

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

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

**30 JUNE 2011**



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## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF KUWAIT FINANCE HOUSE K.S.C.

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Finance House K.S.C. ("the Bank") and its Subsidiaries (collectively "the Group") as at 30 June 2011 and the related interim condensed consolidated statements of income and comprehensive income for the three month and six month periods then ended and the related interim condensed consolidated statements of changes in equity and cash flows for the six month period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

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

### *Report on Other Legal and Regulatory Requirements*

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any material violations of the Commercial Companies Law of 1960, as amended, or of the articles of association of the Bank that might have had a material effect on the business of the Bank or on its financial position during the six month period ended 30 June 2011.

We further report that, during the course of our review, to the best of our knowledge and belief, 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, during the six month period ended 30 June 2011.

WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
OF ERNST & YOUNG  
AL AIBAN, AL OSAIMI & PARTNERS

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14 July 2011

Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Period ended 30 June 2011

|   | <i>Notes</i> | <i>Three months ended</i>            |                                      | <i>Six months ended</i>              |                                      |
|---|--------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|   |              | <i>30 June<br/>2011<br/>KD 000's</i> | <i>30 June<br/>2010<br/>KD 000's</i> | <i>30 June<br/>2011<br/>KD 000's</i> | <i>30 June<br/>2010<br/>KD 000's</i> |
| <b>INCOME</b>   |              |                                      |                                      |                                      |                                      |
| Financing income  |              | 125,874                              | 128,008                              | 250,480                              | 257,744                              |
| Investment income   |              | 30,414                               | 47,021                               | 59,023                               | 43,231                               |
| Fee and commission income   |              | 15,315                               | 15,761                               | 31,944                               | 32,977                               |
| Net (loss) gain from foreign currencies   |              | (4,417)                              | 278                                  | (4,573)                              | 4,234                                |
| Other income  |              | 20,743                               | 28,654                               | 43,589                               | 49,543                               |
|   |              | <u>187,929</u>                       | <u>219,722</u>                       | <u>380,463</u>                       | <u>387,729</u>                       |
| <b>EXPENSES</b>   |              |                                      |                                      |                                      |                                      |
| Staff costs   |              | 30,462                               | 30,399                               | 61,442                               | 57,443                               |
| General and administrative expenses   |              | 23,829                               | 25,925                               | 49,937                               | 48,310                               |
| Finance costs   |              | 15,382                               | 14,287                               | 28,578                               | 22,919                               |
| Depreciation  |              | 15,271                               | 10,129                               | 31,510                               | 20,803                               |
| Impairment  |              | 55,306                               | 55,096                               | 106,983                              | 77,607                               |
|   |              | <u>140,250</u>                       | <u>135,836</u>                       | <u>278,450</u>                       | <u>227,082</u>                       |
| <b>PROFIT BEFORE ESTIMATED<br/>DISTRIBUTION TO DEPOSITORS</b>                                     |              |                                      |                                      |                                      |                                      |
| Estimated distribution to depositors  |              | 47,679                               | 83,886                               | 102,013                              | 160,647                              |
|   |              | <u>(35,695)</u>                      | <u>(48,986)</u>                      | <u>(74,437)</u>                      | <u>(98,931)</u>                      |
| <b>PROFIT AFTER ESTIMATED<br/>DISTRIBUTION TO DEPOSITORS</b>                                      |              |                                      |                                      |                                      |                                      |
| Provision for contribution to Kuwait<br>Foundation for the Advancement<br>of Sciences (KFAS)      |              | 11,984                               | 34,900                               | 27,576                               | 61,716                               |
| Provision for National Labour Support<br>Tax (NLST)   |              | (236)                                | (416)                                | (464)                                | (738)                                |
| Provision for Zakat (based on Zakat Law<br>No. 46/2006)   |              | (346)                                | (1,025)                              | (347)                                | (1,797)                              |
|   |              | <u>(120)</u>                         | <u>(277)</u>                         | <u>(114)</u>                         | <u>(510)</u>                         |
| <b>PROFIT FOR THE PERIOD</b>  |              |                                      |                                      |                                      |                                      |
|   |              | <u>11,282</u>                        | <u>33,182</u>                        | <u>26,651</u>                        | <u>58,671</u>                        |
| <b>Attributable to:</b>   |              |                                      |                                      |                                      |                                      |
| Equityholders of the Bank   |              | 22,844                               | 39,893                               | 45,469                               | 70,798                               |
| Non-controlling interests   |              | (11,562)                             | (6,711)                              | (18,818)                             | (12,127)                             |
|   |              | <u>11,282</u>                        | <u>33,182</u>                        | <u>26,651</u>                        | <u>58,671</u>                        |
| <b>BASIC AND DILUTED EARNINGS PER<br/>SHARE ATTRIBUTABLE TO THE<br/>EQUITYHOLDERS OF THE BANK</b> |              |                                      |                                      |                                      |                                      |
|   | 4            | <u>8.6 fils</u>                      | <u>15.0 fils</u>                     | <u>17.1 fils</u>                     | <u>26.7 fils</u>                     |

The attached notes 1 to 12 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME (UNAUDITED)

Period ended 30 June 2011

|  | Notes | <i>Three months ended</i>            |                                      | <i>Six months ended</i>              |                                      |
|--|-------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|  |       | <i>30 June<br/>2011<br/>KD 000's</i> | <i>30 June<br/>2010<br/>KD 000's</i> | <i>30 June<br/>2011<br/>KD 000's</i> | <i>30 June<br/>2010<br/>KD 000's</i> |
| <b>Profit before estimated distribution to depositors</b>  |       | <b>47,679</b>                        | 83,886                               | <b>102,013</b>                       | 160,647                              |
| <b>Other comprehensive income (loss)</b>   |       |                                      |                                      |                                      |                                      |
| Change in fair value of available for sale investments during the period   | 5     | (1,064)                              | (14,387)                             | (2,020)                              | (32,545)                             |
| Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts                                     | 5     | (712)                                | (292)                                | (1,075)                              | (21)                                 |
| (Gain) loss realised on available for sale investments during the period   | 5     | (330)                                | 5,580                                | 5,618                                | 5,362                                |
| Impairment losses transferred to the interim condensed consolidated statement of income  | 5     | 5,381                                | 5,523                                | 17,103                               | 5,685                                |
| Share of other comprehensive income (loss) of associates   | 5     | 187                                  | 1,131                                | (569)                                | (390)                                |
| Exchange differences on translation of foreign operations  | 6     | (14,996)                             | 5,349                                | (41,941)                             | 23,578                               |
| <b>Other comprehensive (loss) income for the period included directly in fair value reserve and foreign exchange translation reserve</b> |       | <b>(11,534)</b>                      | 2,904                                | <b>(22,884)</b>                      | 1,669                                |
| <b>Total comprehensive income before estimated distribution to depositors</b>  |       | <b>36,145</b>                        | 86,790                               | <b>79,129</b>                        | 162,316                              |

The attached notes 1 to 12 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2011

|   |   | <i>(Unaudited)</i><br>30 June<br>2011<br>KD 000's | <i>(Audited)</i><br>31 December<br>2010<br>KD 000's | <i>(Unaudited)</i><br>30 June<br>2010<br>KD 000's |
|---|---|---|---|---|
| <b>ASSETS</b>   |   |   |   |   |
| Cash and balances with banks and financial institutions   | 7 | 437,154   | 447,585   | 501,367   |
| Short-term murabaha   |   | 1,453,059   | 1,597,372   | 1,348,717   |
| Receivables   |   | 5,721,001   | 5,545,915   | 5,405,825   |
| Trading properties  |   | 287,641   | 221,226   | 157,193   |
| Leased assets   |   | 1,353,258   | 1,272,703   | 1,255,511   |
| Investments   |   | 1,279,489   | 1,183,050   | 1,108,201   |
| Investment in associates  |   | 377,017   | 339,307   | 387,328   |
| Investment properties   |   | 622,752   | 561,377   | 524,350   |
| Other assets  |   | 609,724   | 629,293   | 579,451   |
| Property and equipment  |   | 779,623   | 750,671   | 707,981   |
| <b>TOTAL ASSETS</b>   |   | <b>12,920,718</b>                                 | <b>12,548,499</b>                                   | <b>11,975,924</b>                                 |
| <b>LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY</b>       |   |   |   |   |
| <b>LIABILITIES</b>  |   |   |   |   |
| Due to banks and financial institutions   |   | 1,846,991   | 2,211,580   | 2,046,028   |
| Depositors' accounts  |   | 8,359,893   | 7,649,082   | 7,329,517   |
| Other liabilities   |   | 673,718   | 602,135   | 570,217   |
| <b>TOTAL LIABILITIES</b>  |   | <b>10,880,602</b>                                 | <b>10,462,797</b>                                   | <b>9,945,762</b>                                  |
| <b>DEFERRED REVENUE</b>   |   | <b>538,542</b>                                    | 515,874   | 517,505   |
| <b>FAIR VALUE RESERVE</b>   | 5 | <b>(23,942)</b>                                   | (42,999)  | (55,506)  |
| <b>FOREIGN EXCHANGE TRANSLATION RESERVE</b>   | 6 | <b>(31,443)</b>                                   | 10,498  | 31,109  |
| <b>EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK</b>   |   |   |   |   |
| Share capital   | 8 | 268,904   | 248,985   | 248,985   |
| Share premium   |   | 464,766   | 464,766   | 464,766   |
| Proposed issue of bonus shares  |   | -   | 19,919  | -   |
| Treasury shares   |   | (35,506)  | (26,722)  | (37,275)  |
| Reserves  |   | 523,693   | 534,078   | 496,750   |
| Profit for the period attributable to equityholders of the Bank   |   | 45,469  | -   | 70,798  |
|   |   | 1,267,326   | 1,241,026   | 1,244,024   |
| Proposed cash dividend  |   | -   | 49,304  | -   |
| <b>TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK</b>   |   | <b>1,267,326</b>                                  | 1,290,330   | 1,244,024   |
| Non-controlling interests   |   | 289,633   | 311,999   | 293,030   |
| <b>TOTAL EQUITY</b>   |   | <b>1,556,959</b>                                  | 1,602,329   | 1,537,054   |
| <b>TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY</b> |   | <b>12,920,718</b>                                 | <b>12,548,499</b>                                   | <b>11,975,924</b>                                 |

ALI MOHAMMED AL-ELAIMI  
(ACTING CHAIRMAN)

MOHAMMAD AL-OMAR  
(CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 12 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 30 June 2011

|   | Attributable to equityholders of the Bank |                           |  |                             |                               |                               |  |                                     |                       |                                   | Non-controlling interests<br>KD 000's | Total equity<br>KD 000's |                       |                                    |                       |
|---|---|---------------------------|--|-----------------------------|-------------------------------|-------------------------------|--|-------------------------------------|-----------------------|-----------------------------------|---------------------------------------|--------------------------|-----------------------|------------------------------------|-----------------------|
|   | Reserves                                  |                           |  |                             |                               |                               |  |                                     |                       |                                   |                                       |                          |                       |                                    |                       |
|   | Share capital<br>KD 000's                 | Share premium<br>KD 000's | Proposed issue of bonus shares<br>KD 000's | Treasury shares<br>KD 000's | Statutory reserve<br>KD 000's | Voluntary reserve<br>KD 000's | Employees' share options reserve<br>KD 000's | Treasury shares reserve<br>KD 000's | Sub total<br>KD 000's | Profit for the period<br>KD 000's |                                       |                          | Sub total<br>KD 000's | Proposed cash dividend<br>KD 000's | Sub total<br>KD 000's |
| At 31 December 2010                     | 248,985                                   | 464,766                   | 19,919                                     | (26,722)                    | 254,288                       | 270,359                       | 4,239  | 5,192                               | 534,078               | -                                 | 1,241,026                             | 49,304                   | 1,290,330             | 311,999                            | 1,602,329             |
| Movements during the period:            |   |                           |  |                             |                               |                               |  |                                     |                       |                                   |                                       |                          |                       |                                    |                       |
| Issue of bonus shares (Note 8)          | 19,919                                    | -                         | (19,919)                                   | -                           | -                             | -                             | -  | -                                   | -                     | -                                 | -                                     | -                        | -                     | -                                  | -                     |
| Zakat                                   | -   | -                         | -  | -                           | -                             | (11,894)                      | -  | -                                   | (11,894)              | -                                 | (11,894)                              | -                        | (11,894)              | -                                  | (11,894)              |
| Cash dividends paid                     | -   | -                         | -  | -                           | -                             | -                             | -  | -                                   | -                     | -                                 | (49,304)                              | -                        | (49,304)              | -                                  | (49,304)              |
| Net movement in treasury shares         | -   | -                         | -  | (8,784)                     | -                             | -                             | -  | -                                   | -                     | -                                 | (8,784)                               | -                        | (8,784)               | -                                  | (8,784)               |
| Profit on sale of treasury shares       | -   | -                         | -  | -                           | -                             | -                             | 1,509  | 1,509                               | 1,509                 | -                                 | 1,509                                 | -                        | 1,509                 | -                                  | 1,509                 |
| Net change in non-controlling interests | -   | -                         | -  | -                           | -                             | -                             | -  | -                                   | -                     | -                                 | -                                     | -                        | -                     | (3,548)                            | (3,548)               |
| Profit (loss) for the period            | -   | -                         | -  | -                           | -                             | -                             | -  | -                                   | -                     | 45,469                            | -                                     | -                        | 45,469                | (18,818)                           | 26,651                |
| <b>At 30 June 2011</b>                  | <b>268,904</b>                            | <b>464,766</b>            | <b>-</b>                                   | <b>(35,506)</b>             | <b>254,288</b>                | <b>258,465</b>                | <b>4,239</b>                                 | <b>6,701</b>                        | <b>523,693</b>        | <b>45,469</b>                     | <b>1,267,326</b>                      | <b>-</b>                 | <b>1,267,326</b>      | <b>289,633</b>                     | <b>1,556,959</b>      |
| At 31 December 2009                     | 230,542                                   | 464,766                   | 18,443                                     | (36,662)                    | 243,237                       | 255,999                       | 4,237  | 4,398                               | 507,871               | -                                 | 1,184,960                             | 56,857                   | 1,241,817             | 324,138                            | 1,565,955             |
| Movements during the period:            |   |                           |  |                             |                               |                               |  |                                     |                       |                                   |                                       |                          |                       |                                    |                       |
| Issue of bonus shares                   | 18,443                                    | -                         | (18,443)                                   | -                           | -                             | -                             | -  | -                                   | -                     | -                                 | -                                     | -                        | -                     | -                                  | -                     |
| Zakat                                   | -   | -                         | -  | -                           | -                             | (11,349)                      | -  | -                                   | (11,349)              | -                                 | (11,349)                              | -                        | (11,349)              | -                                  | (11,349)              |
| Cash dividends paid                     | -   | -                         | -  | -                           | -                             | -                             | -  | -                                   | -                     | -                                 | (56,857)                              | -                        | (56,857)              | -                                  | (56,857)              |
| Net movement in treasury shares         | -   | -                         | -  | (613)                       | -                             | -                             | -  | -                                   | -                     | -                                 | (613)                                 | -                        | (613)                 | -                                  | (613)                 |
| Profit on sale of treasury shares       | -   | -                         | -  | -                           | -                             | -                             | 228  | 228                                 | 228                   | -                                 | 228                                   | -                        | 228                   | -                                  | 228                   |
| Net change in non-controlling interests | -   | -                         | -  | -                           | -                             | -                             | -  | -                                   | -                     | -                                 | -                                     | -                        | -                     | (18,981)                           | (18,981)              |
| Profit (loss) for the period            | -   | -                         | -  | -                           | -                             | -                             | -  | -                                   | -                     | 70,798                            | -                                     | -                        | 70,798                | (12,127)                           | 58,671                |
| <b>At 30 June 2010</b>                  | <b>248,985</b>                            | <b>464,766</b>            | <b>-</b>                                   | <b>(37,275)</b>             | <b>243,237</b>                | <b>244,650</b>                | <b>4,237</b>                                 | <b>4,626</b>                        | <b>496,750</b>        | <b>70,798</b>                     | <b>1,244,024</b>                      | <b>-</b>                 | <b>1,244,024</b>      | <b>293,030</b>                     | <b>1,537,054</b>      |

The attached notes 1 to 12 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

Period ended 30 June 2011

|   | <i>Note</i> | <i>6 months ended<br/>30 June<br/>2011<br/>KD 000's</i> | <i>6 months ended<br/>30 June<br/>2010<br/>KD 000's</i> |
|---|-------------|---|---|
| <b>OPERATING ACTIVITIES</b>                             |             |   |   |
| Profit for the period                                   |             | 26,651  | 58,671  |
| Adjustment for:   |             |   |   |
| Depreciation  |             | 31,510  | 20,803  |
| Impairment  |             | 106,983   | 77,607  |
| Dividend income   |             | (7,496)   | (10,690)  |
| Gain on sale of investments                             |             | (1,653)   | (3,232)   |
| Share of loss of associates                             |             | 737   | 35,735  |
| Other investment income                                 |             | (1,329)   | (17,068)  |
|   |             | <u>155,403</u>  | <u>161,826</u>  |
| Changes in operating assets and liabilities             |             |   |   |
| <i>(Increase) decrease in operating assets:</i>         |             |   |   |
| Receivables   |             | (536,890)   | (363,777)   |
| Leased assets   |             | (66,415)  | 26,586  |
| Trading properties                                      |             | (86,450)  | (30,807)  |
| Other assets  |             | 10,859  | (55,759)  |
| <i>Increase (decrease) in operating liabilities:</i>    |             |   |   |
| Due to banks and financial institutions                 |             | (364,589)   | 585,103   |
| Depositors' accounts                                    |             | 710,813   | 67,689  |
| Other liabilities                                       |             | 52,352  | (12,180)  |
| Net cash (used in) from operating activities            |             | <u>(124,917)</u>  | <u>378,681</u>  |
| <b>INVESTING ACTIVITIES</b>                             |             |   |   |
| Purchase of investments, net                            |             | (119,102)   | (47,333)  |
| Purchase of investment properties, net                  |             | (75,064)  | (19,307)  |
| Purchase of property and equipment, net                 |             | (78,405)  | (123,738)   |
| Purchase of investment in associates, net               |             | (38,184)  | (18,209)  |
| Dividend income received                                |             | 9,554   | 12,508  |
| Net cash used in investing activities                   |             | <u>(301,201)</u>  | <u>(196,079)</u>  |
| <b>FINANCING ACTIVITIES</b>                             |             |   |   |
| Cash dividends paid                                     |             | (49,304)  | (56,857)  |
| Purchase of treasury shares, net                        |             | (7,275)   | (385)   |
| Payment of Zakat  |             | -   | (11,349)  |
| Net cash used in financing activities                   |             | <u>(56,579)</u>   | <u>(68,591)</u>   |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> |             | <b>(482,697)</b>  | <b>114,011</b>  |
| Cash and cash equivalents at 1 January                  |             | <u>1,519,915</u>  | <u>1,246,693</u>  |
| <b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>             | <b>7</b>    | <b><u>1,037,218</u></b>                                 | <b><u>1,360,704</u></b>                                 |

The attached notes 1 to 12 form part of the interim condensed consolidated financial information.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2011

### 1 INCORPORATION AND REGISTRATION

The interim condensed consolidated financial information of Kuwait Finance House K.S.C. ("the Bank") and its subsidiaries (collectively "the Group") for the period ended 30 June 2011 were authorised for issue by the Chairman on 14 July 2011 in accordance with a resolution of the Bank's Board of Directors on 29 June 2011.

The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was 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 Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has been prepared in accordance with IAS 34, Interim Financial Reporting. Except as noted below, the accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2010. The annual consolidated financial statements for the year ended 31 December 2010 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

Operating results for the six months period ended 30 June 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

The following new and amended standards and interpretations have been adopted by the Group as of 1 January 2011:

#### ***IAS 24 Related Party Disclosures (Amendment)***

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

#### ***IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)***

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

#### ***IFRIC 14 Prepayments of a minimum funding requirement (Amendment)***

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

At 30 June 2011

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

The revised standards and new amendments have not had significant impact on the Group's interim condensed consolidated financial information.

**3 ESTIMATED DISTRIBUTION TO DEPOSITORS AND PROFIT FOR THE PERIOD  
ATTRIBUTABLE TO EQUITYHOLDERS OF THE BANK**

Management of the Bank 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 profit for the period attributable to Bank's equityholders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 30 June 2011 or for the year ending 31 December 2011.

The actual profit to be distributed to all parties concerned will be determined by the Board of Directors of the Bank in accordance with the Bank's articles of association, based on the annual audited results for the year ending 31 December 2011.

In addition to the above, the total comprehensive income before estimated distribution to depositors (as per the interim condensed consolidated statement of comprehensive income) is presented for compliance with the requirements of the revised IAS 1 and is not appropriate for the purpose of determining the estimated distribution to depositors or the profit for the period attributable to the Bank's equityholders.

**4 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITYHOLDERS  
OF THE BANK**

Basic earnings per share is calculated by dividing the profit for the period attributable to equityholders of the Bank by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group.

Diluted earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares.

|  | <i>Three months ended 30 June</i> |                  | <i>Six months ended 30 June</i> |                  |
|--|-----------------------------------|------------------|---------------------------------|------------------|
|  | <i>2011</i>                       | <i>2010</i>      | <i>2011</i>                     | <i>2010</i>      |
| Profit for the period attributable to equity holders of the Bank (thousands KD)    | <u>22,844</u>                     | <u>39,893</u>    | <u>45,469</u>                   | <u>70,798</u>    |
| Weighted average number of shares outstanding during the period (thousands shares) | <u>2,664,605</u>                  | <u>2,656,037</u> | <u>2,666,468</u>                | <u>2,654,890</u> |
| Basic and diluted earnings per share   | <u>8.6 fils</u>                   | <u>15.0 fils</u> | <u>17.1 fils</u>                | <u>26.7 fils</u> |

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 14 March 2011 (See Note 8).

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2011

### 5 FAIR VALUE RESERVE

Changes in fair value of available for sale investments, currency swaps, profit rate swaps and forward foreign exchange contracts are reported in the fair value reserve. Management of the Bank is of the opinion that this reserve is attributable to both the depositors and equityholders. As a result, the reporting of this reserve as a separate item on the interim condensed consolidated statement of financial position enables a fairer presentation than its inclusion under equity attributable to the equityholders of the Bank.

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

|  | <i>(Unaudited)</i><br><b>30 June 2011</b><br><i>KD 000's</i>  | <i>(Audited)</i><br><b>Total</b><br><i>31 December</i><br><b>2010</b><br><i>KD 000's</i> | <i>(Unaudited)</i><br><b>Total</b><br><i>30 June</i><br><b>2010</b><br><i>KD 000's</i> |
|--|---|--|--|
|  | <i>Currency swaps,<br/>profit rate swaps<br/>and<br/>forward foreign<br/>exchange<br/>contracts</i> |  |  |
| <i>Available for<br/>sale<br/>Investments</i>  | <b>(43,528)</b>   | <b>(42,999)</b>  | <b>(33,597)</b>  |
| Change in fair value of available for sale investments   | <b>(2,020)</b>  | <b>(2,020)</b>   | <b>(32,545)</b>  |
| Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts | <b>-</b>  | <b>(1,075)</b>   | <b>(21)</b>  |
| Loss (gain) realised on available for sale investments during the period/year                        | <b>5,618</b>  | <b>5,618</b>   | <b>5,362</b>   |
| Impairment losses transferred to the interim condensed consolidated statement of income              | <b>17,103</b>   | <b>17,103</b>  | <b>5,685</b>   |
| Share of other comprehensive loss of associates  | <b>(569)</b>  | <b>(569)</b>   | <b>(390)</b>   |
| Balance at the end of the period/year  | <b>(23,396)</b>   | <b>(23,942)</b>  | <b>(55,506)</b>  |

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2011

### 6 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates. Management of the Bank is of the opinion that this reserve is attributable to both the depositors and equityholders. As a result, the reporting of this reserve as a separate item on the interim condensed consolidated statement of financial position enables a fairer presentation than its inclusion under equity attributable to the equityholders of the Bank.

### 7 CASH AND CASH EQUIVALENTS

|   | <i>(Unaudited)</i><br>30 June<br>2011<br>KD 000's | <i>(Audited)</i><br>31 December<br>2010<br>KD 000's | <i>(Unaudited)</i><br>30 June<br>2010<br>KD 000's |
|---|---|---|---|
| Cash  | 66,389  | 58,125  | 45,178  |
| Balances with Central Banks   | 211,481   | 153,048   | 226,482   |
| Balances with banks and financial institutions - current accounts                                 | 145,951   | 223,860   | 202,266   |
| Balances with banks and financial institutions - exchange of deposits                             | 13,333  | 12,552  | 27,441  |
| Cash and balances with banks and financial institutions   | <u>437,154</u>                                    | <u>447,585</u>                                      | <u>501,367</u>                                    |
| Short-term murabaha - maturing within 3 months of contract date                                   | 477,038   | 802,268   | 384,265   |
| Tawarruq balances with Central Bank of Kuwait (included within short-term international murabaha) | 123,026   | 270,062   | 475,072   |
| Cash and cash equivalents   | <u><u>1,037,218</u></u>                           | <u><u>1,519,915</u></u>                             | <u><u>1,360,704</u></u>                           |

### 8 SHARE CAPITAL

Following approval of the ordinary and extraordinary general assembly meeting of the equityholders' of the Bank held on 14 March 2011, the authorised share capital of the Bank was increased from KD 248,985 thousand to KD 268,904 thousand by way of issuance of 8% bonus shares amounting to KD 19,919 thousand. Accordingly, the authorised, issued and fully paid-up share capital at 30 June 2011, comprises 2,689,040 thousand shares (31 December 2010: 2,489,852 thousand shares and 30 June 2010: 2,489,852 thousand shares) of 100 fils each.

### 9 CONTINGENCIES AND COMMITMENTS

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

|                                   | <i>(Unaudited)</i><br>30 June<br>2011<br>KD 000's | <i>(Audited)</i><br>31 December<br>2010<br>KD 000's | <i>(Unaudited)</i><br>30 June<br>2010<br>KD 000's |
|-----------------------------------|---|---|---|
| Acceptances and letters of credit | 179,782   | 166,617   | 160,115   |
| Letter of guarantees              | 941,001   | 1,056,805   | 936,159   |
|                                   | <u>1,120,783</u>                                  | <u>1,223,422</u>                                    | <u>1,096,274</u>                                  |
| Capital commitments               | <u><u>1,036,212</u></u>                           | <u><u>1,337,272</u></u>                             | <u><u>1,384,852</u></u>                           |

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2011

### 10 RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the Group, their families, associated companies and companies of which they are the principal owners) were depositors and finance facilities customers of the Bank, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. These transactions are approved by the ordinary general assembly of the equity holders of the Bank. The balances included in the interim condensed consolidated financial information are as follows:

|   | <i>Major<br/>shareholders<br/>KD 000's</i> | <i>Associates<br/>KD 000's</i> | <i>Board<br/>members<br/>and<br/>executive<br/>officers<br/>KD 000's</i> | <i>Other<br/>related<br/>parties<br/>KD 000's</i> | <i>(Unaudited)<br/>30 June</i> |                          |
|---|--|--------------------------------|--|---|--------------------------------|--------------------------|
|   |  |                                |  |   | <i>2011<br/>KD 000's</i>       | <i>2010<br/>KD 000's</i> |
| <b>Related parties</b>                  |  |                                |  |   |                                |                          |
| Receivables                             | 6,072                                      | 88,049                         | 10,745   | 47,566  | <b>152,432</b>                 | 180,558                  |
| Due to banks and financial institutions | 562,054                                    | 300                            | -  | 17,852  | <b>580,206</b>                 | 433,276                  |
| Depositors' accounts                    | 36,786                                     | 17,245                         | 5,324  | 27,197  | <b>86,552</b>                  | 106,229                  |
| Commitments and contingencies           | 886  | 4,446                          | 14   | 4,876   | <b>10,222</b>                  | 8,260                    |

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2011

**10 RELATED PARTY TRANSACTIONS (continued)**

Details of the interests of Board Members and Executive Officers are as follows:

|                                       | The number of Board Members or Executive Officers |                            | The number of related parties |                            | Values                   |                            |
|---------------------------------------|---|----------------------------|-------------------------------|----------------------------|--------------------------|----------------------------|
|                                       | (Unaudited) 30 June 2011                          | (Audited) 31 December 2010 | (Unaudited) 30 June 2011      | (Audited) 31 December 2010 | (Unaudited) 30 June 2011 | (Audited) 31 December 2010 |
| <b>Board Members</b>                  |   |                            |                               |                            |                          |                            |
| Finance facilities                    | 5   | 4                          | 2                             | 3                          | 12,765                   | 2,201                      |
| Credit cards                          | 4   | 5                          | -                             | -                          | 36                       | 38                         |
| Deposits                              | 41  | 39                         | 37                            | 51                         | 4,043                    | 5,421                      |
| Collateral against finance facilities | 4   | 3                          | -                             | -                          | 9,921                    | 3,216                      |
|                                       |   |                            |                               |                            | <b>KD 000's</b>          | <b>KD 000's</b>            |
| <b>Executive Officers</b>             |   |                            |                               |                            |                          |                            |
| Finance facilities                    | 12  | 16                         | 3                             | 3                          | 4,184                    | 3,086                      |
| Credit cards                          | 13  | 12                         | 3                             | 4                          | 28                       | 26                         |
| Deposits                              | 37  | 36                         | 46                            | 65                         | 3,414                    | 4,488                      |
| Collateral against finance facilities | 12  | 8                          | 2                             | 1                          | 6,007                    | 3,364                      |

Compensation of key management personnel is as follows:

|                              | (Unaudited) 30 June 2011 | (Unaudited) 30 June 2010 |
|------------------------------|--------------------------|--------------------------|
|                              | <b>KD 000's</b>          | <b>KD 000's</b>          |
| Short-term employee benefits | 5,567                    | 5,325                    |
| Termination benefits         | 289                      | 364                      |
|                              | <b>5,856</b>             | <b>5,689</b>             |

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

At 30 June 2011

11 SEGMENTAL ANALYSIS

*Segment information*

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

| <i>30 June 2011 (Unaudited)</i>                              | <i>Treasury<br/>KD 000's</i> | <i>Investment<br/>KD 000's</i> | <i>Retail and<br/>corporate<br/>banking<br/>KD 000's</i> | <i>Other<br/>KD 000's</i> | <i>Total<br/>KD 000's</i> |
|--|------------------------------|--------------------------------|--|---------------------------|---------------------------|
| Income   | 28,989                       | 32,755                         | 263,850  | 54,869                    | 380,463                   |
| Profit (loss) before estimated<br>distribution to depositors | 10,111                       | (20,847)                       | 129,120  | (16,371)                  | 102,013                   |
| Total assets   | 3,009,530                    | 3,381,020                      | 5,294,364  | 1,235,804                 | 12,920,718                |
| Total liabilities  | 1,966,243                    | 1,475,675                      | 7,079,103  | 359,581                   | 10,880,602                |
| <br>   |                              |                                |  |                           |                           |
| <i>30 June 2010 (Unaudited)</i>                              | <i>Treasury<br/>KD 000's</i> | <i>Investment<br/>KD 000's</i> | <i>Retail and<br/>corporate<br/>banking<br/>KD 000's</i> | <i>Other<br/>KD 000's</i> | <i>Total<br/>KD 000's</i> |
| Income   | 42,756                       | 43,231                         | 252,199  | 49,543                    | 387,729                   |
| Profit before estimated<br>distribution to depositors        | 22,729                       | 6,767                          | 110,875  | 20,276                    | 160,647                   |
| Total assets   | 2,028,797                    | 3,145,417                      | 5,859,680  | 942,030                   | 11,975,924                |
| Total liabilities  | 1,922,257                    | 1,766,148                      | 5,879,309  | 378,048                   | 9,945,762                 |

12 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank at 30 June 2011 amounted to KD 803,050 thousand (31 December 2010: KD 860,261 thousand and 30 June 2010: KD 1,071,078 thousand).

Fee and commission income include fees of KD 1,579 thousand (30 June 2010: 2,767 thousand) arising from trust and fiduciary activities.