

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

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

30 JUNE 2004

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

We have reviewed the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and Subsidiaries at 30 June 2004, and the related consolidated statements of income, changes in equity and cash flows for the six month period then ended. These interim condensed consolidated financial statements are the responsibility of the 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 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.

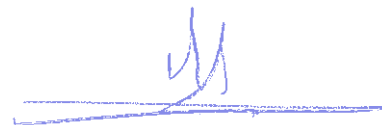
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

Furthermore, based on our review, the interim condensed consolidated financial statements are in agreement with the books of the company. 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 company have occurred that might have had a material effect on the business of the 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.



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ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS



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4 July 2004

Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

30 June 2004

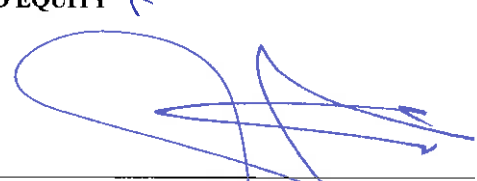
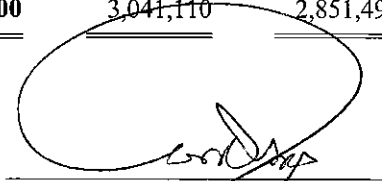
	<i>Note</i>	<i>3 months ended 30 June 2004 KD 000's</i>	<i>3 months ended 30 June 2003 KD 000's</i>	<i>6 months ended 30 June 2004 KD 000's</i>	<i>6 months ended 30 June 2003 KD 000's</i>
OPERATING INCOME					
Murabaha, Istisna'a and leasing income		33,669	23,500	66,026	52,123
Investment income		11,229	14,736	23,558	19,264
Fee and commission income		2,514	2,236	6,452	4,392
Net gain from dealing in foreign currencies		488	166	633	658
Other operating income		742	765	1,628	1,553
		<u>48,642</u>	<u>41,403</u>	<u>98,297</u>	<u>77,990</u>
OPERATING EXPENSES					
General and administrative expenses		8,398	5,540	15,371	10,390
Depreciation		1,166	1,935	3,018	3,740
Provision for impairment		1,179	1,500	2,606	1,500
		<u>10,743</u>	<u>8,975</u>	<u>20,995</u>	<u>15,630</u>
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST					
		37,899	32,428	77,302	62,360
Minority interest		(378)	(690)	(1,180)	(1,133)
PROFIT FROM OPERATIONS BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS					
		37,521	31,738	76,122	61,227
Estimated distribution to depositors	3	(21,601)	(19,130)	(42,861)	(34,548)
PROFIT FOR THE PERIOD					
		15,920	12,608	33,261	26,679
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(160)	(126)	(333)	(267)
Provision for National Labour Support tax		(277)	(271)	(594)	(546)
NET PROFIT FOR THE PERIOD					
	3	<u>15,483</u>	<u>12,211</u>	<u>32,334</u>	<u>25,866</u>
BASIC EARNINGS PER SHARE					
	4	<u>20 fils</u>	<u>16 fils</u>	<u>42 fils</u>	<u>34 fils</u>

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET (UNAUDITED)

30 June 2004

		(Audited)	
	30 June 2004	31 December 2003	30 June 2003
Note	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and balances with banks and financial institutions	211,779	129,208	160,982
Short-term international murabaha	312,214	369,369	435,987
Receivables	1,555,076	1,457,494	1,398,988
Leased assets	425,579	287,990	165,737
Investments	485,878	433,410	342,390
Trading properties	119,711	141,210	150,572
Investment properties	103,547	100,852	99,368
Other assets	70,292	63,021	49,521
Property and equipment	67,224	58,556	47,949
TOTAL ASSETS	3,351,300	3,041,110	2,851,494
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	27,728	63,676	36,654
Depositors' accounts	2,638,834	2,300,161	2,208,303
Other liabilities	165,026	169,864	146,971
TOTAL LIABILITIES	2,831,588	2,533,701	2,391,928
DEFERRED REVENUE	183,124	182,410	174,989
FAIR VALUE RESERVE	5 32,689	19,776	12,908
MINORITY INTEREST	19,997	20,637	19,237
EQUITY			
Share capital	6 78,141	71,689	71,689
Proposed issue of bonus shares	6 -	4,301	-
Reserves	173,427	172,752	154,877
Net profit for the period	32,334	-	25,866
	283,902	248,742	252,432
Proposed cash dividend	-	35,844	-
TOTAL EQUITY	283,902	284,586	252,432
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, MINORITY INTEREST AND EQUITY	3,351,300	3,041,110	2,851,494
			
BADER ABDULMOHSEN AL-MUKHAIZEEM (CHAIRMAN AND MANAGING DIRECTOR)	JASSAR DAKHEEL AL-JASSAR (GENERAL MANAGER)		

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

30 June 2004

	Reserves										Total equity KD 000's
	Share capital KD 000's	Proposed issue of bonus shares KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares KD 000's	Sub total KD 000's	Net profit for the period KD 000's	Proposed cash dividends KD 000's		
At 1 January 2003	68,275	3,414	7,708	125,240	26,145	(902)	158,191	-	32,089		261,969
Movements during the period:											
Issue of bonus shares	3,414	(3,414)	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	71	-	-	-	71	-	-	-	71
Zakat	-	-	-	-	(3,607)	-	(3,607)	-	-	-	(3,607)
Cash dividends paid	-	-	-	-	-	-	-	-	(32,089)	-	(32,089)
Net movement in treasury shares	-	-	-	-	-	222	222	-	-	-	222
Net profit for the period	-	-	-	-	-	-	-	25,866	-	-	25,866
At 30 June 2003	71,689	-	7,779	125,240	22,538	(680)	154,877	25,866	-	-	252,432
At 1 January 2004	71,689	4,301	7,826	137,251	28,542	(867)	172,752	-	35,844		284,586
Movements during the period:											
Issue of bonus shares (Note 6)	4,301	(4,301)	-	-	-	-	-	-	-	-	-
Issue of shares for cash (Note 6)	2,151	-	4,774	-	-	-	4,774	-	-	-	6,925
Cash received on cancellation of share options	-	-	10	-	-	-	10	-	-	-	10
Zakat	-	-	-	-	(4,010)	-	(4,010)	-	-	-	(4,010)
Cash dividends paid	-	-	-	-	-	-	-	-	(35,844)	-	(35,844)
Net movement in treasury shares	-	-	-	-	-	(99)	(99)	-	-	-	(99)
Net profit for the period	-	-	-	-	-	-	-	32,334	-	-	32,334
At 30 June 2004	78,141	-	12,610	137,251	24,532	(966)	173,427	32,334	-	-	283,902

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

30 June 2004

	<i>Note</i>	<i>6 months ended 30 June 2004 KD 000's</i>	<i>6 months ended 30 June 2003 KD 000's</i>
OPERATING ACTIVITIES			
Net profit for the period		32,334	25,866
Adjustment for:			
Depreciation		3,018	3,740
Provision for impairment		2,606	1,500
		<u>37,958</u>	<u>31,106</u>
Operating profit before changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Exchange of deposits		(46,925)	(34,168)
Receivables		(89,622)	(100,963)
Leased assets		(137,374)	(57,362)
Trading properties		21,509	(38,474)
Other assets		9,585	4,538
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		(35,949)	24,014
Depositors' accounts		338,672	231,442
Other liabilities		(5,476)	44,794
Deferred revenue		714	(734)
		<u>93,092</u>	<u>104,193</u>
Net cash used in operating activities			
INVESTING ACTIVITIES			
Purchase of investments		(39,644)	(84,605)
(Purchase) sale of investment properties		(3,721)	4,644
Purchase of property and equipment		(27,496)	(21,558)
		<u>(70,861)</u>	<u>(101,519)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Issue of shares		6,925	-
Cash received on cancellation of shares options		10	71
Cash dividends paid		(35,844)	(32,089)
Payment of Zakat		(4,010)	(3,607)
		<u>(32,919)</u>	<u>(35,625)</u>
Net cash used in financing activities			
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,688)	(32,951)
Cash and cash equivalents at the beginning of the period		<u>238,427</u>	<u>305,081</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8	<u><u>227,739</u></u>	<u><u>272,130</u></u>

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2004

1 ACTIVITIES

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. and Subsidiaries (the group) for the period ended 30 June 2004 were authorised for issue in accordance with a resolution of the board of directors on 4 July 2004.

The group comprises Kuwait Finance House K.S.C. (the parent company) and its subsidiaries. The parent company is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practising usury. Trading activities are conducted on the basis of purchasing various goods and selling them on Murabaha at negotiated profit margins which can be settled in cash or on instalment credit basis. The parent company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

For details of consolidated subsidiaries please see Note 7.

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

2 BASIS OF PRESENTATION

The 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 2003.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2004.

3 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 estimated distribution to depositors and 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 30 June 2004, or for the year ending 31 December 2004.

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 parent company's articles of association, based on the annual audited results for the year ending 31 December 2004.

4 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the period of KD 32,334 thousand (30 June 2003: KD 25,866 thousand) and the weighted average number of ordinary shares outstanding during the period of 766,115 thousand (30 June 2003: KD 759,027 thousand) after adjusting for treasury shares held by the group.

The basic earnings per share of the comparative period has been restated on account of the bonus shares issued during the period.

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2004

5 FAIR VALUE RESERVE

The adoption of International Accounting Standard 39: Financial Instruments: Recognition and Measurement during 2001 resulted in a credit adjustment reported in the fair value reserve. Management of the parent company is of the opinion that since a significant proportion of this reserve is attributable to its depositors and would be allocated to depositors on realisation, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

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

	<i>30 June</i> <i>2004</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2003</i> <i>KD 000's</i>	<i>30 June</i> <i>2003</i> <i>KD 000's</i>
Balance at beginning of the period	19,776	5,771	5,771
Change in fair value during the period	13,078	13,188	6,372
(Gain) loss realised during the period	(165)	428	428
Impairment loss recognised during the period	-	389	337
Balance at end of the period	<u>32,689</u>	<u>19,776</u>	<u>12,908</u>

6 SHARE CAPITAL

The extraordinary general assembly meeting of the parent company held on 16 February 2004 approved an increase in the authorised share capital from KD 71,689 thousand to KD 78,141 thousand by way of an issue of: 6% bonus shares amounting to KD 4,301 thousand and 21,506,575 shares under an employee share purchase scheme amounting to KD 2,151 thousand. The employee share purchase scheme shares were issued at par value of 100 fils and premium of 222 fils per share.

7 CONSOLIDATED SUBSIDIARIES

Details of consolidated subsidiaries are set out below:

<i>Name</i>	<i>Country of registration</i>	<i>Interest in equity %</i>	<i>Principal activities</i>
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	Real estate, investment, trading and management
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	Kuwait	100	Contracting, trading and project management
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	Islamic investments

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2004

8 CASH AND CASH EQUIVALENTS

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

	<i>30 June 2004 KD 000's</i>	<i>(Audited) 31 December 2003 KD 000's</i>	<i>30 June 2003 KD 000's</i>
Cash and balances with banks and financial institutions	211,779	129,208	160,982
Short-term international murabaha – maturing within 3 months of contract date	62,885	109,218	171,940
Exchange of deposits – maturing after 3 months of contract date	(46,925)	-	(60,792)
	<u>227,739</u>	<u>238,426</u>	<u>272,130</u>

9 CONTINGENCIES AND COMMITMENTS

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

	<i>30 June 2004 KD 000's</i>	<i>(Audited) 31 December 2003 KD 000's</i>	<i>30 June 2003 KD 000's</i>
Acceptances and letters of credit	41,177	41,420	32,311
Guarantees	132,470	122,308	114,774
	<u>173,647</u>	<u>163,728</u>	<u>147,085</u>
Capital commitments	<u>139,560</u>	<u>98,836</u>	<u>91,101</u>

10 CURRENCY RISK

The group had the following net exposures denominated in foreign currencies:

	<i>30 June 2004 KD 000's equivalent</i>	<i>(Audited) 31 December 2003 KD 000's equivalent</i>	<i>30 June 2003 KD 000's equivalent</i>
U.S. Dollars	83,119	106,380	123,009
Sterling Pounds	812	(7,843)	(7,395)
Japanese Yen	38	36	1,897
Euros	1,046	722	3,678
Gulf Co-operation Council currencies	(12,980)	(12,465)	(12,363)
Others	984	1,243	489

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2004

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 interim condensed consolidated balance sheet are considered insignificant.

12 SEGMENTAL ANALYSIS*Primary segment information*

For management purposes the group is organised into three major business segments:

30 June 2004

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	8,821	24,805	60,988	3,683	98,297
Net profit for the period	1,966	9,115	19,927	1,326	32,334
Total assets	774,738	813,225	1,711,608	51,729	3,351,300
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	37,307	127,665	2,509,189	677,139	3,351,300

30 June 2003

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	7,599	12,735	55,279	2,377	77,990
Net profit for the period	2,073	4,337	18,782	674	25,866
Total assets	867,834	685,996	1,275,640	22,024	2,851,494
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	44,972	91,435	2,135,698	579,389	2,851,494

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2004

12 SEGMENTAL ANALYSIS (continued))

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 2004 KD 000's</i>	<i>30 June 2003 KD 000's</i>	<i>30 June 2004 KD 000's</i>	<i>30 June 2003 KD 000's</i>	<i>30 June 2004 KD 000's</i>	<i>30 June 2003 KD 000's</i>
Operating income	<u>86,582</u>	<u>68,443</u>	<u>11,715</u>	<u>9,547</u>	<u>98,297</u>	<u>77,990</u>
Net profit for the period	<u>28,309</u>	<u>22,540</u>	<u>4,025</u>	<u>3,326</u>	<u>32,334</u>	<u>25,866</u>
Total assets	<u>2,902,525</u>	<u>2,346,562</u>	<u>448,775</u>	<u>504,932</u>	<u>3,351,300</u>	<u>2,851,494</u>
Total liabilities, deferred revenue, fair value reserve, minority interest and equity	<u>3,333,354</u>	<u>2,840,770</u>	<u>17,946</u>	<u>10,724</u>	<u>3,351,300</u>	<u>2,851,494</u>

13 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 30 June 2004 amounted to KD 188,830 thousand (31 December 2003: KD 243,951 thousand, 30 June 2003: KD 233,316 thousand).

14 COMPARATIVE INFORMATION

Certain comparative information has been reclassified for better presentation. This reclassification does not affect previously reported net profit or shareholders' equity.