is estimated at KD Nil (2000: KD Nil).

6 INVESTMENTS IN SECURITIES AND MANAGED PORTFOLIOS

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Investments in securities and managed portfolios	110,506	89,394
Investments in unconsolidated subsidiaries and associated companies:		
Unconsolidated subsidiaries	37,295	33,760
Associated companies	60,655	31,343
	<u>208,456</u>	<u>154,497</u>
Investments carried at fair value	110,506	-
Investments carried at cost less impairment	97,950	154,497
	<u>208,456</u>	<u>154,497</u>

Included in investments in securities and managed portfolios is an amount of KD 3,564 thousand (2000: KD 4,404 thousand) which represents the group's investment in 5,280 thousand (2000: 6,547 thousand) of its own shares on behalf of depositors, equivalent to 0.81% of the total issued share capital at 31 December 2001 (2000: 1.07%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares continue to be classified in investments in securities and managed portfolios.

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

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2001

6 INVESTMENTS IN SECURITIES AND MANAGED PORTFOLIOS (continued)

Unconsolidated subsidiaries:

	<i>Interest in equity %</i>	<i>Country of registration</i>	<i>Principal activities</i>
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	100	Kuwait	Contracting, trading and project management
Gulf International Automobile Trading Company K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
Malaysian KFH Capital Sdn. Bhd	100	Malaysia	Investment holding company
Muthana Investment Company K.S.C. (Closed)	100	Kuwait	Islamic investments
Zaafraan 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 K.S.C. (Closed)	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

Associated companies:

	<i>Interest in equity %</i>	<i>Country of registration</i>	<i>Principal activities</i>
Kuwait Turkish Evkaf Finance House	50	Turkey	Islamic banking services
Al Salaam Hospital Company K.S.C. (Closed)	40	Kuwait	Health care
Kuwait Auction Company K.S.C. (Closed)	40	Kuwait	Auctioning services
Markets and Marketing Services Company K.S.C. (Closed)	36	Kuwait	Marketing services
Nakheel United Real Estate Company K.S.C. (Closed)	32	Kuwait	Real estate investment and trading
Aref Investment Group K.S.C. (Closed)	30	Kuwait	Islamic investments
First Takaful Insurance Company K.S.C. (Closed)	27.5	Kuwait	Islamic Takaful insurance
A'ayan Leasing & Investment Company K.S.C. (Closed)	27	Kuwait	Leasing and Islamic investments
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments
National Bank of Sharjah	20	United Arab Emirates	Islamic banking services

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7 INVESTMENT PROPERTIES

	<i>KD 000's</i>
Balance, net of accumulated depreciation, at 1 January 2001	57,897
Additions	60,148
Disposals, at net book value	(16,819)
Depreciation charged for the year	(1,580)
Impairment losses recognised	(3,308)
	<u>96,338</u>
Balance, net of accumulated depreciation, at 31 December 2001	<u>96,338</u>

	<i>2001 KD 000's</i>	<i>2000 KD 000's</i>
Cost	<u>119,666</u>	<u>76,407</u>
Accumulated depreciation	<u>14,563</u>	<u>13,053</u>
Impairment	<u>8,765</u>	<u>5,457</u>

Included in investment properties is an investment in the 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 106,619 thousand.

8 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2001 KD 000's</i>	<i>2000 KD 000's</i>
Balances due to banks and financial institutions - current accounts	2,230	1,101
Balances due to banks and financial institutions - exchange of deposits (Note 3)	<u>79,704</u>	<u>6,514</u>
	<u>81,934</u>	<u>7,615</u>

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 the respective book values.

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 depositor. 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.

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9 DEPOSITORS' ACCOUNTS (continued)

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, 80% of investment deposits for a limited period, 70% investment deposits for an unlimited period, 70% of short term investment deposits and 60% of investment savings accounts respectively. 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.

- 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:

	<i>2001</i>	<i>2000</i>
	<i>% per annum</i>	<i>% per annum</i>
Investment deposits for an unlimited period ("Mustamera")	5.250	6.625
Investment deposits for a limited period ("Muhaddadah")	4.667	5.889
Investment deposits for an unlimited period ("Al-Sedra")	4.083	-
Short-term investment deposits ("Thulatheeyah")	2.950	-
Investment savings accounts ("Tawfeer")	3.500	4.417

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

10 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 for the year ended 31 December 2001.

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

	<i>KD 000's</i>
Adjustment on restatement to fair value on 1 January 2001	1,716
Change in fair value during the year	1,207
	2,923

11 SHARE CAPITAL

The Extraordinary General Assembly of the shareholders of the parent company held on 19 February 2001, approved an increase in the paid-up share capital by the issuance of 36,810 thousand (2000: 34,080 thousand) bonus shares of 100 fils each. The bonus shares were issued by a transfer from profits for the year ended 31 December 2000. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2001 comprises 650,237 thousand (2000: 613,430 thousand) shares of 100 fils each.

12 PROPOSED CASH DIVIDENDS AND ISSUE OF BONUS SHARES

The board of directors of the parent company have proposed cash dividends of 45% for the year ended 31 December 2001 (2000: 42%) and an issue of bonus shares of 5% (2000: 6%) 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 dividends are shown as a separate component of equity.

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 13,497 thousand equivalent to approximately 25% (2000: KD 13,336 thousand equivalent to approximately 28%), 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 group. 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 51,327 (2000: KD 47,621) and the weighted average number of ordinary shares outstanding during the year of 649,594 thousand (2000: 646,481 thousand) after adjusting for treasury shares held by the group.

15 CONTINGENCIES AND COMMITMENTS

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

	<i>2001</i> <i>KD 000's</i>	<i>2000</i> <i>KD 000's</i>
Acceptances and letters of credit	23,934	32,660
Guarantees	90,727	86,593
	<u>114,661</u>	<u>119,253</u>
Capital commitments	<u>34,305</u>	<u>-</u>

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16 NET OPEN FOREIGN CURRENCY POSITION

	<i>2001</i> <i>KD 000's</i> <i>equivalent</i>	<i>2000</i> <i>KD 000's</i> <i>equivalent</i>
Net assets (liabilities) in major foreign currencies:		
U.S. Dollars	2,909	40,680
Sterling Pounds	(8,590)	(5,430)
Japanese Yen	(880)	870
Euros	681	1,020
Gulf Cooperation Council currencies	(14,559)	(91)
Others	390	1,583
	<u>(20,049)</u>	<u>38,632</u>

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.

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18 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 and associated companies and investment in Government debt bonds;

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

31 December 2001	<i>Treasury</i> <i>KD 000's</i>	<i>Investment</i> <i>KD 000's</i>	<i>Retail and corporate banking</i> <i>KD 000's</i>	<i>Other groups</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
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 in securities and managed portfolio	-	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
	<u>838,478</u>	<u>467,006</u>	<u>1,042,201</u>	<u>27,802</u>	<u>2,375,487</u>
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
Share capital	-	-	-	65,024	65,024
Proposed issue of bonus shares	-	-	-	3,251	3,251
Reserves	-	-	-	142,274	142,274
Proposed cash dividend	-	-	-	29,261	29,261
	<u>86,530</u>	<u>60,977</u>	<u>1,726,375</u>	<u>501,605</u>	<u>2,375,487</u>
Revenue	<u>31,930</u>	<u>15,741</u>	<u>91,203</u>	<u>4,306</u>	<u>143,180</u>
Profit from operations before distribution to depositors	<u>25,300</u>	<u>14,684</u>	<u>71,017</u>	<u>553</u>	<u>111,554</u>

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18 SEGMENTAL ANALYSIS (continued)

31 December 2000

	<i>Treasury</i>	<i>Investment</i>	<i>Retail and corporate banking</i>	<i>Other groups</i>	<i>Total</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>
Assets					
Cash and balances with banks and financial institutions	133,295	-	-	-	133,295
Short-term international murabaha	357,330	-	-	-	357,330
Receivables	140,345	6,344	909,814	14,016	1,070,519
Leased assets	-	62,571	17,493	-	80,064
Government debt bonds	-	19,087	-	-	19,087
Investments in securities and managed portfolios	-	154,497	-	-	154,497
Trading properties	-	91,062	-	-	91,062
Investment properties	-	57,897	-	-	57,897
Other assets	-	10,095	19,623	4,695	34,413
Property and equipment	468	224	11,889	14,867	27,448
	<u>631,438</u>	<u>401,777</u>	<u>958,819</u>	<u>33,578</u>	<u>2,025,612</u>
Liabilities, deferred revenue, minority interest and equity					
Due to banks and financial institutions	7,615	-	-	-	7,615
Depositors' accounts	101	52,886	1,316,565	177,513	1,547,065
Other liabilities	48	230	36,371	35,291	71,940
Deferred revenue	5,962	-	159,545	-	165,507
Minority interest	-	-	-	16,255	16,255
Share capital	-	-	-	61,343	61,343
Proposed issue of bonus shares	-	-	-	3,681	3,681
Reserves	-	-	-	126,442	126,442
Proposed cash dividend	-	-	-	25,764	25,764
	<u>13,726</u>	<u>53,116</u>	<u>1,512,481</u>	<u>446,289</u>	<u>2,025,612</u>
Revenue	<u>31,791</u>	<u>22,861</u>	<u>85,421</u>	<u>4,000</u>	<u>144,073</u>
Profit from operations before distribution to depositors	<u>23,752</u>	<u>21,474</u>	<u>67,899</u>	<u>1,799</u>	<u>114,924</u>

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18 SEGMENTAL ANALYSIS (continued)*Secondary segment information*

The group operates in different geographical areas as designated below:

	<i>Assets</i>		<i>Liabilities, deferred revenue, fair value reserve, minority interest and equity</i>		<i>Contingencies and commitments under letters of credit and guarantees</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</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>
Geographical areas:						
Kuwait and the rest of						
Middle East	1,771,374	1,601,447	2,352,678	2,022,974	80,263	83,477
North America	207,244	128,400	9,159	1,063	1,146	1,192
Western Europe	384,824	278,512	12,761	1,519	5,733	5,963
Other	12,045	17,253	889	56	27,519	28,621
	<u>2,375,487</u>	<u>2,025,612</u>	<u>2,375,487</u>	<u>2,025,612</u>	<u>114,661</u>	<u>119,253</u>

	<i>Local</i>		<i>International</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Revenue</i>	<u>110,327</u>	<u>110,641</u>	<u>32,853</u>	<u>33,432</u>
<i>Profit from operations before distribution to depositors</i>	<u>85,626</u>	<u>88,968</u>	<u>25,928</u>	<u>25,956</u>

19 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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19 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:

	<i>Within 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>After one year KD 000's</i>	<i>2001 Total KD 000's</i>
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
Investment in securities and managed portfolios	-	-	-	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
31 December	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	876,952	307,900	220,083	370,221	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
31 December	1,042,440	329,342	273,914	729,791	2,375,487

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19 LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities, deferred revenue, minority interest and equity at 31 December 2000 is as follows:

	<i>Within 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>After one year KD 000's</i>	<i>2000 Total KD 000's</i>
Assets					
Cash and balances with banks and financial institutions	133,295	-	-	-	133,295
Short-term international murabaha	357,330	-	-	-	357,330
Receivables	190,187	191,925	170,634	517,773	1,070,519
Leased assets	6,493	8,469	6,051	59,051	80,064
Government debt bonds	1,193	1,193	2,386	14,315	19,087
Investment in securities and managed portfolio	-	-	-	154,497	154,497
Trading properties	-	-	91,062	-	91,062
Investment properties	-	-	-	57,897	57,897
Other assets	25,123	-	6,543	2,747	34,413
Property and equipment	-	-	-	27,448	27,448
31 December	<u>713,621</u>	<u>201,587</u>	<u>276,676</u>	<u>833,728</u>	<u>2,025,612</u>
Liabilities, deferred revenue, minority interest and equity					
Due to banks and financial institutions	7,615	-	-	-	7,615
Depositors' accounts	784,371	269,579	161,394	331,721	1,547,065
Other liabilities	50,336	1,408	20,196	-	71,940
Deferred revenue	27,522	15,746	25,682	96,557	165,507
Minority interest	-	-	-	16,255	16,255
Equity	-	-	-	217,230	217,230
31 December	<u>869,844</u>	<u>286,733</u>	<u>207,272</u>	<u>661,763</u>	<u>2,025,612</u>

20 RISK MANAGEMENT

In accordance with Central Bank of Kuwait's guidelines and taking into account the nature of activities of the group, the parent company has a comprehensive system for the measurement and management of risks.

The main risks to which the group's assets and liabilities are exposed and the principal methods of risk management are as follows:

Credit Risk:

All policies relating to credit including the determination of approval limits are approved by the 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 on 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.

Foreign exchange risk:

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. The group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

Price risks:

Price risks comprising market and valuation risks are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and 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 Sharee'a the group does not provide contractual rates of return to its depositors.

21 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.

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22 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2001 amounted to KD 332,669 thousand (2000: KD 318,482 thousand).

23 COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform to the current year's presentation as follows:

	<i>KD 000's</i>
Investments as shown in 2000 consolidated financial statements	303,456
Restated:	
Investment in securities and managed portfolios	154,497
Trading properties	91,062
Investment properties	57,897