

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

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

30 JUNE 2001

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

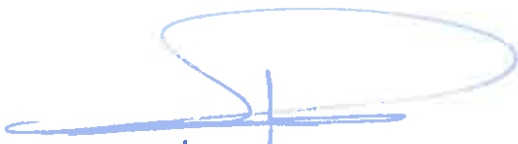
We have reviewed the accompanying interim consolidated balance sheet of Kuwait Finance House K.S.C. and its Subsidiary at 30 June 2001, and the related statements of income, cash flows and changes in equity for the six month period then ended. These interim condensed financial statements are the responsibility of the parent company's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of 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.

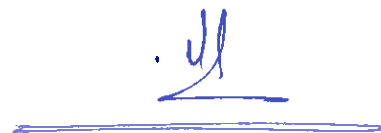
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

Furthermore, in our opinion the interim 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



JASSIM AHMED AL-FAHAD
LICENCE NO. 53 A
OF DELOITTE & TOUCHE

8 July 2001

Kuwait

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED BALANCE SHEET (UNAUDITED)

30 June 2001

		30 June	31 December	30 June
		2001	2000	2000
		(unaudited)	(Audited)	(unaudited)
	<i>Notes</i>	KD 000's	KD 000's	KD 000's
ASSETS				
Cash and balances with banks and other financial institutions	4	90,076	133,295	50,946
Short-term international murabaha	4	430,376	357,330	180,672
Receivables		1,174,743	1,070,519	1,184,784
Leased assets		74,021	80,064	78,590
Government debt bonds	5	11,721	19,087	57,735
Investments		346,397	303,455	285,368
Property and equipment		27,868	27,448	23,775
Other assets		40,841	34,414	45,806
TOTAL ASSETS		2,196,043	2,025,612	1,907,676
LIABILITIES, DERERRED REVENUE, MINORITY INTEREST AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		26,419	7,615	2,811
Depositors' accounts		1,679,776	1,547,065	1,448,424
Other liabilities		84,962	71,940	79,751
TOTAL LIABILITIES		1,791,157	1,626,620	1,530,986
DEFERRED REVENUE		171,108	165,507	167,917
MINORITY INTEREST		15,910	16,255	15,616
EQUITY				
Share capital	6	65,024	61,343	61,343
Proposed issue of bonus shares		-	3,681	-
Reserves		152,844	126,442	131,814
		217,868	191,466	193,157
Proposed cash dividend		-	25,764	-
		217,868	217,230	193,157
TOTAL LIABILITIES, DEFERRED REVENUE, MINORITY INTEREST AND EQUITY		2,196,043	2,025,612	1,907,676

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

JASSAR D. AL-JASSAR
(GENERAL MANAGER)

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

30 June 2001

		<i>3 months ended</i> <i>30 June 2001</i>	<i>3 months ended</i> <i>30 June 2000</i>	<i>6 months ended</i> <i>30 June 2001</i>	<i>6 months ended</i> <i>30 June 2000</i>
	<i>Note</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
OPERATING INCOME					
Murabaha, Istisna'a and leasing		28,055	28,234	56,968	54,438
Subvention on government debt bonds	5	59	839	191	1,592
Investment income		3,409	4,984	9,632	14,039
Fees and commissions		1,698	1,596	3,148	2,704
Net gain from dealing in foreign currencies		587	967	813	1,403
Miscellaneous		791	517	1,302	913
		<u>34,599</u>	<u>37,137</u>	<u>72,054</u>	<u>75,089</u>
OPERATING EXPENSES					
General and administration		5,304	4,532	9,243	8,439
Depreciation		1,569	1,163	3,117	2,275
Provisions		(3,999)	829	(2,405)	4,528
		<u>2,874</u>	<u>6,524</u>	<u>9,955</u>	<u>15,242</u>
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST					
		31,725	30,613	62,099	59,847
Minority interest		(421)	(306)	(635)	(603)
PROFIT FROM OPERATIONS BEFORE DISTRIBUTION TO DEPOSITORS					
		31,304	30,307	61,464	59,244
Estimated distribution to depositors	7	(18,952)	(18,148)	(36,379)	(35,317)
		<u>12,352</u>	<u>12,159</u>	<u>25,085</u>	<u>23,927</u>
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(185)	(178)	(370)	(349)
NET PROFIT FOR THE PERIOD					
		<u>12,167</u>	<u>11,981</u>	<u>24,715</u>	<u>23,578</u>
BASIC EARNINGS PER SHARE					
		<u>18.73 fils</u>	<u>18.62 fils</u>	<u>38.04 fils</u>	<u>36.64 fils</u>

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

30 June 2001

	<i>Note</i>	<i>6 months ended 30 June 2001 KD 000's</i>	<i>6 months ended 30 June 2000 KD 000's</i>
OPERATING ACTIVITIES			
Net profit for the period		24,715	23,578
Adjustment for:			
Minority interest		635	603
Depreciation		3,117	2,275
Operating profit before changes in operating assets and liabilities:		<u>28,467</u>	<u>26,456</u>
Increase in receivables		(104,224)	(175,191)
Decrease (increase) in leased assets		6,043	(2,990)
Increase in trading properties		(7,903)	2,183
Increase in other assets		(6,428)	(3,528)
Increase (decrease) in due to banks and other financial institutions		18,803	(2,878)
Increase in depositors' accounts		132,712	113,481
Increase in other liabilities		13,023	14,327
Increase in deferred revenue		5,601	11,699
Net cash from (used in) operating activities		<u>86,094</u>	<u>(16,441)</u>
INVESTING ACTIVITIES			
Redemption of government debt bonds		7,366	2,944
Purchase of non-trading investments		(31,256)	(7,278)
Purchase of property and equipment		(4,141)	(5,085)
Proceeds from sale of property and equipment		1,317	2,012
Net cash used in investing activities		<u>(26,714)</u>	<u>(7,407)</u>
FINANCING ACTIVITIES			
Dividends paid		(25,764)	(22,720)
Zakat paid		(2,809)	(2,344)
Minority interest		(980)	-
Issue of new shares		-	3,203
Net cash used in financing activities		<u>(29,553)</u>	<u>(21,861)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		29,827	(45,709)
Cash and balances with banks and other financial institutions at beginning of the period		<u>490,625</u>	<u>277,327</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	4	<u>520,452</u>	<u>231,618</u>

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

30 June 2001

	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	Cumulative changes in fair values KD 000's	Voluntary KD 000's		Treasury shares KD 000's
At 1 January 2000	56,799	3,408	22,720	84,929	5,641	-	18,715	(690)	191,522
Issue of bonus shares	3,408	(3,408)	-	-	-	-	-	-	-
Dividend paid	-	-	(22,720)	-	-	-	-	-	(22,720)
Net profit for the period attributable to shareholders	-	-	-	-	-	-	23,578	-	23,578
Net movement in treasury shares	-	-	-	-	-	-	-	(82)	(82)
Issue of new shares	1,136	-	-	-	2,067	-	-	-	3,203
Zakat paid	-	-	-	-	-	-	(2,344)	-	(2,344)
At 30 June 2000	61,343	-	-	84,929	7,708	-	39,949	(772)	193,157
At 1 January 2001	61,343	3,681	25,764	98,265	7,708	-	21,210	(741)	217,230
Restatement in accordance with IAS 39	-	-	-	-	-	1,716	-	-	1,716
Issue of bonus shares	3,681	(3,681)	-	-	-	-	-	-	-
Dividend paid	-	-	(25,764)	-	-	-	-	-	(25,764)
Net movement in cumulative changes in fair value	-	-	-	-	-	2,488	-	-	2,488
Net profit for the period	-	-	-	-	-	-	24,715	-	24,715
Net movement in treasury shares	-	-	-	-	-	-	-	292	292
Zakat paid	-	-	-	-	-	-	(2,809)	-	(2,809)
At 30 June 2001	65,024	-	-	98,265	7,708	4,204	43,116	(449)	217,868

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2001

1 ACTIVITIES

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. and subsidiary (the group) for the period ended 30 June 2001 were authorised for issue in accordance with a resolution of the board of directors on 8 July 2001.

Kuwait Finance House K.S.C. (the parent company) is a public shareholding company incorporated in Kuwait and is engaged in providing banking and related services including the purchase and sale of properties, leasing, project construction and other trading activities without practising usury.

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

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

The company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

2 BASIS OF PRESENTATION

These interim condensed consolidated financial statements of the group have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2000, with the exception of accounting policies which have been revised due to the implementation of IAS 39 "Financial Instruments: Recognition and Measurement and IAS 40 "Investment Property" " as from 1 January 2001.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2001.

3 ACCOUNTING POLICIES

Revisions to accounting policies subsequent to the implementation of IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" as from 1 January 2001 are as follows:

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Investments

i) Investment properties

Investment properties are classified as "rental properties" and "other property investments".

Rental properties:

Rental properties are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties other than freehold land which is deemed to have an indefinite life. The carrying amounts are reviewed at each balance sheet date on an individual basis by reference to their fair value to assess whether they are recorded in excess of their recoverable amount. Provisions for impairment losses, if any, are made where carrying values exceed the recoverable amount.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2001

3 ACCOUNTING POLICIES (continued)*Other property investments:*

Other property investments comprising participations in real estate funds, portfolios, projects and certain buildings are held for capital appreciation. These investments are remeasured and carried at fair value on an individual basis. No adjustment was required on remeasuring to fair value on 1 January 2001. Unrealised fair value gains and losses, if any, on other property investments subsequent to 1 January 2001 are recognised in the statement of income.

ii) Trading properties

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

iii) Investments in securities and managed portfolios

Previously, the group carried all quoted investments at the lower of cost or market value and all unquoted investments at cost, less provision for any decline in value which is other than temporary. Subsequent to the implementation of IAS 39, the group reclassified such investments as "available for sale" and remeasured these to fair value. The gain or loss on remeasuring to fair value on 1 January 2001 was taken to equity as part of the reserves under the heading "cumulative changes in fair values reserve". Unrealised fair value gains and losses, if any, on available for sale investments subsequent to 1 January 2001 are reported in the cumulative changes in fair values reserve until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in other income.

Effect of the changes in accounting policies

In accordance with the transitional provisions of the new accounting standard, the group has accounted for the changes arising from the implementation of IAS 39 and IAS 40 with effect from 1 January 2001.

4 CASH AND CASH EQUIVALENTS

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

	<i>30 June 2001 KD 000's</i>	<i>31 December 2000 KD 000's</i>	<i>30 June 2000 KD 000's</i>
Cash and balances with banks and other financial institutions	90,076	133,295	50,946
Short-term International Murabaha	430,376	357,330	180,672
	<u>520,452</u>	<u>490,625</u>	<u>231,618</u>

5 GOVERNMENT DEBT BONDS

The subvention on government debt bonds is payable semi annually in arrears and has been accrued at a rate of 4.95% per annum for the six month period ended 30 June 2001 (2000: 5.37%).

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2001

6 SHARE CAPITAL

The general assembly meeting of the parent company held on 19 February 2001 approved an increase in the authorised share capital from KD 61,343 thousand to KD 65,024 thousand by way of an issue of 6% bonus shares amounting to 36,810,000 shares.

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

Management of the parent company is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the net profit for the period attributable to shareholders should not be relied upon to indicate a distribution of profit to all parties concerned for the period ended 30 June 2001, or for the year ending 31 December 2001.

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 2001.

For the purpose of these interim condensed consolidated financial statements, the net profit for the period ended 30 June 2001 attributable to shareholders has been credited to the voluntary reserve.

8 CUMULATIVE CHANGES IN FAIR VALUES

	<i>KD 000's</i>
Balance at 31 December 2000	2
Difference on restatement to fair value at 1 January 2001	1,716
Net unrealised gain	2,488
Balance at 30 June 2001	4,204

9 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>30 June 2001 KD 000's</i>	<i>31 December 2000 KD 000's</i>	<i>30 June 2000 KD 000's</i>
Acceptances and letters of credit	31,550	32,660	29,525
Guarantees	89,701	86,593	89,421
	<u>121,251</u>	<u>119,253</u>	<u>118,946</u>

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2001

9 CONTINGENCIES AND COMMITMENTS (continued)

- b) At the balance sheet date there were capital commitments amounting to KD Nil (2000: KD 4,600 thousand) in respect of certain investments.

10 NET OPEN FOREIGN CURRENCY POSITION

	<i>30 June 2001 KD 000's equivalent</i>	<i>31 December 2000 KD 000's equivalent</i>	<i>30 June 2000 KD 000's equivalent</i>
Net assets (liabilities) in major foreign currencies:			
U.S. Dollars	17,454	40,680	39,522
Sterling Pounds	(4,935)	(5,430)	(4,705)
Japanese Yen	1,404	870	416
Euro	894	1,020	121
Others	(13,021)	1,492	646
	<u>1,796</u>	<u>38,632</u>	<u>36,000</u>

11 RELATED PARTY TRANSACTIONS

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

12 SEGMENTAL INFORMATION

Primary segment information

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

	<i>Treasury 30 June 2001 KD 000's</i>	<i>Investment 30 June 2001 KD 000's</i>	<i>Retail and corporate banking 30 June 2001 KD 000's</i>	<i>Other groups 30 June 2001 KD 000's</i>	<i>Total 30 June 2001 KD 000's</i>
Revenue	16,913	10,378	42,885	1,878	72,054
Net profit	1,647	4,277	18,352	439	24,715
Total assets	743,200	423,336	997,494	32,013	2,196,043
Total liabilities, deferred revenue, minority interest and equity	35,656	57,883	1,640,683	461,821	2,196,043

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2001

12 SEGMENTAL INFORMATION (continued)

Primary segment information (continued)

	<i>Treasury</i>	<i>Investment</i>	<i>Retail and corporate banking</i>	<i>Other groups</i>	<i>Total</i>
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</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	15,958	15,793	41,756	1,582	75,089
Net profit	968	11,566	10,803	241	23,578
Total assets	502,732	418,253	951,967	34,724	1,907,676
Total liabilities, deferred revenue, minority interest and equity	13,994	49,079	1,437,000	407,603	1,907,676

Secondary segment information

The group operates in different geographical areas as designated below:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Revenue	53,483	60,742	18,571	14,347	72,054	75,089
Net profit	18,183	19,027	6,532	4,551	24,715	23,578
Total assets	1,630,283	1,516,666	565,760	391,010	2,196,043	1,907,676
Total liabilities, deferred revenue, minority interest and equity	2,185,816	1,900,908	10,227	6,768	2,196,043	1,907,676