

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

**CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED)**

**31 MARCH 2000**

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## REVIEW REPORT TO THE DIRECTORS


We have reviewed the accompanying condensed consolidated financial statements of Kuwait Finance House K.S.C. and its subsidiary at 31 March 2000 set out on pages 2 to 9. These condensed consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to issue a report on these condensed consolidated financial statements based on our review.

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


Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with the basis of presentation set out in Note 2.

Furthermore, in our opinion the condensed consolidated financial statements are in agreement with the books of the group. We further report that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association of the parent company have occurred that might have had a material effect on the business of the parent company or on its financial position.

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



WALEED A. AL-OSAIMI  
LICENCE NO. 68 A  
OF ERNST & YOUNG



SALAH F. AL-MARZOOK  
LICENCE NO. 15 A  
OF DELOITTE & TOUCHE

11 April 2000

Kuwait

## Kuwait Finance House K.S.C. and Subsidiary

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

31 March 2000

	Note	31 March 2000 (unaudited) KD 000's	31 December 1999 (Audited) KD 000's	31 March 1999 (unaudited) KD 000's
<b>ASSETS</b>				
Cash and balances with banks and other financial institutions	3	40,507	117,617	54,982
Short-term international murabaha	3	178,148	159,710	190,298
Receivables		1,142,244	1,009,593	963,641
Leased assets		79,740	75,600	77,266
Government debt bonds	4	60,337	60,679	69,972
Investments		271,243	281,760	264,408
Property and equipment		22,229	22,262	19,982
Other assets		35,233	42,278	57,357
<b>TOTAL ASSETS</b>		<b>1,829,681</b>	<b>1,769,499</b>	<b>1,697,906</b>
<b>LIABILITIES, MINORITY INTEREST AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		21,184	5,689	69,854
Depositors' accounts		1,386,658	1,334,943	1,199,346
Other liabilities		64,710	65,424	85,007
<b>TOTAL LIABILITIES</b>		<b>1,472,552</b>	<b>1,406,056</b>	<b>1,354,207</b>
DEFERRED REVENUE		163,074	156,218	148,650
MINORITY INTEREST		15,310	15,013	15,050
<b>EQUITY</b>				
Share capital	5	60,207	56,799	53,584
Proposed issue of bonus shares		-	3,408	3,215
Proposed cash dividends		-	22,720	19,290
Reserves		118,538	109,285	103,910
<b>TOTAL EQUITY</b>		<b>178,745</b>	<b>192,212</b>	<b>179,999</b>
<b>TOTAL LIABILITIES, MINORITY INTEREST AND EQUITY</b>		<b>1,829,681</b>	<b>1,769,499</b>	<b>1,697,906</b>



BADER ABDULMOHSEN AL-MUKHAIZEEM  
(CHAIRMAN AND MANAGING DIRECTOR)

The attached notes 1 to 11 form part of these condensed consolidated financial statements.

## Kuwait Finance House K.S.C. and Subsidiary

## CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Period ended 31 March 2000

	<i>Note</i>	<i>3 months ended 31 March 2000 KD 000's</i>	<i>3 months ended 31 March 1999 KD 000's</i>
OPERATING INCOME			
Murabaha, Istisna'a and leasing		26,204	23,085
Subvention of government debt bonds	4	753	1,800
Investment income		9,055	8,575
Fees and commissions		1,108	941
Net gain from dealing in foreign currencies		436	862
Miscellaneous		396	509
		<u>37,952</u>	<u>35,772</u>
OPERATING EXPENSES			
General and administration		3,907	3,786
Depreciation		1,112	970
Provisions		3,699	4,240
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		171	148
		<u>8,889</u>	<u>9,144</u>
OPERATING PROFIT BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS AND MINORITY INTEREST			
Estimated distribution to depositors	6	29,063 (17,169)	26,628 (15,261)
PROFIT BEFORE MINORITY INTEREST			
Minority interest		11,894 (297)	11,367 (324)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS			
		<u>11,597</u>	<u>11,043</u>
BASIC EARNINGS PER SHARE			
		<u>19 fils</u>	<u>18 fils</u>

The attached notes 1 to 11 form part of these condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

31 March 2000

	Reserves						Total shareholders' funds KD 000's
	Share capital KD 000's	Proposed Issue of bonus shares KD 000's	Proposed cash dividends KD 000's	Statutory KD 000's	Share premium KD 000's	Voluntary KD 000's	
At 1 January 1999	53,584	3,215	19,290	71,139	5,641	16,087	168,956
Movements during period:							
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	-	11,043	11,043
At 31 March 1999	53,584	3,215	19,290	71,139	5,641	27,130	179,999
At 1 January 2000	56,799	3,408	22,720	84,929	5,641	18,715	192,212
Movements during period:							
Dividends	3,408	(3,408)	(22,720)	-	-	-	(22,720)
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	-	11,597	11,597
Zakat	-	-	-	-	-	(2,344)	(2,344)
At 31 March 2000	60,207	-	-	84,929	5,641	27,968	178,745

The attached notes 1 to 11 form part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

Period ended 31 March 2000

	<i>Note</i>	<i>3 months ended 31 March 2000 KD 000's</i>	<i>3 months ended 31 March 1999 KD 000's</i>
<b>OPERATING ACTIVITIES</b>			
Net profit for the period		11,597	11,043
Adjustment for:			
Minority interest		297	324
Depreciation		1,112	970
		<u>13,006</u>	<u>12,337</u>
Operating profit before changes in operating assets and liabilities:			
Increase in receivables		(132,651)	(13,105)
Increase in leased assets		(4,140)	(947)
Decrease (increase) in trading properties		4,088	(5,665)
Increase in other assets		7,045	(25,594)
Increase in due to banks and other financial institutions		15,495	48,457
Decrease in depositors' accounts		51,715	(62,453)
(Decrease) increase in other liabilities		(714)	31,351
Increase (decrease) in deferred revenue		6,856	(128)
		<u>(39,300)</u>	<u>(15,747)</u>
Net cash used in operating activities			
<b>INVESTING ACTIVITIES</b>			
Redemption of government debt bonds		342	71,422
Purchase of non-trading investments		6,072	(13,270)
Purchase of property and equipment		(1,734)	(648)
Proceeds from sale of property and equipment		1,012	-
		<u>5,692</u>	<u>57,504</u>
Net cash from investing activities			
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(22,720)	-
Payment of Zakat		(2,344)	-
		<u>(25,064)</u>	<u>-</u>
Net cash used in financing activities			
<b>NET DECREASE IN CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS</b>			
		(58,672)	41,757
Cash and balances with banks and other financial institutions at beginning of the period		<u>277,327</u>	<u>203,523</u>
<b>CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS AT END OF THE PERIOD</b>	<b>3</b>	<u><u>218,655</u></u>	<u><u>245,280</u></u>

The attached notes 1 to 11 form part of these condensed consolidated financial statements.

**1 ACTIVITIES**

Kuwait Finance House K.S.C. (the parent company) is a public shareholding company incorporated in Kuwait and is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account, as well as for third parties, and other trading activities without practising usury. Sales may take various forms including cash, credit and Murabaha sales (purchasing of raw materials, goods, equipment, real estate and selling them at an agreed negotiated profit margin).

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

**2 BASIS OF PRESENTATION**

These interim condensed consolidated financial statements have been drawn up in accordance with the same accounting policies and methods of computation as were followed in the most recent annual financial statements.

The condensed consolidated financial statements have been prepared to present interim condensed consolidated financial information in compliance with the International Accounting Standard No. 34, Interim Financial Reporting. Accordingly, they do not include all of the information and footnotes required for complete financial statements prepared in accordance with International Accounting Standards. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2000. For further information, refer to the financial statements and notes thereto included in the group's annual report for the year ended 31 December 1999.

**3 CASH AND CASH EQUIVALENTS**

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

	<i>31 March 2000 KD 000's</i>	<i>31 December 1999 KD 000's</i>	<i>31 March 1999 KD 000's</i>
Cash and balances with banks and other financial institutions	40,507	117,617	54,982
Short term International Murabaha	178,148	159,710	190,298
	<u>218,655</u>	<u>277,327</u>	<u>245,280</u>

**4 GOVERNMENT DEBT BONDS**

The subvention on the government debt bonds was 5.05% (1999: 5.64%) per annum for the period ended 31 March 2000. The subvention on the government debt bonds is payable semi annually in arrears.

**5 SHARE CAPITAL**

The extraordinary general assembly meeting of the parent company held on 20 March 2000 approved an increase in the authorised share capital from KD 56,799,143 to KD 61,343,074 by way of issue of 6% bonus shares totaling 34,079,485 shares. In addition to the issue of 2% new shares totaling 11,359,828 shares under the employees share option scheme at 282 fils each was approved and the premium arising will be credited to share premium account. However, no rights have been exercised to date.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) (continued)

31 March 2000

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

The management of the parent company is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the net profit for the period attributable to shareholders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 31 March 2000, or for the year ending 31 December 2000.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the parent company in accordance with the company's articles of association, based on the annual audited results for the year ending 31 December 2000.

For the purpose of these condensed consolidated financial statements, the net profit for the period ended 31 March 2000 attributable to shareholders has been credited to voluntary reserve.

**7 CONTINGENCIES AND COMMITMENTS**

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

	<i>31 March 2000 KD 000's</i>	<i>31 December 1999 KD 000's</i>	<i>31 March 1999 KD 000's</i>
Acceptances and letters of credit	24,151	25,385	26,739
Guarantees	83,010	78,559	78,019
	<u>107,161</u>	<u>103,944</u>	<u>104,758</u>

The general provisions for non-cash credit facilities are included in other liabilities on the balance sheet.

- b) At the balance sheet date there were capital commitments amounting to KD 4,323,765 thousand (1999: KD 26,659 thousand) in respect of uncalled capital of investments.

**8 NET OPEN FOREIGN CURRENCY POSITION**

	<i>31 March 2000 KD 000's equivalent</i>	<i>31 December 1999 KD 000's equivalent</i>	<i>31 March 1999 KD 000's equivalent</i>
Net assets (liabilities) in major foreign currencies:			
U.S. Dollars	50,417	78,405	44,316
Sterling Pounds	(4,692)	(6,398)	(8,556)
Japanese Yen	34	193	-
Euro	420	1,114	-
Others	1,045	1,852	1,727
	<u>47,224</u>	<u>75,166</u>	<u>37,487</u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED) (continued)

31 March 2000

**9 RELATED PARTY TRANSACTIONS**

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

**10 GEOGRAPHICAL SEGMENTS***Primary segment information*

For management purposes the company is organised into four major business segments:

	<i>Treasury</i>	<i>Investment</i>	<i>Retail and corporate banking</i>	<i>Other groups</i>	<i>Total</i>
	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2000</i>	<i>2000</i>	<i>2000</i>	<i>2000</i>	<i>2000</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Revenue	6,676	10,405	20,277	594	37,952
Net profit	180	7,610	3,506	301	11,597
Total assets	476,799	408,466	915,207	29,209	1,829,681
Total liabilities, deferred revenue, minority interest and equity	33,079	47,983	1,362,524	386,095	1,829,681
	<i>Treasury</i>	<i>Investment</i>	<i>Retail and corporate banking</i>	<i>Other groups</i>	<i>Total</i>
	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>1999</i>	<i>1999</i>	<i>1999</i>	<i>1999</i>	<i>1999</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Revenue	6,055	10,045	19,112	560	35,772
Net profit	849	6,999	2,919	276	11,043
Total assets	442,460	377,311	847,988	30,147	1,697,906
Total liabilities, deferred revenue, minority interest and equity	30,697	44,528	1,263,873	358,808	1,697,906

**10 GEOGRAPHICAL SEGMENTS (continued)***Secondary segment information*

The group operates in different geographical areas as designated below:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>31 March 2000 KD 000's</i>	<i>31 March 1999 KD 000's</i>	<i>31 March 2000 KD 000's</i>	<i>31 March 1999 KD 000's</i>	<i>31 March 2000 KD 000's</i>	<i>31 March 1999 KD 000's</i>
Revenue	<u>31,676</u>	<u>31,792</u>	<u>6,276</u>	<u>3,980</u>	<u>37,952</u>	<u>35,772</u>
Net profit	<u>23,960</u>	<u>23,342</u>	<u>4,806</u>	<u>2,962</u>	<u>28,766</u>	<u>26,304</u>
Total assets	<u>1,428,965</u>	<u>1,429,091</u>	<u>400,716</u>	<u>268,815</u>	<u>1,829,681</u>	<u>1,697,906</u>
Total liabilities, deferred revenue, minority interest and equity	<u>1,823,862</u>	<u>1,685,069</u>	<u>5,819</u>	<u>12,837</u>	<u>1,829,681</u>	<u>1,697,906</u>

**11 COMPARATIVE FIGURES**

For the period ended 31 March 1999 short-term international murabaha and deferred revenue are separately disclosed on the balance sheet to conform to the current period and 31 December 1999 presentation.