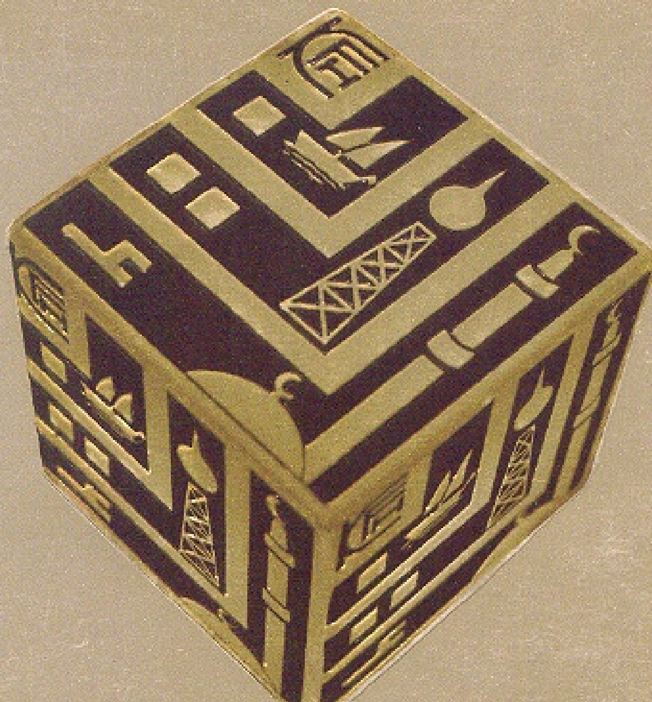


KUWAIT FINANCE HOUSE K.S.C.

THE FIFTH ANNUAL REPORT 1982

بسم الله الرحمن الرحيم

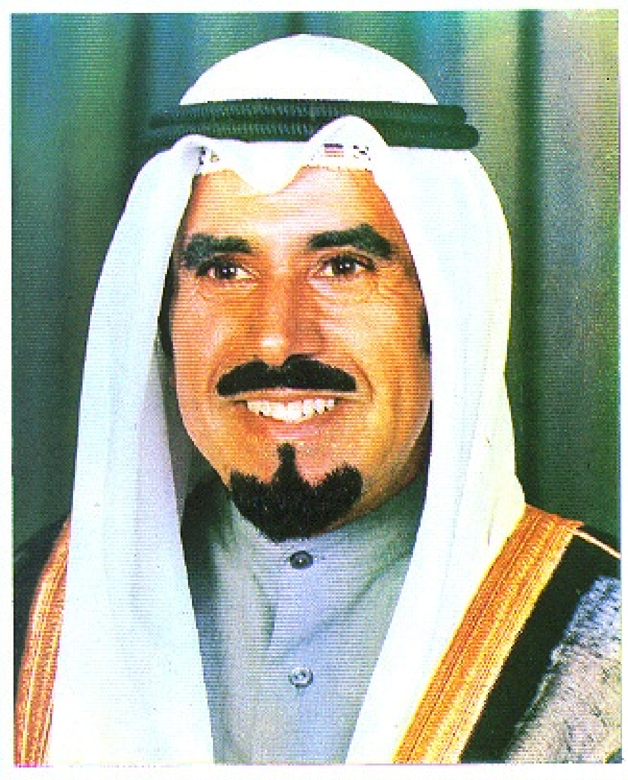
KUWAIT FINANCE HOUSE KSC

INCORPORATED IN KUWAIT.

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

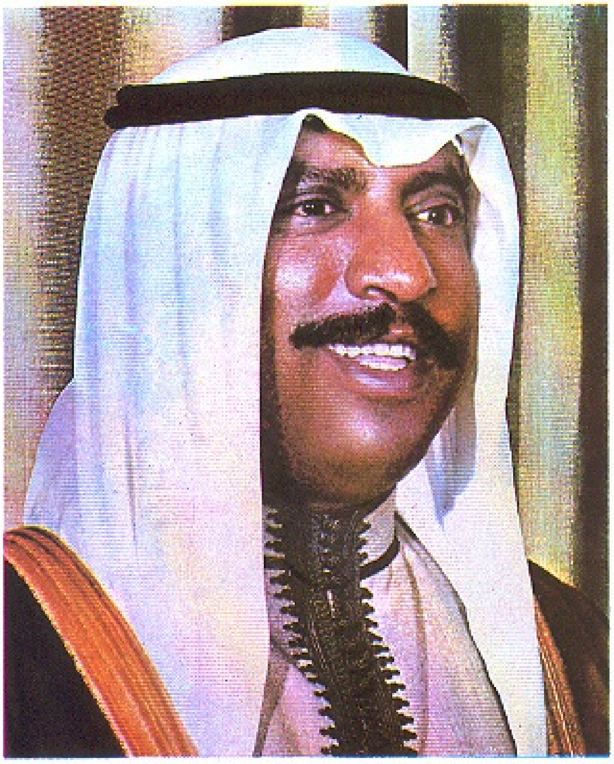
REPORT OF THE BOARD OF DIRECTORS AND THE BALANCE SHEET

1982



HIS HIGHNESS THE AMIR OF KUWAIT

SHAIKH JABER AL AHMED AL JABIR AL SABAH



HIS HIGHNESS THE CROWN PRINCE PRIME MINISTER

SHAIKH SAAD AL ABDALLA AL SALIM AL SABAH

THE BOARD OF DIRECTORS

AHMED B. AL-YASSIN

CHAIRMAN

FAISAL A. AL-KHATRASH

VICE-CHAIRMAN

BADR A. AL-MUKHAIZEM

MANAGING DIRECTOR

MEMBERS:

ABDULJALIL A. AL-GHARABALLY

* **ABDULHAMID A. AL-OBAID**

ALI A. AL-FOUZN

ALI A. AL-MUDAF

MAHAMMED A. AL-KHODAIRY

MOHAMMED Y. AL-ROOMI

HAZA'A J. AL-HUSSAYN

Notice.

KHALID A. AL-ZEER
has replaced
ABDUL HAMID A. AL-OBAID
As from August 15, 1982

THE CHAIRMAN'S STATEMENT

IN THE NAME OF ALLAH, MOST GRACIOUS, MOST MERCIFUL

Praise be to Allah, blessings and peace be upon the master of messengers, our Prophet Mohammad, and be upon his family and companions.

Dear Shareholders,
Peace, mercy and blessings from Allah be upon you.

It is the pleasure of Kuwait Finance House to welcome you to the fifth annual meeting and submit to you its report on the fifth financial year ending on Decemger 31, 1982.

For Kuwait Finance House, last year was yet another year of achievements and progress in spite of the environment of economic crisis precipitated by successive years of global economic recession. One of the main factors behind this economic impasse is usury which is the core of the current economic systems. These economic difficulties were specially severe in developing countries. Domestically, there was a financial crisis emanating from the unofficial shares market which witnessed heavy speculations and various other forms of sales and transaction in contravention with Islamic Shariaa. The direct and side effect of this crisis spilled over into the other sectors of the economy. We would like to stress that Kuwait Finance House, praise be to Allah, was not involved in this crisis because its activites are guided by Islamic Shariaa.

These crises at the international and domestic levels clearly indicate the bankruptcy of all man-made theories and their failure to satisfy the needs of humanity. It also stresses the need on the part of all Muslims to abandon such theories and ideologies and calls upon them to let Islam govern and regulate all aspects of their life.

In the field of economics, the return to Islam has been exemplified by the growing number of Islamic Banks and Instututions not only in Islamic countries but in Non-Islamic countries as well. Their success and thrive give evidence to the suitability of the Islamic financial system for all times.

With the steady and continious growth of Islamic Banks, their impact on conventional banks and on the philosophies underlying them has become quite apparent. After their initial response of taking Islamic Banks lightly and doubting their success, these institutions have become quite willing to deal with Islamic Banks. They have come to accept the terms laid down by Islamic Banks based on Islamic Shariaa.

This year also witnessed some encouraging official initiatives in the financial, social and cultural fields. The House of Zakat was established to organize and co-ordinate the collection and distribution of Zakat Funds.
The establishment of the faculty of Shariaa in Kuwait University is also a genuine step to fulfill the goal of giving Shariaa studies their prominent role in the academic fields. It is hoped that this faculty will provide in-depth studies covering all economic and financial aspects in the light of Shariaa. This would greatly benefit Muslims in their endeavour to adhere to Shariaa in all their transactions. Moreover, it is hoped that its graduates would be better equiped to provide Islamic banking and investment services to the ever-growing numbers of Muslims who are keen to adhere to Islamic Shariaa in all their transactions.

Dear Shareholders,
We submit to you the achievements of your institution and the results it has achieved with the help of Almighty Allah.

FIRST : NKING SERVICES.

BRANCHES:-

Our Banking Services have been geographically extended to cover various parts of the country through a network of nine branches. These branches are attracting increasing numbers of customers through providing a wider range of services. The quality of services provided has been aided by the application of modern tecniques such as:

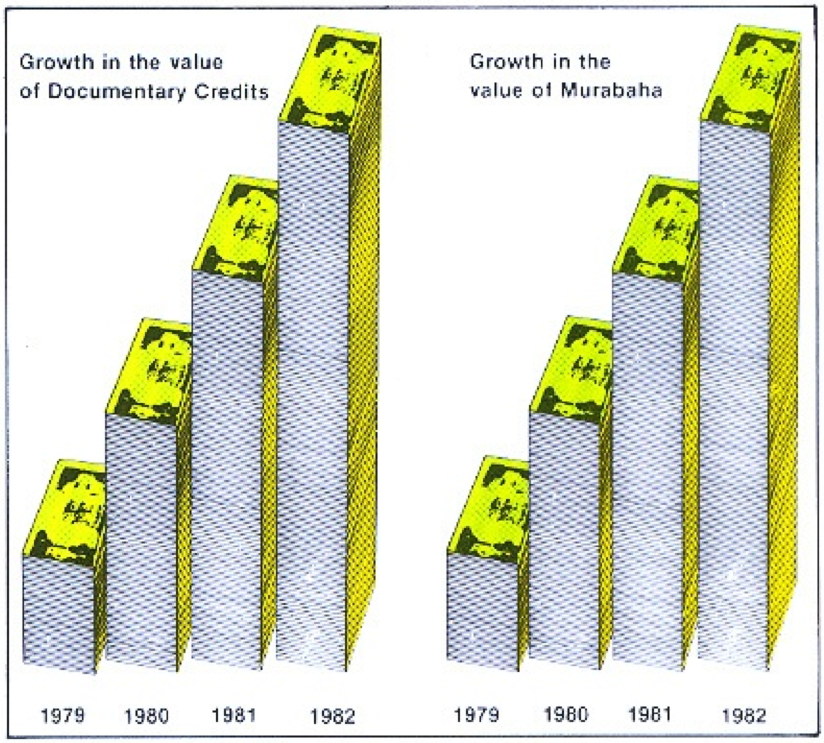
— The introduction of On-Line Computer Services at Faiha and Hawalli Branches. Work is now under way to extend this system to all other branches. This will considerably reduce the customers waiting time for any transaction.

— Drive-In Services at Faiha Branch; the first of its type in Kuwait. Here the customer can draw from his account without leaving his car.

— Night Services for Co-operative Societies at Faiha Branch; also the first time such services are provided in Kuwait. Co-operative Societies can deposit their money after the working hours.

DOCUMENTARY CREDITS:-

Concerted efforts in credit facilities and documentary credits effectively contributed in financing foreign trade. The volume and value of ordinary documentary credits and Murabaha transactions considerably increased during this year and were extended to cover a wider range of imports.



• Private Residences

SECOND : INVESTMENTS.

Dear Shareholders,

The system of Islamic financial institutions is not confined to banking services but provides a complete range of banking and investment activities which together stipulate to invest the funds of shareholders and depositers in various investment outlets that give reasonable profits and have developmental and social returns.

1. REAL ESTATE INVESTMENT:

Kuwait Finance House has co-operated with a large number of people in their endeavour to build their private residences. The limited supply of residential plots has pushed their prices considerably and to mitigate this, Kuwait Finance House usually purchases large plots of land, submits them to relevant authorities for division into residential plots and supplies the market with such plots. This process has

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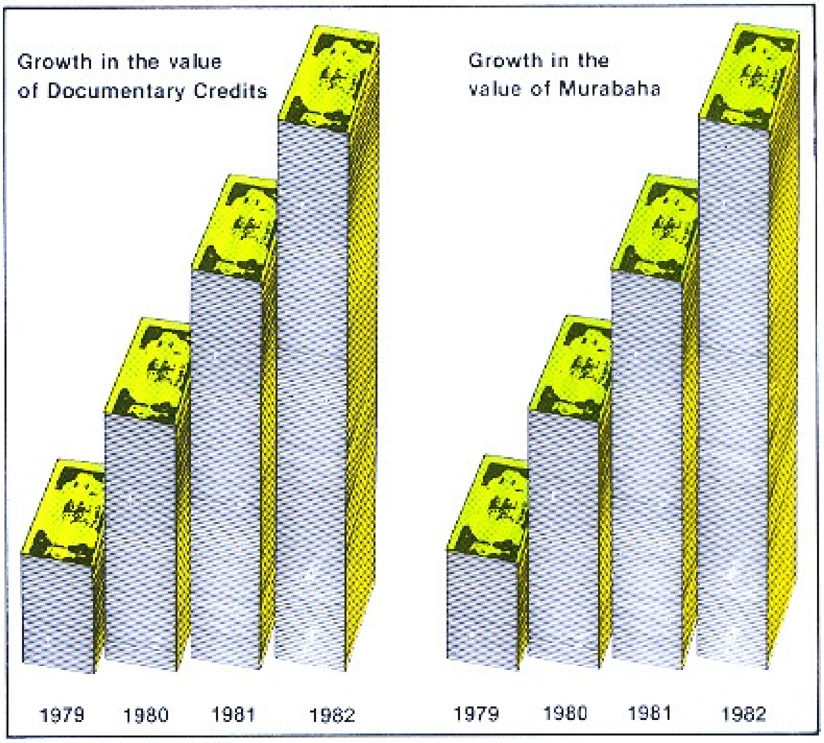

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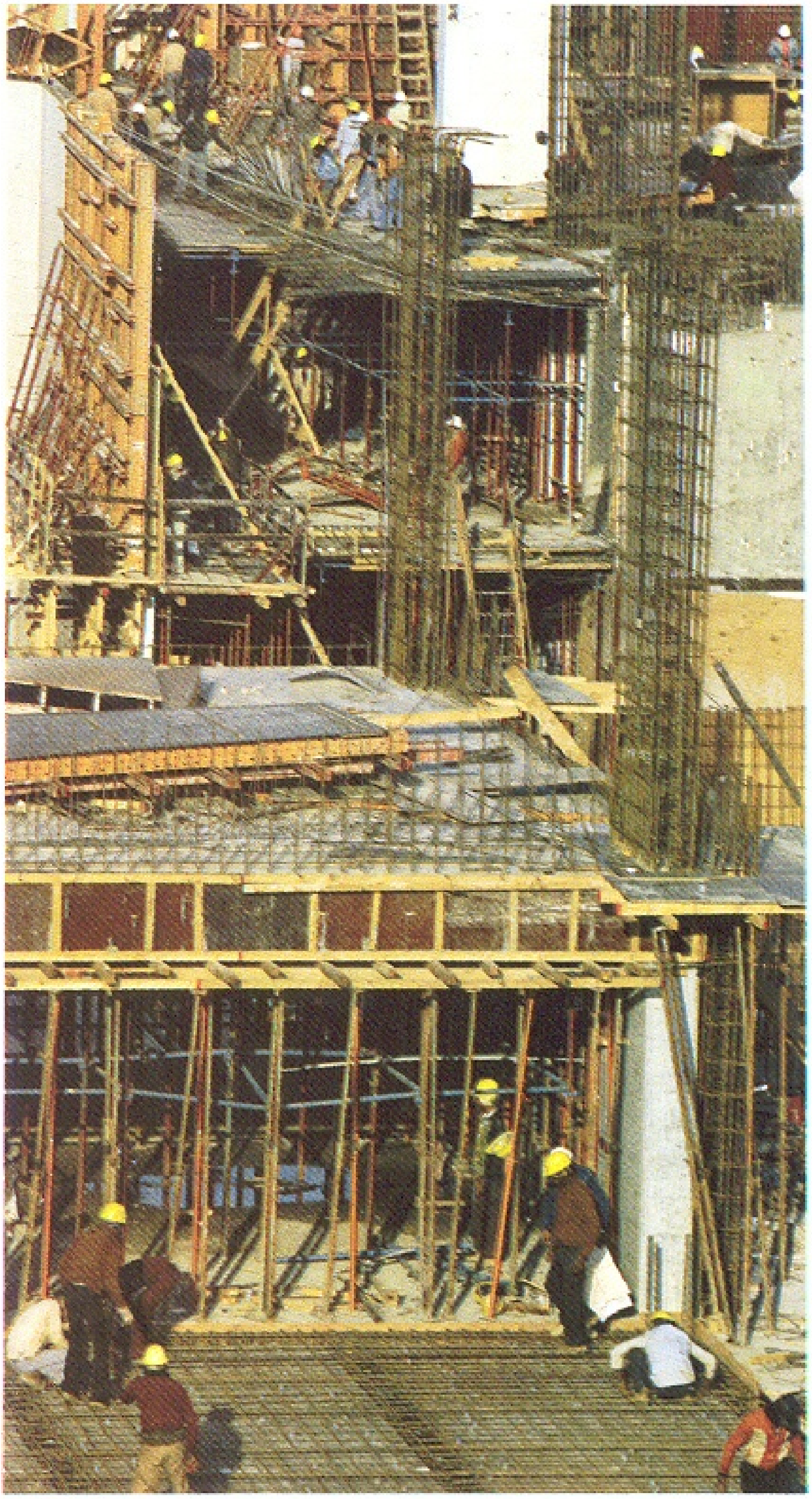
Residences are also provided through the rental of 129 buildings at reasonable rates. Moreover, advice is provided, on request, for real estate investors.

2. REAL ESTATE PROJECTS:

The department of Real Estate Projects Kuwait Finance House is undertaking the execution of many real estate projects owned by Kuwait Finance House or for the account of other clients. Some of these projects have already been completed while work is under way in some of them. The most important real estate projects owned by Kuwait Finance Housre are:

a) AL—MUTHANNA BUILDING:

Work started on phase two of this project in November 1981 and is progressing on schedule. Beside two months for preparatory work, implementation will take three years and work will be completed by early 1985.



• Al Muthana Project

b) THE HEAD OFFICE BUILDING:

Work on this project consists of two phases. The First phase involving preparatory work of excavation and sides supporting has been completed.
The second stage of construction started early 1983 and is expected to take thirty months.

c) OTHER PROJECTS:

In line with endeavours, referred to earlier, to provide more residences, Kuwait Finance House has built a number of residential complexes in Jabriyah and work is under way in building a number of other buildings in different parts of the country.

• Riqqa Branch

• Salmiyah Branch

• Hawalli Branch

• Fahaheel Branch

• Sharq Branch

• Head Office

3. COMMERCIAL INVESTMENTS:

During the year, commercial investments have been considerably expanded and developed to cover a wide, range of activities. These included importation, direct trade, trade finance and commercial participations. All these activities aimed at providing consumers with essential goods and foodstuffs at reasonable prices by means of charging low profit margins.

A commercial participation deal was concluded with a local company to undertake importing chicken slaughtered according to Islamic rites under Kuwait Finance House supervision. The supply of this item to the consumers at reasonable prices was heartily welcomed as another practical step in relating our financial transactions and investments to social and behavioral aspects which are inseparable in the life of the society.

On the other hand, the Trade Department encourages internal trading activities by means of providing local Murabaha.

To supplement automobile sales efforts, a servicing and maintenance garage has been set up. It provides quick high quality services at competitive rates.

4. EXTERNAL INVESTMENTS:

Beside diversification of investments domestically in various sectors as explained above, considerable progress has been made in diversifying investments externally. Special attention is paid to the objective of co-operating with Islamic financial institutions in the fields of banking and investments. The main steps in this direction are as follows:

a) Financing of foreign trade through the co-operation with the Islamic Development Bank.

b) Exchange of investment deposits with other Islamic Banks and Co-operation in joint investment ventures.

c) In the field of international investments, various projects were undertaken in shipping containers, equipment leasing and Murabaha sales. All these forms of investments are conducted in accordance with Shariaa provisions which the international instituions involved have accepted to abide by.

d) Participations in companies and other institutions. The Islamic Banks and institutions in which Kuwait Finance House participates are:

1- Bahrain Islamic Bank, Bahrain.8.7%

2- Bahrain Islamic Investment Company, Bahrain, 20% of equity.

damon Islamic Bank,
, 5% equity.
mic Banking System In-
tional, Luxembourg,
of equity.
sal Islamic Bank, Sudan.
ernational Islamic Bank
cca, Bangladesh.

over, Kuwait Finance
e has participations in
lowing institutions:

International Turnkey
ms Company wich is
ly owned by Kuwait
ce House, has a licence
ncession to market
em Computers in Kuwait
e Gulf region.

he International Islamic
Visual Company, in the
blishment of which
it Finance House con-
ed 10%. The company
roduce and distribute
and Television Pro-
mes on Islamic issues.

ORGANISATIONL ASPECTS:

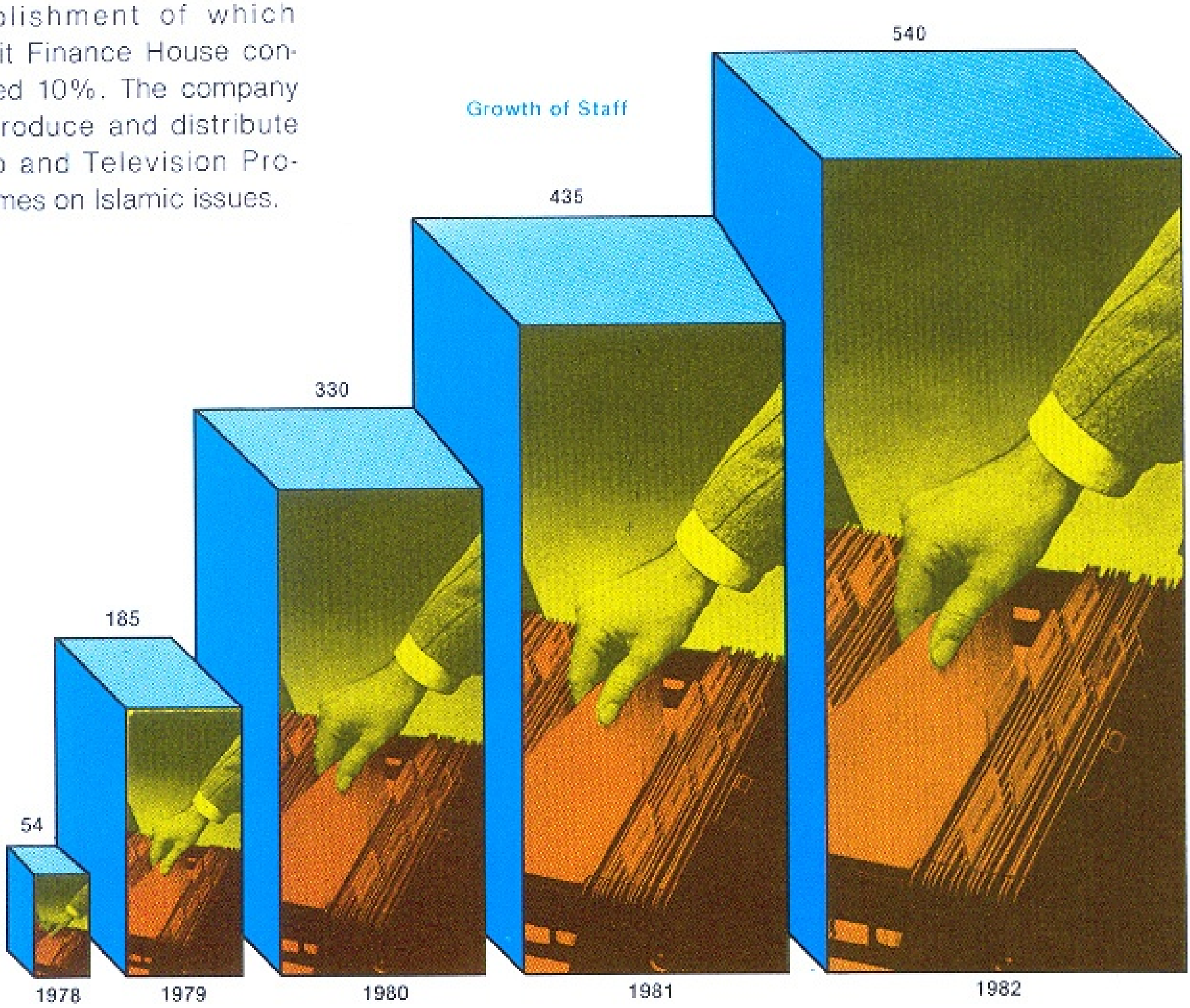
The expansion and diversification of the activities of Kuwait Finance House was matched with the continious adaptation in the organisational aspects by means of modernising the organisational set-up and the recruitment and training of staff.

During the year a new orgainsational structure was adopted. It provided for new administrative levels and new departments which are better equiped to achieve the objectives and ambitions of Kuwait Finance House. Along with these developments, 152 of Kuwait Finance House staff attended 55 training courses covering different specialisations held in Kuwait and abroad.

SHARIAA FATAWA AND SUPERVISION BOARD:

The Shariaa Fatawa and Supervision Board of Kuwait Finance House consists of the following relegious scholars and specialists:

1- Shaikh Badr Al Mutawalli Abdel Basit.
2- Dr. Khalid Al Mazkoor.
3- Dr. Abdel Sattar Abu Ghoddah.
4- Mr. Ahmed Bazie Al Yassin.

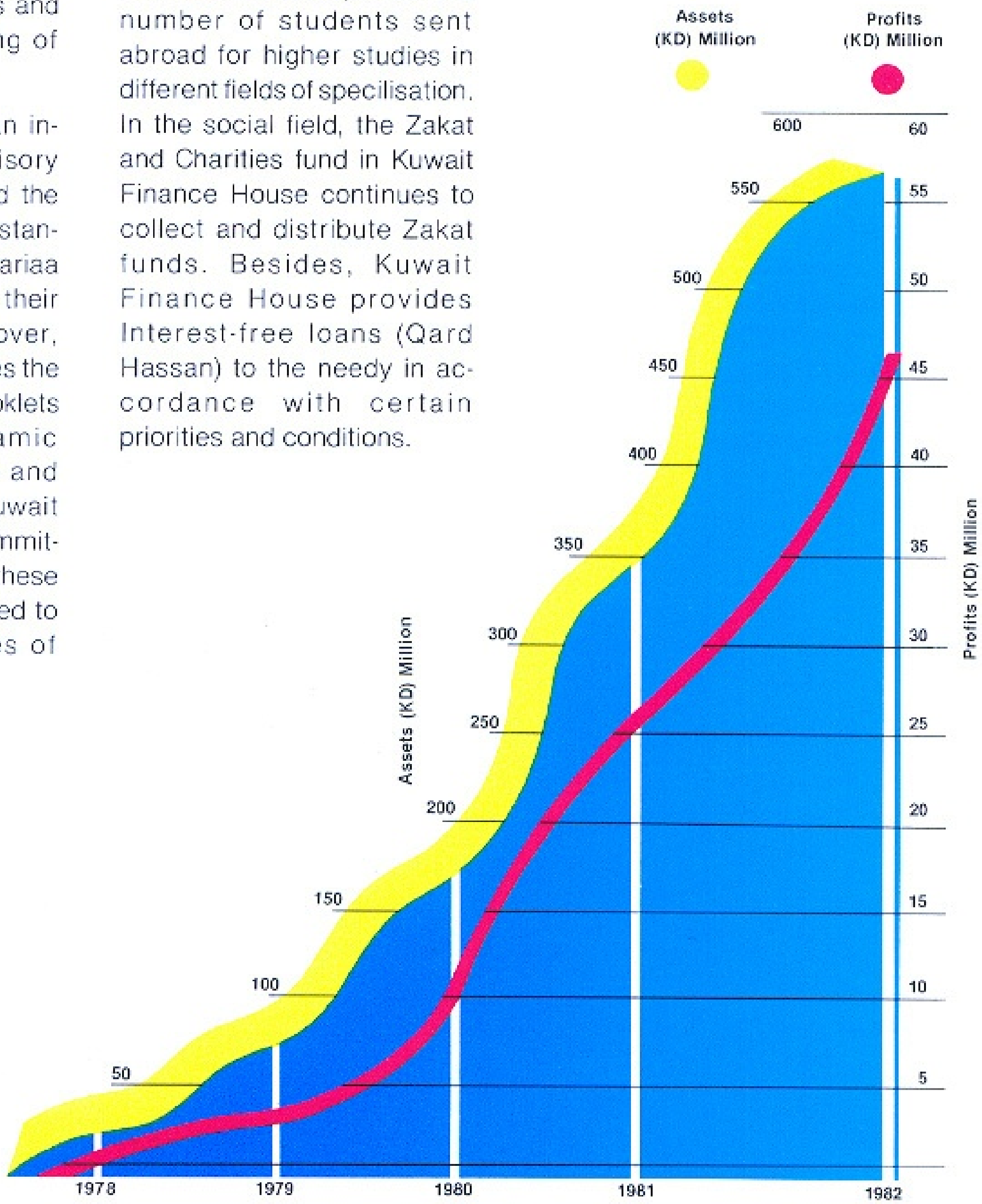


The Board reviews and studies all aspects of Kuwait Finance House activities to put them in the Shariaa perspective. All norms of transactions must get the consent of the Board as to their concurrence with Shariaa. Moreover, the Board plays an important role in explaining Islamic financial transactions to Kuwait Finance House clients and employees by means of replies to their questions and enquires and by issuing of Fatawa.

Alongside this Board, an internal religious supervisory committee has assumed the role of throughly understanding the rulings of the Shariaa Board and following up their implementation. Moreover, this committee supervises the issuing of books and booklets covering various Islamic financial transactions and their applications in Kuwait Finance House. The Committee also sees to it that these informations are explained to clients and employees of Kuwait Finance House.

SOCIAL AND CULTURAL ASPECTS:

Kuwait Finance House has considerable contributions to the social and cultural aspects. It had issued a number of booklets covering various aspects of Islamic financial transactions. Furthermore, lectures and symposiums are regularly being held and are being given wide coverage in the media. Kuwait Finance House sponsors a number of students sent abroad for higher studies in different fields of specilisation. In the social field, the Zakat and Charities fund in Kuwait Finance House continues to collect and distribute Zakat funds. Besides, Kuwait Finance House provides Interest-free loans (Qard Hassan) to the needy in accordance with certain priorities and conditions.



Dear Shareholders,

The Total Balance Sheet on 31-12-1982 amounted to KD 598,138,778 compared with KD 376,969,099 on 31-12-1981, an increase of 58.7%

Total assets amounted to KD 568,718,929 compared with KD 351,134,058, at the end of 1981 i.e.a growth rate of 62%

On the liabilities side, total current and deposit accounts amounted to KD 473,111,687 an increase of 60.9% over 1981.

During 1982 authorized capital was raised by 50% from KD 10 Million in 1981 to KD 15 Million in 1982-

Sharehlders equity increased by 97% from KD 18,089,383 in 1981 to KD 35,628,178 at the end of 1982.

On the assets side, total investments more than doubled, rising by 105% to KD 272,663,543 by the end of 1982.

Total finance of documentary credits and Murabaha increased by 123% to KD 28,337,350 by the end of 1982. Commercial investments increased by 147% to KD 3,715,665. Real Estate investments grew by 105% to KD 225,129,687. Investments with Islamic financial institutions almost tripled, increasing by 179% from KD 9,752,042 in 1981 to KD 27,253,487 in 1982.

Total income from various activities amounted to KD 52,108,144 in 1982; an increase of 53.2% over income realised in 1981.

Ater the deduction of expenses and various provisions which totalled KD 6,216,642, net profits for the year amounted to KD 45,891,502; an increase of 83.2% over net profits realised in 1981 which amounted to KD 25,045,246.

These outstanding results were achieved, with the help of Almighty Allah, in spite of the unfavourable developments that prevailed during the second half of 1982.

Profits for different investment deposits were distributed as follows:

1- Saving Accounts 8%

2- Fixed Time Deposits 10.65%

3- Uhlimited Time Deposits 12%

The Board of Directors submits to the General Assembly the following recommendations:

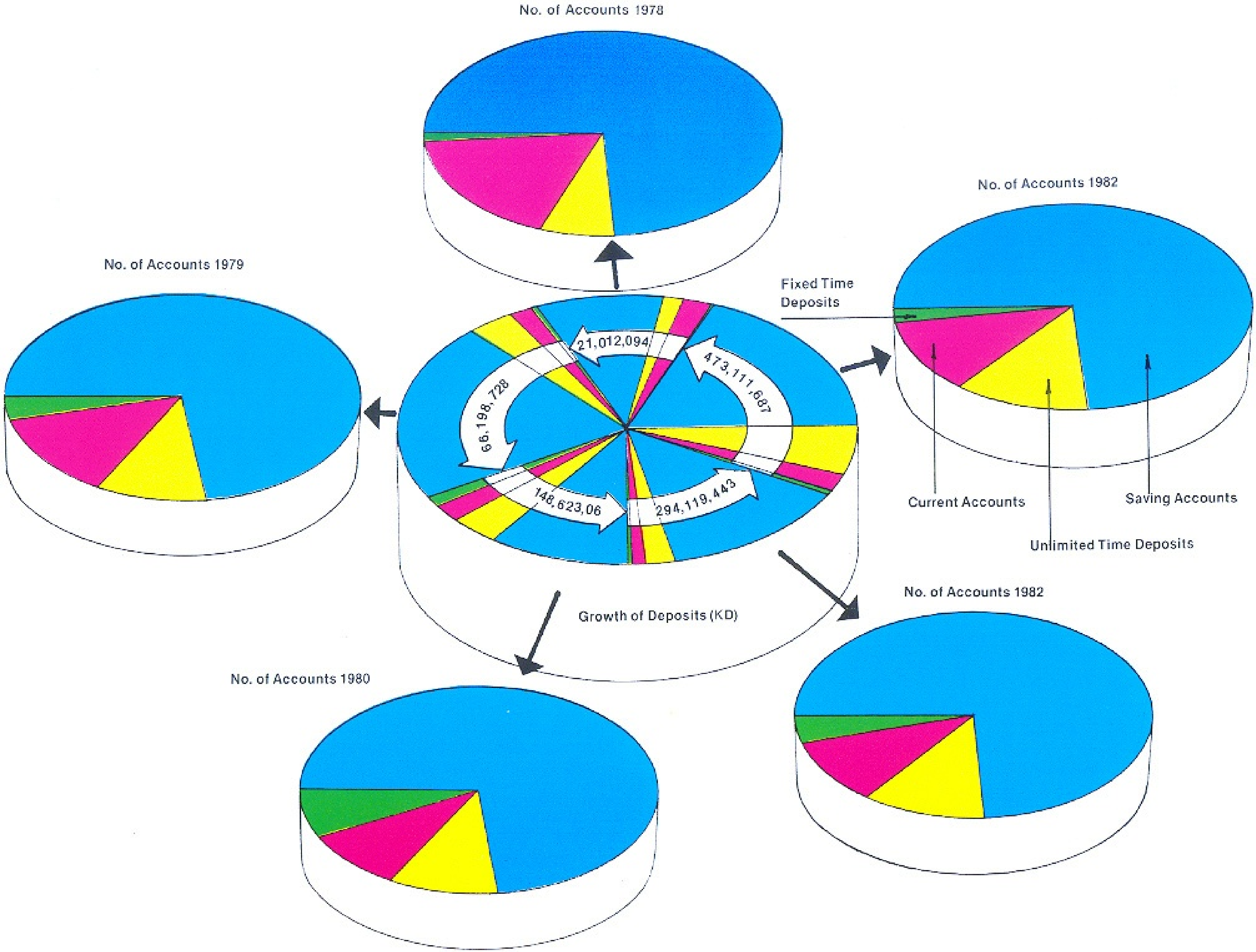
1- Distribution of 10% cash dividend, i.e.100 Fils per share.

2- Distribution of 25% free bonus share, i.e.2.5 shares for every 10 shares-

In conclusion, we pray to Almighty Allah for guidance and success, then we express our thanks to His Highness the Amir, Shaikh Jaber Al Ahmed Al-Sabah and His Highness the Crown Prince, Shaikh Saad Al Abdullah Al-Sabah and the esteemed government for their patronage and care for this instituion.

I also extend thanks to the Board members who spared no effort in the service of this institution. I also thank the management and the staff and all those who contributed in the activities of this institution praying to Allah to guide us to work according to His ordains.

AHMED BAZIE AL YASSIN
CHAIRMAN


No. of Accounts 1978
No. of Accounts 1979
No. of Accounts 1980
No. of Accounts 1982
No. of Accounts 1982
Fixed Time Deposits
Current Accounts
Unlimited Time Deposits
Saving Accounts
Growth of Deposits (KD)
21,012,094
66,198,728
148,623,06
294,119,443
473,111,687

• Al Faris Mosque (Souk Duaij)

• Faiha Branch

The World Economy

The World Economy

Growth Rates:

Forecasters during 1981 expected an upturn in the world economy during 1982. But contrary to those expectations, the world economy went deeper into recession during 1982, with rising unemployment figures, mounting budget deficits and disequilibrium in the balances of payments.

The average rate of growth in the industrial countries declined from 1.5% in 1981 to 0.5% in 1982. The economies of Canada, the United States and Germany receded by 5%, 1.75% and 1.25% respectively. Other major industrialized economies grew by small rates ranging from 2.5% in Japan to 0.5% in the United Kingdom.

The principal reason for this anemic growth is that the economies of the major industrial countries are becoming more restrictive with the aim of further reducing inflation. These policies made some progress during 1982. The average rate of inflation declined from 8% in 1981 to 7% in 1982. However, there were wide differentials in rates of inflation between various industrial countries. In the Unted States, Germany and Japan, the rates were below 6% whereas rates of over 10% prevailed in some European countries. This modest success in reducing inflation was achieved at the expense of the employment level. The average rate of unemployment in the industrial countries climbed to 9% and there were about 30 million out of work by the end of 1982.

Growth rates of the economies of the oil exporting countries slowed down during 1982. Oil exports, the backbone of these economies, were severly hit by the world economic recession. The economies of the non-oil developing countries deteriorated further during 1982. Their average growth rate fell from 5% in 1981 to 2% in 1982. Exports of these countries were adversely affected by the slowdown in the industrialized economies. Moreover, the prices of raw materials plunged further, worsening the terms of trade of these countries and widening deficits in their trade balances at a time when those countries are unable to secure finance for their development efforts.

External Balances:

The continuing global recession naturally affected the growth of international trade during 1982. Moreover, there were considerable tendencies towards trade protectionism during the year. The growth rate of international trade fell from 2.5% in 1981 to 1.75% during 1982.

The current accounts of industrialized countries improved considerably. Their combined current accounts deficit fell from $30 billion in 1981 to $15 billion in 1982. The U.S. economy achieved a balanced current account in spite of earlier forecasts of a considerable deficit. The economies of Japan and Germany registered surpluses in their current accounts while the rest of the industrialized economies registered current account deficits with varying magnitudes.

The current account surplus of oil exporting countries fell sharply from $68 billion in 1981 to only $5 billion in 1982. The main factor behind this drop is the decline in oil exports and prices due to the global oil glut. It is noteworthy that there are two distinct groups within the oil exporting countries, the first composed of low-absorbing countries with considerable surpluses, and the second high-absorbing countries with big deficits that reduce the overall surpluses of the two groups taken together.

The balances of payments of non-oil developing countries worsened during 1982 due to weak world demand for the exports of those countries. Their current account deficit rose from $71 billion in 1981 to $77 billion in 1982. Besides, these countries are faced with a host of problems in their attempt to bridge this gap. Most important among these are high interest rates, the appreciation of the U.S. dollar and the mounting burden of debt payments that reached critical stages and called for more debt rescheduling during 1982.

During the first half of 1982 around $26 billion went into the U.S. in the form of capital flows. The main sources of these funds were OPEC low absorbing group and some industrial countries mainly Japan and Germany. Such capital flows fell considerably during the second half of the year.

Fiscal and Monetary Developments:

Fiscal and monetary policies pursued by industrialized countries during 1982 continued bo be restrictive with the aim of further curbing inflation. Developments during the past few years have led to a basic change of atitude towards fiscal and monetary policies Pursuit of expansionary fiscal and monetary policies were no longer regarded as the solution to the problem of stagflation. Instead, fiscal and monetary policies of the industrial countries are to be closely co-ordinated to reduce inflation and eventually to attain higher growth and employment levels in an environment of favourable expectations of future inflation. Accordingly, fiscal policies were to be used to supplement monetary policies in sharply reducing inflation in a short period. However, attempts at reducing budget deficits made no real progress due to the already high level of unemployment and the severity of economic recession. Hence, contrary to policies pursued, budget deficits continued to rise in the industrial countries specially in the United States.

Monetary policies continued to be restrictive during the first half of 1982. Strict controls were maintained on the growth of money supply particularly in the United States where interest rates climbed to record levels. Other developed countries pursued similar restrictive policies to curb inflation and to maintain their currencies exchange rates against the U.S. dollar.

The outcome of these policies was the deepening of recession by depressing capital investments and the rise of unemployment to unacceptable levels which generated pressures on the governments to reactiviate these economises. These pressures were particularly felt in the United States where the authorities started to ease those strict controls and interest rates started to decline during the second half of the year. Similar steps were taken in other developed countries and interest rates started to decline in many European countries. However, little direct effects are expected to come out from these steps.

Exchange Rates:

Developments in the exchange markets during 1982 were dominated by the continued strength of the U.S. dollar which rose against most major currencies climbing to its highest level in more that a decade during the first half of the year. The dollar was particularly strong against the EMS currencies, the Sterling Pound and the Japanese Yen.

The main factors behind the strength of the dollar were the higher interest rates in the U.S. viz-a-viz interest rates in other industrialized countries, the better than expected performance of the U.S. current account which remained close to equilibrium and the low rate of inflation in U.S. compared with other developed countries in Europe. The strength of the dollar also reflected confidence in the U.S. economy and its long term prospects as indicated by long term capital flows into the country specially in view of fears triggered by the failure of many borrowing countries to repay their debts.

The dollar continued to dominate other currencies during the second half even after the fall in U.S. interest rates because the other factors cited above were still favouring the dollar. Moreover, interest rates started to decline in other countries as well.

This persistent strength of the dollar led other countries to pursue protective measures. The Japanese authorities supported the Yen by active intervention in exchange markets and by imposing restrictions on monetary expansion and capital outflows.

In Germany, the authorities were also active in protecting the exchange rate of the mark during the first half of the year. However, with the change of economic policies in the second half of the year, the mark was left to ease on exchange markets in order to improve Germany's trade competitiveness in the European markets.

The sterling pound declined considerably against the dollar approaching its low level of 1976. The British authorities regarded this decline as a healthy corrective measure for an overvalued pound and interfered only to even out fluctuations. Major factors against the pound were low interest rates in Britain, the deterioration in the current account and the fall in the prices of North Sea Oil.

In the EMS countries, various measures were taken to maintain the parities between these currencies. France and Italy pursued particularly strict monetary policies and imposed restrictions on capital outflows.

During 1982, gold prices continued their downward trend that started in mid 1980. All upward movements were only temporary with the price moving back to the downward trend. With the steady supply of gold, this trend was due to the end of the era of feverish speculation in gold which caused prices to shoot up in the past.

At the begining of 1982, gold was at $400 per ounce and started to decline till it reached $295 in June. This was followed by a period of a sharp climb and the price reached the hight of $500 in August. This rise was due to fears in financial markets based on poor performances of some international financial institutions which heavily lent funds to countries that were facing serious financial problems. Moreover, this period also witnessed the easing of monetary policies which triggered fears of another round of inflationary cycle. By the close of the year, the price of gold eased to around $455 per ounce.

GDP AND THE BALANCE OF PAYMENTS:-

Developments in the international oil market directly affect developments in the gross domestic product of Kuwait since oil revenues represent the most important part of the country's GDP. The over-supply of oil in world markets led the oil exporting countries to cut back their oil production and export.

In Kuwait, oil production dropped by 32% and oil exports declined by 37.4% to around 813,000 barrels per day compared with the daily average of 1.3 million barrels during 1980. Inspite of the rise in oil prices during 1981 by 17.6%, the big decline in oil exports led to a drop of 11.7% in GDP during 1981 which stood at KD 6510.4 million compared with KD 7373.7 million in 1980. The share of oil in GDP fell by 20.3% from KD 5156.8 million in 1980 to KD 4110.1 million in 1981 leading to a drop of the share of oil in GDP from 70% in 1980 to 63.1% in 1981.

The non-oil sectors, accounting for 36.9% of GDP, grew by 8.3% in 1981 to KD 2400.3 million. Within these sectors, the trade sector came first with a growth rate of 25.3% and a share of 7.2% in GDP. The growth rate of the manufacturing sector, adversely affected by oil-related manufacturing, slowed down to 2.5% retreating to the second place with a share of 6.4% in GDP. The financial institution's sector and construction sector grew by 17.3% and 15% respectively.

The main economic developments during 1982 show the continuation of low levels of oil production and exports indicating adverse effects on GDP during 1982. Moreover, the setback in the unofficial share's market adversely affected some related sectors. Therefore, GDP developments during 1982 are expected to follow a similar path of those that prevailed during 1981.

The decline in oil export revenues was naturally reflected on the balance of payments which showed a surplus of KD 2717 million in 1981 compared with KD 3381 million in 1980. The trade surplus aslo declined by 31.8% to KD 3381 million. This came about as the result of the fall in exports coupled with a rise of 14.5% in imports. However, a positive development was the considerable rise of investment income which grew by 37.9% to KD 2494 million. The surplus on the current account amounted to KD 3837 million which is 16.5% lower than the surplus of 1980.

On the capital account, capital outflows from Kuwait declined by 7.8% to KD 1119 million campared with KD 1214 million in 1980. This indicates the tendency of investors to commit more funds in the local market.

FISCAL DEVELOPMENTS

During 1981 the government completed its economic plans for the next four years to provide economic and social requirements of the country. In the field of fiscal policies, those programmes emphasised modernising the preparations and implementation of public sector budgets, augmentation of reserves for future generations and adoption of more coherent public investments policies.

Within the framework of these plans, fiscal policies were to be conducted through better planning and implementation techniques. All public units are to present their annual budgets comprising their detailed programmes and projects for the next four years. Starting from 1982/83 budget, each year's budget should be considered as one phase in this comprehensive plan.

International and domestic developments during 1982 confirmed that such programmes were timely specially in the field of public expenditures and investments. Practical steps in this direction included raising fuel prices during the first half of 1982, the re-organisation in the structures of bodies supervising government investments and the considerable expansion in international oil investments and other fields.

The glut in the international oil markets and the consequent cutback in oil export revenues were directly reflected on the estimates of the new budget. Total revenues of the Government ministries and departments for 1982/83 were estimated to be KD 3206 million, 39.3% lower than KD 5279 million estimated revenues in 1981/82. This decline came about as the result of a drop of 41.8% in oil revenues which accounted for 92.5% of total estimated revenues.

Non-oil revenues increased by 31% to KD 239 million, raising their share in total revenues from 3.5% in 1981/82 to 7.5% in 1982/83.

Out of total estimated revenues, KD 320.6 million was allocated to the Reserve Fund For Future Generations. A further KD 30 million was earmarked to raise the capital of Kuwait Fund for Economic Development.

Estimated expenditures of government ministries and departments amounted to KD 3113.5 million, an increase of 3.5% over the allocations of the previous budget. These expentitures were allocated as follows:-

A - Ordinary Expenditures: include wages and salaries, general expenditures on services, unclassified expenditures and transfer payments. Total allocations for these items amounted to KD 2383.6 million which represents 77% of total expenditures of government ministries and departments. This amount is 11.5% highter than the amount allocated in the previous budget.

B - Development Expenditures: rose slightly to KD 579.9 million accounting for 18.6% of total expenditures of government ministries and departments.

C - Acquisition of Property recieved the remanining 4.4% of total expenditures of government ministries and departments. The amount of KD 150 million allocated to this item represents a drop of 50% from the allocations of the year before.

The sum of total allocations for the Reserve Fund for Future Generations, Kuwait Fund for Economic Development and expenditures of government ministries and departments exceeded total estimated revenues by KD 258.1 million. This difference was covered by drawing from the General Reserve Fund.

MONETARY DEVELOPMENTS

The first nine months of 1982 were characterised by the slowdown in the rate of growth of domestic liquidity from the high rates which prevailed during 1981. At the end of September, domestic liquidity totalled KD 4113 million, a growth of 5.9% compared with a growth rate of 23.4% during the same period in 1981. Of the components of domestic liquidity, demand deposits dropped by 2.4% during this period. The main factor behind this drop was the sharp deceleration in the activity in the shares and real estate markets which are closely related to current accounts transactions.

The review of measures taken by the monetary authorities to regulate domestic liquidity reveals that by the end of September the outstanding balances of swaps with local banks amounted to KD 234 million. This rise of 40.5% over the balances at the end of 1981 reverses a trend of continuous fall in these balances during 1981. Balances of rediscounted commercial papers dropped by 6.8% to KD 263.3

million by the end of September.

As for the claims of local banks on the Central Bank, balances of these banks with the Central Bank amounted to KD 101 million by the end of September 1982. Besides, balances of the Central Bank bills with these banks amounted to KD 231.1 million.

As a result, the balances of net funds injected into the banking system by the Central Bank at the end of September amounted to KD 165.2 million which is 38.5% lower than the same balances at the end of Sept. 1981.

The slowdown in the growth of domestic liquidity referred to above is compatible with the decline in GDP due to the negative oil developments referred to earlier.

Banking activities showed a moderate rate of growth during the first nine months of 1982. The consolidated balance sheet of commercial banks increased by 9.3% by the end of the third quarter to KD 8307.2 million. The corresponding increase during 1981 was 18%.

The breakdown of the resources of commercial banks reveals that aggregate capital and reserves rose by 23% to KD 505.2 million compared with an increase of 6% during the same period of the year before. By the end of September, total deposits amounted to KD 3919.6 million. Private deposits, which account for 96.4% of total deposits, increased by 5% during this period to KD 3778.3 million. This reveals a marked slowdown compared to their growth rate of 25% during the same period of 1981. As for the components of private deposits, deposits in foreign currencies declined by 41% from KD 595.2 million at the end of 1981 to KD 347.9 million at the end of the third quarter of 1982, hence their percentage share in total deposits dropped from 19.3% at the end of 1981 to 9.2% at the end of September 1982. On the other hand, time deposits increased by 24.7% during this period while demand deposits declined by 8.5% due to the unofficial shares market crisis referred to earlier.

On the assets side of the consolidated balance sheet of the commercial banks, foreign assets declined during the first three quarters by 6% to KD 2109.8 million. The decline came about mainly because some investors liquidated part of their dollar deposits in order to benefit from the considerable rise of the exchange rate of the dollar during 1982.

By the end of Sept. 1982, claims on the private sector amounted to KD 4346.2 million, a rise of 25% over the end of 1981 compared to a rise of 18.7% during the same period in 1981. This indicates the growing tendency of commercial banks to commit more of their resources in the local market.

Credit facilities, which constituted 93% of the claims on the private sector, amounted to KD 4029.3 million by September 1982, revealing a considerable growth of 27% in credit facilities against 19.3% during the same period in 1981.

The distribution of credit facilities over the various economic sectors by the end of the third quarter of 1982 indicates that personal loans, which are usually used to finance transactions in the share's market, came on top accounting for 26.5% of total credit facilities and overtaking the trade sector which came second with 25.6% of total credit facilities. The percentage shares of the other sectors were: 23.3% for financial services sector, 16.9% for construction sector, 6.6% for the industrial sector and 1.1% for agriculture and fisheries.

These trends reveal that credit facilities for the productive sectors shrunk further during the first three quarters of 1982. Their percentage share in total facilities declined from 52.9% at the end of 1980 to 51% at the end of

September 1981 and fell further to 50.2% by the end of September 1982. However, it is hoped that credit facilities for the productive sectors will rise in the future after the speculative fervour in the shares market has receded.

SHARES MARKET:

Developments in the shares markets during 1982 overshadowed most other developments due to the speed and magnitude of the collapse of prices on the unofficial shares market. The crisis was specially severe because it came after a period of a big boom in prices and market activities. Estimates put the value of transactions in the official and unofficial shares markets during 1981 at over KD 7.5 billion.

During the first half of 1982, heavey and strong activities were focussed on the unofficial market which attracted most dealers away from the official stock market where transactions slowed down considerably. Total shares traded on the stock exchange during the first half of 1982 amounted to 89.2 million shares against 133.9 million shares traded during the first half of 1981. The rise in the general price index of the shares also slowed down from 35% during the first half of 1981 to 12.7% during the first half of 1982. Meanwhile the volume of trading and prices in the unofficial shares market reached record levels in both spot and forward deals. Interest rates charged on forward deals exceeded 200% in some cases. Most of these forward deals were financed by means of post-dated cheques.

During the second half of 1982 prices in the unofficial market fell sharply and consequently some dealers failed to meet payments on maturing post-dated cheques. This led to a chain of negative developments which affected most aspects of economic activity in the country.

Joint government and private efforts were exerted to bring the situation under control and to alleviate the negative outcomes of these developments. Among the most importand measures introduced were the setting-up of a clearing company to gather and register all post-dated cheques related to share transactions. A decree was also issued which stipulated the registeration of all forward deals in shares and the formation of an arbitration board to review these transactions, sort out the net financial positions of those involved and settle disputes.

Furthermore, the government set up a fund with a capital of KD 500 million to safeguard the interests of smaller investors in the shares market. This fund is to meet payments due for such investors either in cash or with bonds of varying maturities depending on the volume of transactions involved. The fund will aslo manage the assets of those who fail to meet their commitments. Other measures included the purchase, by certain government institutions, of shares on the official stock market and some other financial and monetary measures to augment liquidity.

These measures helped bring the situation under control and alleviated many negative effects of these developments and restored confidence which was shaken by these events.

From the start of the crisis till the end of the year, activities in the official and unofficial share markets were minimal with most dealers anxiously waiting the outcome of those financial settlements.

DEVELOPMENTS IN OTHER SECTORS:

It is generally accepted that the crisis in the unofficial shares market has affected other sectors of the economy. The real estate sector was one ot the most affected sectors because of the close association of dealers in real estate and shares. Due to lack of data on the extent of these effects, some general indicators and available informations will be reviewed.

During the first half of 1982, there was a big boom in the real estates market. Strong demand, with limited supply, pushed prices to record heights. Speculators who were making huge profits in the shares market, swarmed the real estates market creating this strong demand which made prices shoot up very sharply.

With the shares market crisis, the speculative boom in the real estates receded. The prices of residential plots of land declined on average by 25%. However, residential buildings, maintained their prices, some even gained in value by around 10%. The relative immunity of these buildings to the crisis stems from their stable return and the strong demand for residential buildings specially after most investors abandoned building in favour of high yeilding speculations.

Dealers in real estates expect that the activity in real estates will be revived but at moderate rates after the fever of speculation has receded. These expectations are based on the fact that investors have realised the danger of investments based on speculations. They have also learnt that real estate is a much safer investment because of the stability of return and of the medium and long run value of real estates.

The effects of the crisis on the trade sector can not be monitored due to the lack of recent data. However, the review of credit facilities to the trade sector reveals that these facilities rose by 22% during the first nine months of 1982 to KD 1032.2 million compared with a rise of 20% during the same period in 1981. These figures do not indicate any direct effects of the crisis on the trade sector. However, due to time lags, these effects might be apparent toward the end of 1982 and early 1983.

Balances of credit facilities for construction rose by 30.1% during the first nine months of 1982 to KD 680.5 million against a rise of only 14.6% during the same period of 1981. This could be taken as an indication of increased activity in this sector specially in the private sector. Construction in the public sector maintained the same level of activities because allocations in the 1982/83 budget increased marginally by only 1.7%. Moreover new building permits issued for the private sector during the first nine months of 1982 amounted to 1344 permits against 869 new permits issued during the same period in 1981. This increase of 54.7% in new permits indicates the inclination of investors toward building activities specially residential buildings which accounted for 88% of the total new permits issued during this period.

In the industrial sector, loans and contributions of the Industrial Bank of Kuwait to industry during the first three quarters of 1982 amounted to KD 22.1 million against KD 32.4 million during 1981; marking a slowdown in the Industrial Bank of Kuwait's finance for industry during this period. However, the balance of credit facilities for industry rose by 52.2% by the end of September against a rise of only 2.7% during the same period in 1981. This indicates a considerable expansion in industrial activities during this period.

The agriculture and fisheries sector grew considerably during this period. Credit facilities to this sector rose by 14.2% to KD 45.9 million compared with a decline of 2% during the same period of the year before.

AUDITORS' REPORT

The Shareholders of
Kuwait Finance House K.S.C

We have examined the financial statements of Kuwait Finance House K.S.C. set out on page 32 to 42. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary. We obtained all the information and explanations which we deemed necessary for the purpose of our examination.

In our opinion the financial statements present a fair view of the financial position of the Company at 31 December 1982 and of the results of its operations for the year then ended. Also, in our opinion the financial statements comply with the Law of Commercial Companies and the Company's Articles of Association. In accordance with Article 164 of the Law of Commercial Companies we report that in our opinion proper books of account have been kept, an inventory was duly carried out and the contents of the Director's Report relating to the financial statements are in agreement with the books of the Company. To the best of our knowledge and belief no violations of the Law or of the Articles having a material adverse effect on the business of the Company or its financial position have occurred during the year.

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

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

Kuwait
15 January 1983

KUWAIT FINANCE HOUSE K.S.C.
BALANCE SHEET
AT 31 DECEMBER 1982

	Note	1982 KD	1981 KD
Cash and balances with banks		117,353,956	55,316,027
Advances to customers against letters of credit and murabaha		28,337,350	12,710,775
Deposits with Islamic Financial Institutions		27,253,487	9,752,042
Accounts receivable and prepayments	4	141,889,203	126,763,073
Trading investments in property	5	225,129,687	109,814,775
Inventories	6	3,715,665	1,501,498
Construction work-in-progress	7	655,857	1,631,160
TOTAL CURRENT ASSETS		544,335,205	317,489,350
Medium term accounts receivable		8,474877	23,371,159
Investments and other assets	8	10,854,175	5,934,896
Fixed assets	9	5,054,672	4,338,653
TOTAL ASSETS		568,718,929	351,134,058
Liability of customers for letters of credit, acceptances and guarantees		29,419,849	25,835,041
		598,138,778	**376,969,099**

The attached notes 1 to 21 form part

AHMAD BAZIE AL-YASEEN
CHAIRMAN

	Note	1982 KD	1981 KD
Current accounts		70,050,502	55,180,706
Investment accounts	10		
- Savings		182,728,160	116,692,035
- Deposits - limited period		10,245,283	10,555,004
- Deposits - unlimited period		210,087,742	111,691,698
Total current and investment accounts		473,111,687	294,119,443
Accounts payable and accruals	11	25,570,712	19,925,232
Depositors' share of net profit	12	32,912,250	19,000,000
proposed dividend	18	1,496,102	—
TOTAL CURRENT LIABILITIES		533,090,751	333,044,675
SHAREHOLDERS' EQUITY			
Share capital	13	14,961,019	9,567,730
Statutory reserve (including share premium KD 4,328,054)	14	12,790,976	3,873,772
General reserve	15	7,876,183	4,647,881
TOTAL SHAREHOLDERS' EQUITY		35,628,178	18,089,383
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		568,718,929	351,134,058
Letters of credit, acceptances and guarantees on behalf of customers		29,419,849	25,835,041
		598,138,778	**376,969,099**

of these financial statements.

BADER ABDULMOHSEN AL-MUKHAIZEM
MANAGING DIRECTOR AND GENERAL MANAGER

KUWAIT FINANCE HOUSE K.S.C.
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 1982

	Note	1982 KD	1981 KD
INCOME			
Banking operations		3,358,304	1,569,985
Real estate, commercial and Construction operations		45,039,609	29,916,049
Rental income		2,311,810	1,916,791
Other income		1,398,421	611,613
		52,108,144	34,014,438
EXPENSES			
General and administration		5,081,625	3,234,874
Provision for decline in value of investments		342,713	2,081,687
Provision for bad and doubtful accounts receivabe		970,077	3,426,761
Provision for obsolete and slow moving inventory and anticipated losses on uncompleted contracts no longer required		(177,773)	225,870
		6,216,642	8,969,192
NET PROFIT FOR YEAR		45,891,502	25,045,246
APPROPRIATION OF NET PROFIT			
Statutory reserve	14	4,589,150	2,504,525
General reserve	15	4,589,150	2,504,525
Kuwait Foundation for Advancement of Science	16	419,505	177,036
Directors' fees		80,000	80,000
Depositors' share of net profit	12	32,912,250	19,000,000
Reserve accounts' share of net profit	17	1,306,694	410,016
Proposed dividend	18	1,994,753	369,144
		45,891,502	**25,045,246**

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

KUWAIT FINANCE HOUSE K.S.C.
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1982

1 — INCORPORATION

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

2 — ACTIVITIES

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

3 SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

The financial statements are prepared under the historical cost convention.

b) Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at the 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.

c) Depreciation

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

d) Investments in property

Investments in property are carried at the lower of cost and director's estimate of market value on an aggregate basis.

e) Inventories

Inventories are valued at lower of cost and net realisable value, after making due allowance for any obsolete or slow moving items. Cost is determined on a specific identification basis.

f) Construction work-in-progress

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

g) Profit recognition

(i) 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.

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

h) Accounts receivable

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

i) Employees' terminal benefits

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

4 — ACCOUNTS RECEIVABLE AND PREPAYMENTS

	1982 KD	1981 KD
Receivables (Real Estate, Trade, Const.)	141,782,011	129,242,402
Other receivables	4,883,836	1,322,700
Prepaid expenses	440,919	391,133
	147,106,766	130;956,235
Less: Provision for doubtful accounts receivable	5,217,563	4,193,162
	141,889,203	**126,763,073**

5 — TRADING INVESTMENTS IN PROPERTY

	1982 KD	1981 KD
Buildings	31,933,505	23,950,717
Plots	113,424,491	44,406,985
Land	69,037,936	35,276,093
Property bonds	14,282,674	9,729,899
	228,678,606	113,363,694
Less: provision for decline in value	3,548,919	3,548,919
	225,129,687	**109,814,775**

The directors are of the opinion that the above investments taken on an aggregate basis are worth not less than the net amount stated above.

6 — INVENTORIES

	1982 KD	1981 KD
Motor vehicles	3,755,263	1,658,239
Foodstuffs	3,200	19,138
Spare parts	73,176	50,631
Goods in transit	184,026	251,263
	4,015,665	1,979,271
Less: provision for obsolete and slow moving items	300,000	477,773
	3,715,665	**1,501,498**

7 — CONSTRUCTION WORK-IN-PROGRESS

	1982 KD	1981 KD
Expenditure on uncompleted contracts	902,343	1,741,331
Progress payments received	(246,486)	(110,171)
	655,857	**1,631,160**

8 — INVESTMENTS AND OTHER ASSETS

	1982 KD	1981 KD
Associated and subsidiary companies:		
- investments	1,690,164	1,142,270
- current accounts	1,050,000	—
Joint venture in real estate	225,699	227,500
Joint venture in commercial activities, net of provisions	1,070,442	791,628
Al Muthana Project	6,817,870	3,773,498
	10,854,175	**5,934,896**

9 — FIXED ASSETS

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

Leasehold property	20 years
Furniture and fittings	3 years
Plant and equipment	3 years
Motor vehicles	3 years

	Freehold land KD	Leasehold property KD	Furniture and fittings KD	Plant, equipment and motor vehicles KD	Total KD
Cost:					
At 31 December 1981	3,978,000	—	432,249	487,016	4,897,265
Additions during year	—	209,933	81,337	359,038	650,308
Cost of disposals	—	—	—	(2,000)	(2,000)
Project in progress	404,115	—	—	—	404,115
At 31 December 1982	4,382,115	209,933	513,586	844,054	5,949,688
Depreciation:					
At 31 December 1981	—	—	251,833	306,779	558,612
Charge for year	—	10,933	119,987	207,484	338,404
Relating to disposals	—	—	—	(2,000)	(2,000)
At 31 December 1982	—	10,933	371,820	512,263	895,016
Net book amounts:					
At 31 December 1982	4,382,115	199,000	141,766	331,791	5,054,672
At 31 December 1981	3,978,000	—	180,416	180,237	4,338,653

10— INVESTMENT ACCOUNTS

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

11 — ACCOUNTS PAYABLE AND ACCRUALS

	1982 KD	1981 KD
Trade payables	21,468,574	14,956,550
Advances from real estate customers	3,107,328	4,441,060
Accrued expenses	994,810	527,622
	25,570,712	**19,925,232**

12 — DEPOSITORS' SHARE OF NET PROFIT

	1982 KD	1981 KD
	32,912,250	**19,000,000**

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

	1982	1981
Savings accounts	8.0%	9%
Deposit accounts - limited period	10.65%	12%
Deposit accounts - unlimited period	12.0 %	$13\frac{1}{2}$ %

13 — SHARE CAPITAL

	1982 KD	1981 KD
Authorised and issued 15,000,000 (1981 - 9,843,840) shares of KD 1 each	15,000,000	9,843,840
Subscribed, allotted and fully paid	**14,961,019**	**9,567,730**

During the year the authorised share capital was increased by 5,156,160 shares to KD 15,000,000. The increase comprised 2,953,152 bonus shares and a blance of 2,203,008 shares which were issued for cash at a premium of KD 2 per share of which 38,981 were not subscribed for. The permium arising has been credited to statutory reserve.

14 — STATUTORY RESERVE

	1982 K.D.	1981 K.D.
Balance at beginning of year	3,873,772	1,369,247
Premium on issue of shares	4,328,054	—
Transfer for year	4,589,150	2,504,525
Balance at end of year	**12,790,976**	**3,873,772**

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

The premium arising from the issue of shares is not distributable. Distribution of the balance of the statutory is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when accumulated net profit is not sufficient for the payment of a dividend of that amount.

15— GENERAL RESERVE

	1982 KD	1981 KD
Balance at beginning of year	4,647,881	1,434,284
Zakat paid during year	(213,041)	(70,088)
Bonus issue	(2,953,152)	—
Transfer for year	4,589,150	2,504,525
Reserve accounts' share of net profit (Note 17)	1,306,694	410,016
Proposed dividend (Note 18)	498,651	369,144
Balance at end of year	**7,876,183**	**4,647,881**

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

16 — KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCE

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

	1982 KD	1981 KD
Net profit for year	45,891,502	25,045,246
Less: Transfer to statutory reserve	4,589,150	2,504,525
Depositors' share of net profit	32,912,250	19,000,000
	37,501,400	21,504,525
Income on which KFAS is payable	8,390,102	3,540,721
Contribution at 5%	**419,505**	**177,036**

17 — RESERVE ACCOUNTS' SHARE OF NET PROFIT

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

18 — PROPOSED DIVIDEND

The share capital's share of the net profit for the year has been calculated at the rate of 13.333% (1981 15.0%) as follows:

	1982 KD	1981 KD
On paid-up capital	1,994,753	369,144
Transfer to general reserve (Note 15)	498,651	369,144
	1,496,102	—

The board of directors is recommending to the general assembly to pay a cash dividend of 10% and to transfer the excess to general reserve.

19 — CONTINGENT LIABILITIES

At 31 December 1982 there was a contingent liability in respect of unpaid capital in associated companies amounting to KD 787,180 (1981 KD 373,290).

20 — CAPITAL COMMITMENTS

The directors have authorised future capital expenditure not provided for in these financial statements amounting to KD 25,000,000 (1981-KD 22,500,000).

21 — COMPARATIVE FIGURES

Certain of the 1981 comparative figures have been restated to conform with current year's presentation.