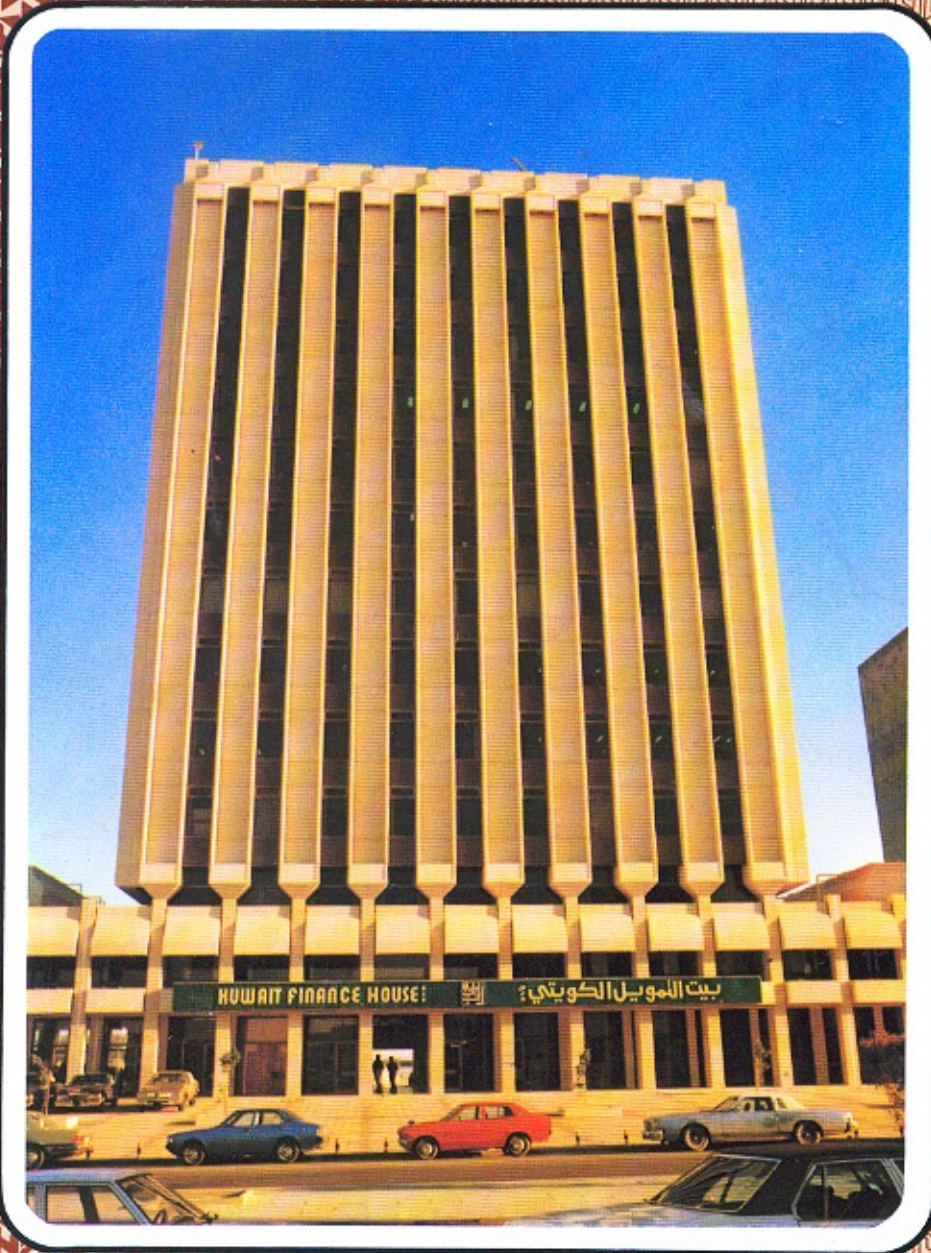




# KUWAIT FINANCE HOUSE K.S.C.



## THE THIRD ANNUAL REPORT

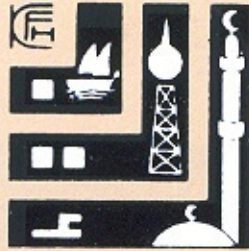
BALANCE SHEET  
AND  
PROFIT & LOSS  
ACCOUNTS

1980



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF ALLAH THE BENEFICIENT  
THE MERCIFUL

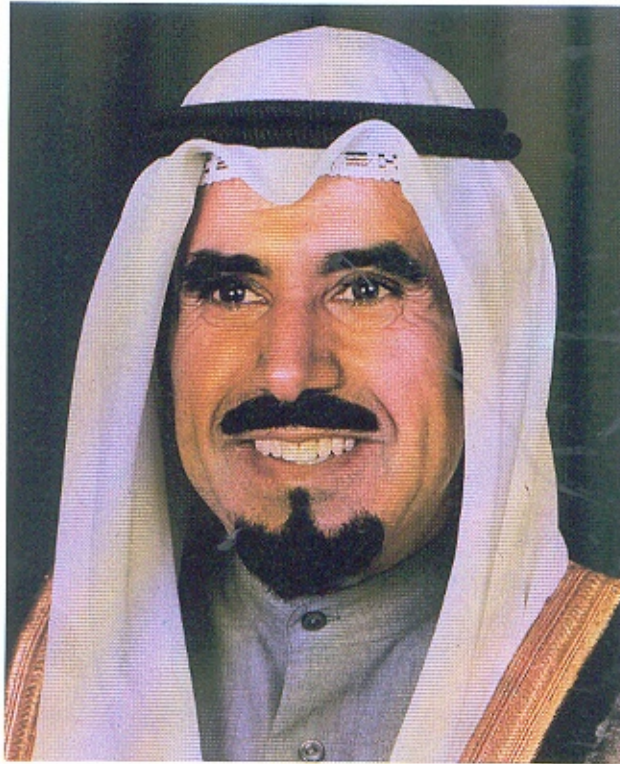


# KUWAIT FINANCE HOUSE K.S.C.

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

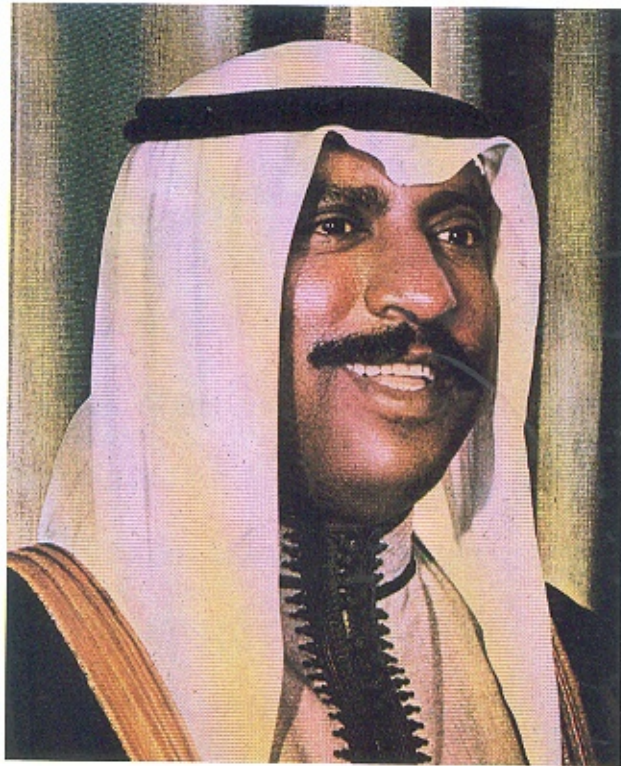
REPORT OF THE BOARD OF DIRECTORS AND  
THE BALANCE SHEET  
1980





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





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



# THE BOARD OF DIRECTORS

**AHMED BAZIE AL-YASSIN**

Chairman and Managing  
Director

**MOHAMMED IBRAHIM BU-HINDI**

Vice-Chairman and Deputy  
Managing Director

Members

**KHALID SALEH AL-ATTIQI**

**ABDUL HAMID ABDUL RAZZAQ AL-OBAID**

**ABDUL MOHSIN ALI AL-TWAIRISH**

**ALI ABDUL KAREEM AL-FOUZAN**

**ALI MOHAMMED AL-MUDAF**

**MOHAMMED YOUSSEF AL-ROOMI**

**MURAIKHAN SA'AD SAGUR**

**HADI HAYEF AL-HUWAILA**

Notice

Haza'a Y. Al Hussyan  
has replaced

Mohammed Ibrahim Bu-Hindi  
As From 23rd June 1980

**AUDITORS - MUTLAQ AL-MASOUD & CO.**



*IN THE NAME OF ALLAH THE BENEFICIENT  
THE MERCIFUL*

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

**Dear Shareholders,**

Peace, mercy and blessings from God be upon you.

While ending its three years domain by the end of 1980, the Board of Directors is pleased to submit to you the business outcomes of Kuwait Finance House for the third year summing up to you the development of its progress since its establishment until now.

The total of the balance sheet as on 31st December 1980 is KD. 180,705,931 against KD. 81,594,101 in 1979 and KD. 26,759,501 in 1978. On the assets side, it will be noticed that the total of cash and balances with banks reached KD. 31,241,601 in 1980 against KD. 12,681,411 in the preceding year and KD. 16,177,909 in the year before.

The total of the applications of funds by K.F.H. reached KD. 137,206,797 in 1980 against KD. 62,578,659 in 1979 and KD. 9,688,426 in 1978 with increases of 119% against 1979 and 1316% against the year before.

The details of our investment activities for the year 1980 are:

KD. 54,871,166 in real-estates trading and estates bonds, and KD. 1,102,994 in inventories and KD. 584,900 in other investments.

As for the total of finances in documentary Letters of Credit, Murabaha Contracts, accounts receivable and constructions it reached KD. 80,647,737.

On the liabilities side the total of the deposits reached KD. 148,623,069 in 1980 against KD. 66,198,728 in 1979 and KD. 21,012,094 in 1978 recording increases of 125% and 607% against the two preceding years respectively.

It is also observed that K.F.H's. profits for the year 1980 reached KD. 9,683,066 against, KD. 3,479,752 for the last year and KD. 529,657 for 1978 depicting percentages of increase of 178% in 1980 against 1979 and 1728% against 1978, so the ratio of the profitability shows improvements from 2% in 1978 to 5% in 1979 to 6% in 1980.

The financial outcomes expounded above are considered substantial achievements attained by K.F.H. since its establishment until now by grace of Almighty God. The success has invited the attention of the local, regional and international circles. On the local scale K.F.H. fancied the citizen's interests when its modus operandi became their subject of talk and phenominal information - media leading to radical changes in the concepts that prevailed in the past, especially after the Islamic thoughts in business had shifted from the theory into a tangibly practical embodiment.

Our experience has been characterised by the fact that we depended on Allah then the national leading elements of local, Arab and other Islamic nationalities. This, no doubt, was a pioneering experience affording room to national and other Islamic efficiencies to run the national institutions which act has been an exemplary practice adopted by other institution through releasing the foreign managerial elements whose concerns were mainly to inject liquidity abroad.

**Dear Shareholders**

Since its inauguration day until now Kuwait Finance House has been met with an increasing appeal of customers insinuating that Muslims cherish adopting sharia legal





*The banking hall at the previous Head quarters*



*The banking hall at the present Head quarters*



formalities in their business avoiding that which does not conform. The appeal has surpassed the prediction a matter which spurs K.F.H. to be on a par with this progress beefing up its different systems through enlarging its administrative and functional structures, multiplying its efforts in the application of the inflows of funds making a remarkable success in defying these challenges without relying on foreign elements.

### **THE ADMINISTRATIVE STRUCTURE**

The functions of Kuwait Finance House were divided into two main sectors, the first one is the Banking Sector under which fall the Banking Hall, Documentary Letters of Credit Dept, Credit Dept, Foreign Exchange, Financial Control and Computer Dept. The second sector is the Investment Sector which covers three departments, Real-Estates, Projects and Trading Dpt. This is in addition to the management sector which covers the General Management and the other consulting services Departments.

### **THE BRANCHES**

Responding to the persisting requests of the citizens in different areas of the country and to mitigate the pressure of work on the Head Office, four branches have so far been opened, they are Al-Jahra, Al-Riqqa, Al-Sharq and Fahaheel. Other branches will be consecutively opened once the competent arrangements are available.

### **THE NEW HEAD OFFICE**

In keeping with development and expansion the Head office has been shifted to a new building as the old building was incapable to absorb the ever-increasing activities. The new building has sheltered all the administrations of Kuwait Finance House so that they can continue in improving their services to the clients.

### **THE DEPOSITS, CURRENT ACCOUNTS AND SAVING ACCOUNTS:**

In its banking activities KFH has continued its progress through improving its banking services to the clients. The current accounts have increased from 880 in 1978 to 2113 in 1979 to 3601 in 1980. As for the saving accounts they increased from 4365 to 14287 to 32288 accounts respectively.

As concerns the limited time accounts they reached 1868 accounts in 1980 against 442 accounts in 1979 against 36 accounts in 1978.

The Investment unlimited time deposit accounts continued an ascending course from 653 accounts in 1978 to 6921 accounts in the last year to 6921 accounts in 1980.

### **THE LETTERS OF CREDIT AND GUARANTEES:**

As for the other banking services which are governed by sharia sales conditions and leases covering:

1. The spot Documentary Letters of Credit, they reached 973 L.Cs in the sum of KD. 24,762,363 this year.
2. The Murabaha Documentary Letters of Credit reached 885 L.Cs in the sum of KD. 8,636,211.

### **THE FOREIGN EXCHANGE AND MONEY TRANSFERS:**

Our profits throughout currencies deals activities on spot basis reached KD. 609,755 in 1980 against KD. 266,000 in the last year.

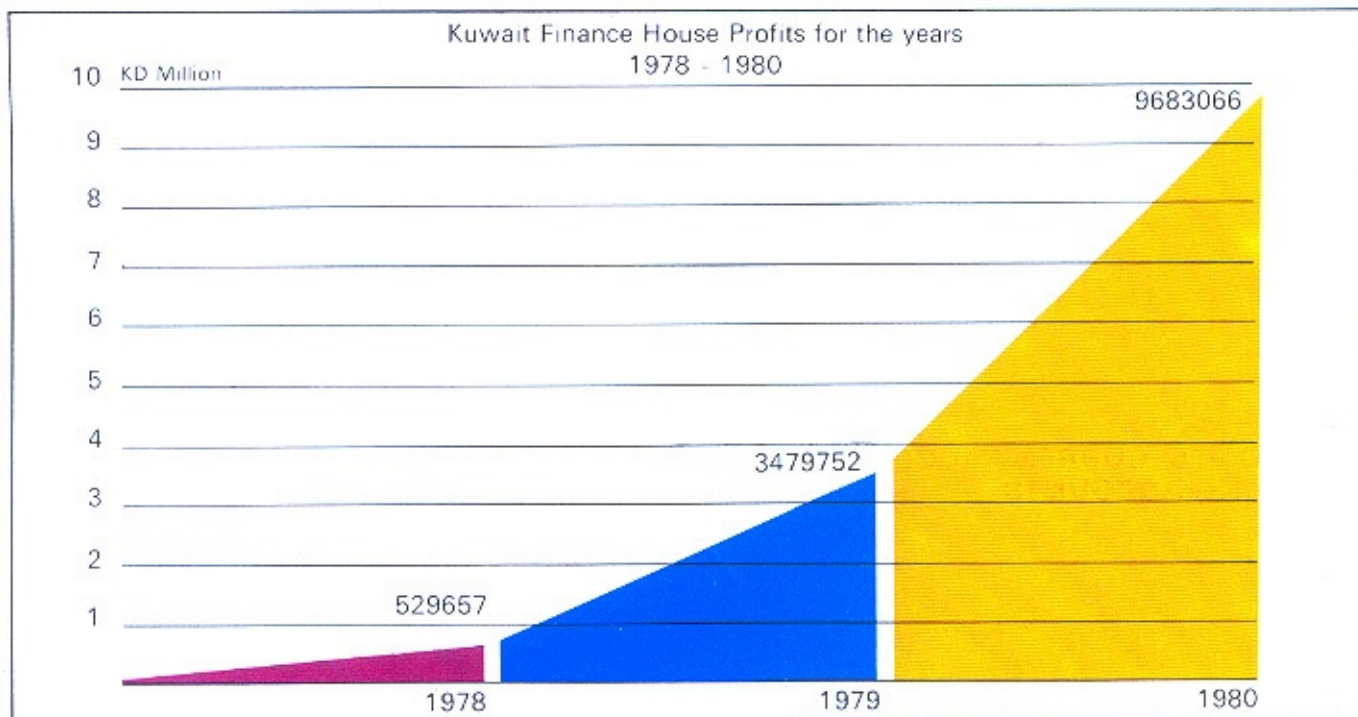
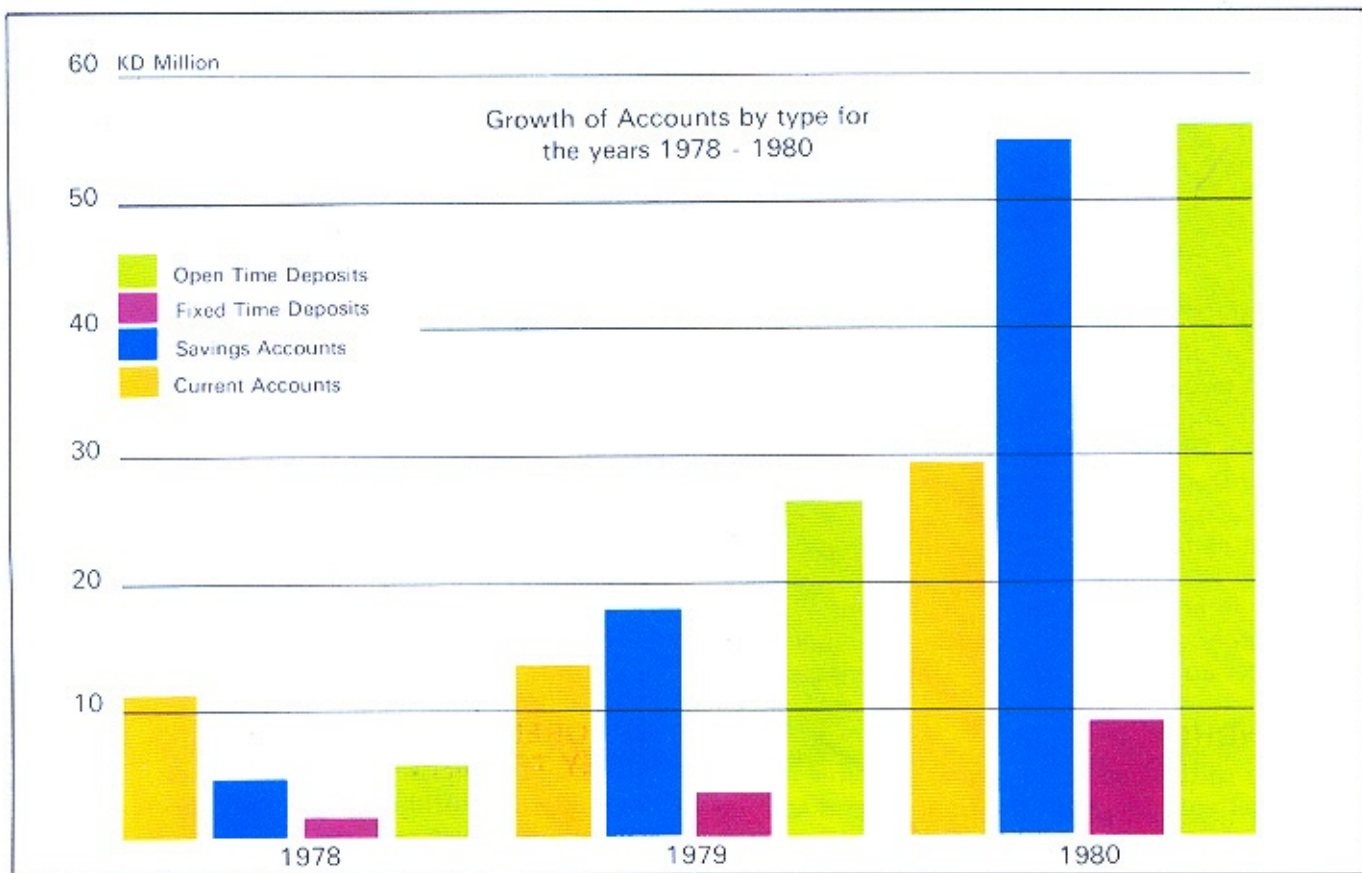
So is the case with all the money transfers such as the travel cheques, foreign cheques collection and transfer against the clients accounts the bank has covered this kind of activities sufficiently and upto the satisfaction of its clients.

### **THE INVESTMENTS:**

On the investment side Kuwait Finance House handled sizable activities in the field of real-estate investment through spot and forward trading therein, covered buying the big lands and divide them into parcels to be resold as participation on part of Kuwait Finance House to make available the parcels to all those who deal in this field whether for housing purpose or for investment. The investment did also cover the contracting side through which the investment buildings and Housing are built for the clients accounts.

As for the commercial investments they cover beside the letters of credit the direct trading







through a specialized administration that set out in importing and selling automobiles and is setting out now to enter in other diversified commercial fields. Some participations have also taken place through these activities with other sectors. K.F.H. is tending to enter into more investment projects in different fields on local, regional and international scales as compatible with the religious and social goals of Kuwait Finance House.

#### **THE SOCIAL ACTIVITIES:**

Kuwait Finance House activities have not been restricted to the banking and investment activities, the bank however has played a role in the social field disseminating the Islamic consciousness enlightening to the Muslim their religious affairs in the fiscal formalities, giving hand to those who seek establishment of Islamic banks. Incidentally K.F.H. participated in number of Islamic seminars and lectures at the scientific and social organizations in Kuwait and abroad.

There has been also an important social functions which Kuwait Finance House has practiced, it is the activity of the ZAKAT Fund through which K.F.H. collects the money and spends it on the needy persons according to the Sharia pre-requisites. Kuwait Finance House is also exerting perseverent efforts to establish Islamic Information Instituteto take part in disseminating the Islamic Conciousness. K.F.H. is also exerting efforts to establish cooperative Joint Islamic Insurance.

#### **DISTRIBUTION OF PROFITS AND RESERVES:**

The Kuwait Finanace House is pleased to announce that the profits bestowed by God are decided to be distributed by  $11\frac{1}{4}\%$  to the shareholders,  $6\frac{3}{4}\%$  to the saving deposits,  $9\%$  to the limited time deposits and  $10\frac{1}{8}\%$  to the unlimited time deposit, after a deduction of  $10\%$  to the statutory reserve and  $10\%$  to the voluntary reserve.

While ending our third report we turn our faces towards the Almighty God expressing our gratitude and thanks for the success and prosperity He bestowed upon us.

We also extend our thanks to H.H. the Emir of the State of Kuwait Shaikh Jaber Al-Ahmed Al-Sabah and the Crown Prince Shaikh Saad Al-Abdullah Al-Salim Al-Sabah for their kind patronage to Kuwait Finance House since its establishment until now. We also thank the esteemed Government represented by all its ministers for the help they extended to this economic House which is pioneering in applying the straight Sharia in the financial formalities.

I extend my thanks to all my colleagues, the members of the Board of Directors who gave me a hand in achieving my task. I particularly thank the General Manager, Bader Abdul Mohsin Al-Mukhaizeem for his remarkable efforts in attaining the success which Al-mighty God bestowed upon us and I thank all the Brothers the staff of K.F.H. for their beneign efforts in this respect.

I ask Al-mighty God to keep incessantly the prosperiety on this house and to crown its procession with the everlasting success. He is hearing and answering.

**AHMED BAZIE AL-YASSIN**  
Chairman & Managing Director





Banking hall - Jahra branch



Jahra branch



Sharq branch



Riqla branch



Banking hall - Riqla branch



Fahaheel branch



Farwaniyah branch



## THE WORLD ECONOMY



## THE WORLD ECONOMY

### GROWTH RATES:-

In recent years economic policy in industrialized Countries has given priority to the fight against inflation and the maintenance of stable exchange rates. These goals are being pursued at the expense of low rates of economic growth and higher rates of unemployment. This was particularly evident during 1980. Restrictive monetary and fiscal policies were widely applied. These measures together with higher oil prices in early 1980 lead to a global economic recession which was mostly felt in the U.S. and U.K. where GNP growth rates were negative.

The growth rate of GNP of the developed countries slowed down to 1.4% in 1980 from 3.5% in 1979. Inflation is still high and peaked to around 12% in the first half of 1980 but slowed down slightly to around 11.6%. The rate of unemployment rose further to around 6.2%.

The boost in oil prices will have a positive effect on the growth rate of GNP of OPEC Countries which fell to a low level of 3% in 1979. The rise in growth rates is expected to result in a resurgence of inflation.

The growth rate of non-oil developing Countries during 1980 declined to 3% from 4.7% in 1979. This decline has curbed their import growth to around 2%. Similarly their exports were adversely affected by the recession in developed Countries.

### EXTERNAL BALANCES:-

During 1980 OPEC current account surplus rose sharply to around \$ 118 billion, almost double its level of \$ 69 billion in 1979. The corresponding deficit is more evenly distributed among developed and developing countries. Almost all major industrial Countries with the exception of the U.S., registered current account deficits totalling \$ 53 billion compared with \$ 13.7 billion in 1979. The aggregate current account deficit of non-oil developing countries amounted to \$ 70 billion an increase

of \$ 18 billion over 1979. The overriding influences on these current accounts trends are higher oil prices and increased interest payments on borrowings.

These deficits will require huge commercial financing amounting to \$ 37 billion in the face of ever growing problems of higher interest rates and shorter maturities in international financial markets.

### FISCAL AND MONETARY DEVELOPMENTS :-

During 1980, fiscal and monetary policies were restrictive aimed mainly at curbing inflation. On the fiscal side, there was more restraint on public expenditure with the objective of attaining balanced budgets or minimizing budget deficits.

In monetary policies greater emphasis were laid on interest rates and credit expansion. To curb destabilizing capital outflows, short-term interest rates were raised. In the US, interest rates rose to a record level in March 1980, then receded till June and started another firm upward trend. Other industrial countries maintained high interest rates to curb inflation and protect their exchange rates against the dollar. These high rates will be maintained as long as the U.S. interest rates remain at their present high level.

Short term capital flows were mainly into the U.S. and Japan and the main sources of these funds were OPEC countries and some industrial countries specially Germany.

### EXCHANGE RATES:-

The dollar performed unsteadily during 1980 It started the year with a strong surge, weakened towards mid-year, and rebounded again. Generally the dollar was stronger against major currencies with the exception of the Japanese Yen and the British pound. The main factors behind the strength of the dollar were high U.S. interest rates and the marked improvement in the U.S. current account.



The strength of the yen reflected the favourable performance of the Japanese economy in the face of global recession. The sterling pound drew its strength from the improved current account position, high interest rates and Britain's self sufficiency in oil.

The weakening of the EMS currencies against the dollar reflected the strong pressures on the mark due to the current account deficit of Germany. The mark was at its lowest limits within the EMS margins. In spite of pressures on the Italian lira for devaluation, intensive market interventions succeeded in maintaining the EMS parities.

**GOLD:-**

During 1980 gold prices remained extremely volatile. After the record price of \$ 850 per

ounce in early 1980, the price witnessed sharp fluctuations ranging between \$ 475 up to around \$ 700. Prices stabilized around \$ 620-\$ 630 for some time but fell to below \$ 600 in Dec.

The underlying explanation for these sharp fluctuations is that with every major development like higher oil prices or political tensions, huge amounts of funds enter the gold market which is relatively small and hence can not sustain such inflows. The price of gold shoots up till speculative forces and profit-taking reverse the trend.

Most studies suggest that future prices of gold will remain high with a tendency to rise even further from the present levels.



## THE KUWAITI ECONOMY



## THE KUWAITI ECONOMY

### GDP AND THE EXTERNAL SECTOR:-

Estimates provided by the Central Bank of Kuwait show that GDP at current prices grew by 54 % during 1979 to a total of KD. 6430.5 million. The growth rate for 1978 was only 7 % This sharp rise in the growth rate is explained by the steep rise in Oil revenues. The oil sector grew by 83 % during 1979 thus raising the share of the oil sector in GDP from around 61 % in 1978 to 72 % in 1979. The non-oil sector grew by 8 % in 1979, a marked improvement over 2.3 % growth in 1978. Nevertheless, its share in GDP fell from 39 % to 28 %. Within the non-oil sector, the largest shares were those of manufacturing and trade which together accounted for 38 % of this sector's output.

The growth in GDP in 1980 is expected to reflect the developments in the oil sector during the year. The major developments, are related to output and prices.

Oil output policy has an increasing tendency towards conservation. A clear step in this direction was a 25 % cut back in oil production so that the daily production level should be around 1.5 million barrels.

Oil prices witnessed successive increases in late 1979 and the first half of 1980. Immediately after the December meeting of OPEC, Kuwait raised its oil prices from \$ 21.43 barrel to \$ 25.5. This was followed by a two dollars hike at the end of January and a further two dollars rise in May so the price was \$ 29.5 effective from May 1980. It rose further to \$ 31.5 from July 1980.

The combined effect of higher prices and lower output is expected to have a moderating effect on the growth of the oil sector and hence GDP.

Another important development in the oil sector has been the establishment of Kuwait petroleum Corporation to subsume all existing state-owned companies related to the oil sector. Its objectives are to carry out all activities related to all stages of oil and hydrocarbon industries.

Developments in the oil sector have also their direct impact on the external sector. Kuwait balance of payments showed a large surplus of KD. 3084 million in 1979 compared with KD. 664 million in 1978. This sharp rise can be traced primarily to the sharp rise in the oil export proceeds which went up from KD. 2584 million in 1978 to KD. 4742 million in 79. This was also reflected in an increase in the current account surplus from KD. 1923 million in 1978 to KD. 4238 million in 79.

### FINANCIAL DEVELOPMENTS:-

During the first half of 1980, it became apparent that the developments in the oil sector would raise government revenues over the original 1979/1980 budget estimates. On the expenditure side, an additional amount of KD. 180 million was allocated to Acquisition of property in a step to augment domestic liquidity. Another development was the reorganization of the Investment Department of the Ministry of Finance which plays the leading role in investing the state surplus funds.

During the second half, the new General Budget of 1980/81 was announced. Emphasis were laid on maintaining a high level of economic activity by enjecting enough liquidity with safe-guards against inflationary tendencies, and enough provision to augment financial reserves.

The most important feature of the new budget is that revenues are expected to rise by 43 % to KD. 4640 million. State expenditure is also expected to rise by 30 % to KD. 2925 million.

Oil revenues remain to be the main sources of State revenues and their percentage share rose slightly to 96.8 %. The remaining 3.2 % are made up of taxes and other revenues. In spite of the decline in percentage terms of total revenue, this item increased by 21.5 % in absolute terms.

These revenues were allocated to three major items as follows:-





KUWAIT FINANCE HOUSE



بيت التمويل الكويتي



### **FIRST:- State Expenditure:**

An amount of KD. 2925 million was allocated for this purpose which is equivalent to 63 % of total budget allocations. This item is subdivided into three sections:

A-Ordinary Expenditures with an allocation of KD. 2281 million which represents 78 % total state expenditure. This budget allocation is 34 % higher than that of the previous budget.

B-Development Expenditure received KD. 444 million which represents 15.2 % of total state expenditure and 12 % increase over the last budget allocation for this item.

C-Acquisition of property which received KD. 200 million which represents a 33 % increase over the original 1979/80 budget allocation. As referred to earlier, an additional sum of KD. 180 million was allocated to this section during 1980.

The functional classification of the state expenditure reveals that the share of the economic services sector is the highest at 33.6 % followed by the social services sector with 19.8 % of allocations. The share of the general services sector amounts to 17.2 % The remaining 29.4 % is the share of the other sectors including defence.

### **SECOND:- General Reserve and Reserve for Future Generations:**

An amount of KD. 737 million was allocated to the State General Reserve which is 19 % higher than the previous budget allocation. The allocation for the Reserve Fund for Future Generation was sharply increased by 186 % to KD. 928 million. The sum of these two reserve funds amounted to KD. 1665 million which represents 35.9 % of total state revenues.

### **THIRD:-**

The remaining 1.1 % of total revenues which amounts to KD. 50 million was earmarked for raising the capital of Kuwait Fund for Economic Development to augment its development efforts in developing countries.

### **Monetary Developments:**

During the first nine months of 1980 the international monetary developments have had their direct impact on domestic monetary developments have had their direct impact on domestic monetary developments. The outflow of funds in pursuit of higher returns caused some strains on domestic liquidity specially during the first half of the year.

A number of measures were taken to alleviate the effects of those development and to augment the liquidity of the banking sector. Swap operations were stepped up during this period and their balances rose by 40 % to KD. 283 million by the end of Sept. Similarly re-discounts balances at the Central Bank rose by 13.5 % to KD. 222 million by the end of Sept. Moreover, additional funds were injected into the economy through the government purchase of some shares and additional allocations for land acquisition.

To secure more effective control on domestic monetary developments, the Central Bank instructed the Commercial Banks to gradually switch their lending away from overdrafts to fixed-term loans which should constitute 45 % of their lending by the end of 1980. In the KD. bond market, new regulatory measures were taken limiting the number and amounts of KD. bond issues.

As for the Central Bank bills, the Commercial Banks have to maintain a certain percentage of their liquid assets in the form of these bills. Moreover, these bills which were so far confined to banks operating in Kuwait, can now be purchased by financial institutions which are under the Central Bank's supervision.

The positive outcome of these measures was a marked improvement in domestic liquidity which expanded by 22 % during the first nine months of 1980 compared to 15 % growth during the same period of 1979.

The growth of domestic banking activity was similar to that of 1979. The consolidated balance sheet of the Commercial banks rose by 22 % to KD. 5244 million. Their capital and reserves rose by 14 % to KD. 307 million.



The deposits of the private sector amounted to KD. 2522 million by the end of Sept, which represents a growth rate of 22% over 1979. The share of foreign currency deposits rose from 17% to 19% of total private deposits.

The investment patterns of commercial banks reveal a tendency toward foreign allocations. At the end of Sept, foreign assets stood at KD. 1713 million, a rise of 22% compared with 4% rise during the same period of 1979. At the same time claims on the private sector amounted to KD. 2559 million, an increase of 21% compared to 34% in 1979. The overwhelming part of these claims are credit facilities which expanded by 18% to KD. 2258 million by the end of Sept, compared with a growth rate of 33% during the same period in 1979.

This slowdown in credit expansion is the result of policies aimed at regulating credit and directing it into productive sectors. The Growth rate of personal loans was cut back and hence their share fell from 27% to 23% of total credit. However, the percentage share of the productive sectors credit declined slightly to 49.5% of total credit because the cut back in personal loans was matched by a sharp rise in loans for financial purposes.

#### **SHARES MARKET:-**

By the end of 1979, there were 40 Kuwaiti shareholding companies. Their total shares amounted to 430 million of which 42% were those of financial companies, 22% of industrial companies, 12% of real estate companies and 24% of transport and services companies.

During 1980 two new shareholding companies has been established. The first is Kuwait Medical Industries Co., Capitalized at KD. 6 million with 6 million shares of which the state owns 35%. The other is Kuwait International Petroleum Investment Co., with 100 million shares of one KD. each. The state owns 70% of these shares. Thus the number of shareholding companies rose to 42. In addition, the share capitals of three banks and two foodstuffs companies were raised adding 16 million shares raising the number of issued shares to around 552 million.

However, Kuwait Transport Company has been totally owned by the government and some

shares of the Arab Shipping Company were also bought by the government. Excluding these shares and those of new companies and government shares, the number of tradable shares amounts to around 365 million.

As for dealings, the market has been plagued by a severe stagnation starting the last quarter of 1979. During the first quarter of 1980, the market gained some activity and dealings rose by 22% and 22 million shares were traded. More momentum was gained during the second quarter when 61 million shares were traded. Yet the total number of shares traded during the first half of 1980 (83 million) fell short of the 89.6 million shares traded during the first half of 1979. Dealing on bank shares continued to dominate the market with 40% of total dealings followed by transport companies with 16.3% share and the real estate companies with 16% share.

The prices movements were quite mixed during the first half of 1980. The average price of the shares of the transport and services sectors rose slightly while the average prices of all the other sectors declined with various degrees. The overall average share price fell by 10% to KD. 11.03 during the first half of 1980.

The main factor behind this decline is the tight liquidity situation due to the outflow of funds. Moreover, credit facilities specially personal loans, which usually finance share dealings were slowed down during this period.

#### **OTHER DEVELOPMENTS:-**

Due to the lack of recent data on the other sectors of the economy, the balances of credit facilities for different sectors can be used as rough indicators of the activities of those sectors. The general slowdown in credit facilities during the first nine months of 1980 has directly affected the activities of these sectors.



Credit facilities for the trade sector stood at KD. 580 million by the end of Sept, an increase of 11 % over the end of 1979 compared with 21 % during the same period of 1979. This slowdown comes after the revival of this sector during 1979 which followed the sharp recession of 1978. The present trend reflects the market saturation specially in durables. Another factor is the decline of re-export activities.

A similar slowdown occurred in credit facilities for the construction sector. The balance rose by 11 % to KD. 372 million by Sept, compared

with a rise of 31 % during the same period of 1979. However large sums have been allocated to construction in the public sector. Budget figures for 1980/1981 reveal an amount of KD. 669 million allocated to this sector.

As for the industrial sector, the balances of credit facilities show increased activity in this sector during the first nine months of 1980. Credit facilities rose by 39 % to KD. 125 million compared with 19 % growth during the same period in 1979.





*A completed residential project  
Construction Department*



*A project under construction - Construction Department*



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

## AUDITORS' REPORT

We have examined the financial statements of Kuwait Finance House K.S.C. set out on pages 30 to 36. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary. We obtained all the information and explanations which we deemed necessary for the purpose of our examination.

In our opinion the financial statements present a fair view of the state of affairs of the Company at 31 December 1980 and of the results of its operations for the year then ended and comply with the Law of Commercial Companies and the Company's Articles of Association. Also, in our opinion proper books of account have been kept, an inventory was duly carried out and the contents of the Directors' Report relating to the financial statements are in agreement with the books of the Company. We are not aware that any violations of the law or of the Articles which may have had a material adverse effect on the business of the Company or its financial position have occurred during the year.

**M.M. AL-MASOUD**  
R.A.A. NO. 94  
**OF MUTLAQ AL-MASOUD & CO.**

Kuwait  
15 January 1981



## KUWAIT FINANCIAL INSTITUTIONS BALANCE SHEET AT

	1980	1979
	KD	KD
Cash and balances with banks	31,241,601	12,681,411
Advances to customers		
- Against letters of credit and murabaha	3,279,772	2,108,004
- Other	5,728,326	555,060
Accounts receivable and prepayments	53,507,240	22,025,920
Trading investments in property (Note 4)	54,871,166	32,443,691
Construction work in progress (Note 5)	1,462,768	722,160
Stocks (Note 6)	1,102,994	—
<b>Current assets</b>	<b>151,193,867</b>	<b>70,536,246</b>
Medium term accounts receivable	16,611,387	3,469,068
Investments and other assets	584,900	1,130,181
Fixed assets	58,244	124,575
<b>Total assets</b>	<b>168,448,398</b>	<b>75,260,070</b>
Customers liability under letters of credit and guarantee	12,257,533	6,334,031
	180,705,931	81,594,101

The attached notes  
of these financial

**AHMED BAZIE AL-YASEEN**  
CHAIRMAN AND MANAGING DIRECTOR



**KUWAIT FINANCE HOUSE K.S.C.  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 1980**

	Note	1980 KD	1979 KD
<b>INCOME</b>			
Banking operation		1,139,706	370,531
Profit on sale of investments		11,505,650	3,589,922
Rental income		1,251,358	691,712
Other income		4,639	20,638
		<b>13,901,353</b>	<b>4,672,803</b>
<b>EXPENSES</b>			
Salaries and wages		1,216,582	675,860
General and administration		1,114,059	267,191
Provision for decline in value of investments		1,387,646	—
Provision for bad and doubtful debts		500,000	250,000
		<b>4,218,287</b>	<b>1,193,051</b>
<b>NET INCOME FOR YEAR</b>		<b>9,683,066</b>	<b>3,479,752</b>
<b>PROFIT APPROPRIATION</b>			
Statutory reserve	8	968,306	347,975
General reserve	9	968,306	347,975
Kuwait Institute for Scientific Advancement	10	74,360	33,372
Directors' fees		80,000	40,000
Depositors' share of net profit		7,227,570	2,464,334
Proposed Dividend	11	364,524	246,096
		<b>9,683,066</b>	<b>3,479,752</b>

The attached notes 1 to 13 form part  
of these financial statements.



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

**1. INCORPORATION**

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

**2. ACTIVITIES**

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

( a ) Accounting convention

The financial statements are prepared under the historical cost convention.

( b ) Properties trading

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

( c ) Foreign currencies

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

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

( d ) Depreciation

Fixed assets are written off by equal instalments over their expected useful lives.

( e ) Investment in property

Investments in property are carried at cost less provisions for fall in prices.

( f ) Construction work-in-progress  
and contract income

Construction work-in-progress is stated at cost less provision for any anticipated losses and progress payments received. Contract income is recognised on the completed contract basis.

( g ) Stocks

Stocks are valued at lower of cost and net realisable value, with due allowance for slow moving items. Cost is determined on an actual unit cost.

( h ) Accounts receivable

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



( i ) Termination pay

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

**4. TRADING INVESTMENTS IN PROPERTY AND PROPERTY BONDS**

	1980	1979
	KD	KD
Buildings	20,466,835	7,402,554
Plots	20,123,309	14,549,849
Land	13,537,295	8,811,072
Property bonds	2,210,959	1,759,802
	56,338,398	32,523,277
Less: Provisions	1,467,232	79,586
	54,871,166	32,443,691

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

**5. CONSTRUCTION WORK-IN-PROGRESS**

	1980	1979
	KD	KD
Work-in-progress	1,731,635	947,677
Progress payments	(268,867)	(225,517)
	1,462,768	722,160

**6. STOCKS**

	1980	1979
	KD	KD
Motor vehicles	1,308,935	—
Foodstuff	21,600	—
Spare parts	1,653	—
Goods in transit	53,655	—
	1,385,843	—
Less provisions	282,849	—
	1,102,994	—



## 7. INVESTMENT ACCOUNTS

All deposit accounts are for a minimum period of one year. Investment deposit for unlimited periods are renewed on maturity in the absence of written instructions from the customer three months before maturity. Deposit and savings accounts give authority for investment to Kuwait Finance House and receive or bear such proportion of the profits or losses as the Directors may determine at the end of each year. In accordance with the Articles of Association, Kuwait Finance House share of the profit is 20% as a mudarib partner. This is represented by 10% statutory reserve and 10% general reserve as set out in Article 58 of the Articles of Association.

## 8. STATUTORY RESERVES

	1980	1979
	KD	KD
Balance at beginning of year	400,941	52,966
Transfer for year	968,306	347,975
Balance at end of year	1,369,247	400,941

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

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

## 9. GENERAL RESERVE

	1980	1979
	KD	KD
Balance at beginning of year	398,293	52,966
Zakat paid	( 19,981)	( 2,648)
Transferred from profit for year	968,306	347,975
Balance at end of year	1,346,618	398,293

In accordance with the Articles of Association of the Company, 10% of the profit has been transferred to general reserve.

This allocation may be stopped by a decision of the Ordinary General Assembly on recommendation of the Board of Directors. There are no restrictions on the distribution of this reserve.



## 10. KUWAIT INSTITUTE FOR SCIENTIFIC ADVANCEMENT

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

	KD	1980 KD
Net profit for the year		9,683,066
Less: Transfer to statutory reserve	968,306	
Distribution of profit to deposit and savings accounts	<u>7,227,570</u>	<u>8,195,876</u>
	KD	<u>1,487,190</u>
Contribution due at 5 %	KD	<u><u>74,360</u></u>

## 11. PROPOSED DIVIDEND

The Shareholders' share of net profit has been calculated at the rate of 11.25 % as follows:

	KD
On paid capital of KD. 2,460,960; proposed for distribution	276,858
On reserve balance of KD. 779,253; to be added to general reserve	<u>87,666</u>
	<u><u>364,524</u></u>

## 12. CAPITAL COMMITMENTS

The directors have authorised future capital expenditure not provided for in these financial statements amounting to KD 250,000 (1979 - KD 250,000).

## 13. COMPARATIVE FIGURES

Certain of the 1979 comparative figures have been restated to conform with the current year classifications.



