

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

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

30 JUNE 2013

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 2013 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.

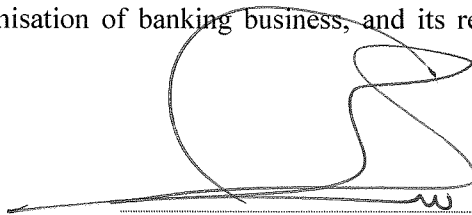
Report on Other Legal and Regulatory Requirements

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 Companies Law No. 25 of 2012 as amended, or of the articles of association and memorandum of incorporation 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 2013.

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 2013.



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Kuwait Finance House K.S.C. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Period ended 30 June 2013

		<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Six months ended</i>	
<i>Notes</i>		<i>30 June 2013</i>	<i>30 June 2012</i>	<i>30 June 2013</i>	<i>30 June 2012</i>
INCOME					
	Financing income	142,574	121,109	287,048	249,355
	Investment income	61,281	57,238	95,529	76,946
	Fee and commission income	20,155	17,453	41,680	32,140
	Net gain from foreign currencies	5,778	7,119	15,004	11,513
	Other income	6,761	8,769	21,798	24,491
		<u>236,549</u>	<u>211,688</u>	<u>461,059</u>	<u>394,445</u>
EXPENSES					
	Staff costs	39,847	32,218	76,797	62,118
	General and administrative expenses	33,321	23,019	65,579	50,612
	Finance costs	16,678	6,142	32,349	19,950
	Depreciation	16,399	15,313	32,729	32,374
	Impairment	61,110	71,000	103,035	109,217
		<u>167,355</u>	<u>147,692</u>	<u>310,489</u>	<u>274,271</u>
PROFIT BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS					
	Estimated distribution to depositors	69,194	63,996	150,570	120,174
3		<u>(41,045)</u>	<u>(31,702)</u>	<u>(84,171)</u>	<u>(68,554)</u>
PROFIT AFTER ESTIMATED DISTRIBUTION TO DEPOSITORS					
	Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	28,149	32,294	66,399	51,620
	National Labour Support Tax (NLST)	(276)	(226)	(508)	(431)
	Zakat (based on Zakat Law No. 46/2006)	(333)	(219)	(615)	(432)
	Reversal of directors' fees	(127)	(67)	(221)	(124)
9		<u>-</u>	<u>-</u>	<u>385</u>	<u>-</u>
PROFIT FOR THE PERIOD					
		<u>27,413</u>	<u>31,782</u>	<u>65,440</u>	<u>50,633</u>
Attributable to:					
	Equityholders of the Bank	26,821	22,081	49,822	42,134
	Non-controlling interests	592	9,701	15,618	8,499
		<u>27,413</u>	<u>31,782</u>	<u>65,440</u>	<u>50,633</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK					
4		<u>7.9 fils</u>	<u>6.7 fils</u>	<u>14.9 fils</u>	<u>12.7 fils</u>

The attached notes 1 to 14 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 2013

		<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Six months ended</i>	
<i>Notes</i>	30 June 2013	30 June 2012	30 June 2013	30 June 2012	
	Profit before estimated distribution to depositors	69,194	63,996	150,570	120,174
	Other comprehensive income (loss)				
	<i>Other comprehensive income to be reclassified to statement of consolidated income in subsequent periods:</i>				
	Change in fair value of financial assets available for sale during the period	5 (10,415)	(16,938)	(9,814)	1,022
	Change in fair value of currency swaps, profit rate swaps, and forward foreign exchange contracts	5 (126)	173	(113)	544
	Loss (gain) realised on financial assets available for sale during the period	5 490	(12,232)	1,575	(13,631)
	Impairment losses transferred to the interim condensed consolidated statement of income	-	12,210	-	12,210
	Share of other comprehensive income of associates	5 (1,019)	(2,978)	200	(1,849)
	Exchange differences on translation of foreign operations	6 (7,224)	18,716	(617)	16,825
	Other comprehensive (loss) income for the period included directly in fair value reserve and foreign exchange translation reserve	(18,294)	(1,049)	(8,769)	15,121
	Total comprehensive income before estimated distribution to depositors	50,900	62,947	141,801	135,295

The attached notes 1 to 14 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 2013

		<i>KD 000's</i>		
		<i>30 June</i>	<i>(Audited)</i>	<i>30 June</i>
	<i>Notes</i>	<i>2013</i>	<i>31 December</i>	<i>2012</i>
ASSETS				
Cash and balances with banks and financial institutions	7	1,053,559	814,256	730,510
Short-term murabaha		2,044,562	1,185,723	1,611,335
Receivables		6,742,386	6,652,918	6,083,757
Trading properties		277,350	255,925	293,863
Leased assets		1,835,909	1,653,510	1,497,631
Financial assets available for sale		1,407,592	1,376,260	1,347,348
Investment in associates		505,828	452,832	450,918
Investment properties		592,857	557,264	541,499
Other assets		762,920	1,020,937	707,810
Property and equipment		710,509	733,676	750,057
TOTAL ASSETS		<u>15,933,472</u>	<u>14,703,301</u>	<u>14,014,728</u>
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY				
LIABILITIES				
Due to banks and financial institutions		2,126,431	2,254,850	2,346,724
Depositors' accounts		10,314,783	9,392,676	8,894,485
Other liabilities		760,337	734,985	605,011
TOTAL LIABILITIES		<u>13,201,551</u>	<u>12,382,511</u>	<u>11,846,220</u>
DEFERRED REVENUE		809,381	744,041	701,334
FAIR VALUE RESERVE	5	(17,346)	(9,194)	(14,707)
FOREIGN EXCHANGE TRANSLATION RESERVE	6	(54,090)	(53,473)	(57,980)
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK				
Share capital	8	383,350	290,416	290,416
Share premium	8	720,332	464,766	464,766
Proposed issue of bonus shares	8	-	29,042	-
Treasury shares		(48,784)	(54,028)	(54,028)
Reserves		569,215	569,473	544,361
Profit for the period attributable to equityholders of the Bank		49,822	-	42,134
Proposed cash dividend	8	-	28,429	-
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		<u>1,673,935</u>	<u>1,328,098</u>	<u>1,287,649</u>
Non-controlling interests		320,041	311,318	252,212
TOTAL EQUITY		<u>1,993,976</u>	<u>1,639,416</u>	<u>1,539,861</u>
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY		<u>15,933,472</u>	<u>14,703,301</u>	<u>14,014,728</u>


 Dr. NABEEL AHMED AL-MANNAE
 (VICE CHAIRMAN)


 MOHAMMAD AL-OMAR
 (CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 14 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 2013

	KD 000's														
	Attributable to equityholders of the Bank										Non-controlling interests	Total equity			
	Reserves														
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Employees' share options reserve	Treasury shares reserve	Sub total	Profit for the period	Sub total	Proposed cash dividend	Sub total	Non-controlling interests	Total equity
At 31 December 2011	268,904	464,766	21,512	(46,813)	262,491	270,950	4,244	6,676	544,361	-	1,252,730	39,623	1,292,353	264,659	1,557,012
Movements during the period:															
Issue of bonus shares (Note 8)	21,512	-	(21,512)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(39,623)	(39,623)	-	(39,623)
Net movement in treasury shares	-	-	-	(7,215)	-	-	-	-	-	-	(7,215)	-	(7,215)	-	(7,215)
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	42,134	42,134	-	42,134	(20,946)	(20,946)
Profit for the period	-	-	-	-	-	-	-	-	-	42,134	42,134	-	42,134	8,499	50,633
At 30 June 2012	290,416	464,766	-	(54,028)	262,491	270,950	4,244	6,676	544,361	42,134	1,287,649	-	1,287,649	252,212	1,539,861
At 31 December 2012	290,416	464,766	29,042	(54,028)	271,578	286,973	4,246	6,676	569,473	-	1,299,669	28,429	1,328,098	311,318	1,639,416
Movements during the period:															
Issue of bonus shares (Note 8)	29,042	-	(29,042)	-	-	-	-	-	-	-	-	-	-	-	-
Issue of shares for cash (Note 8)	63,892	255,566	-	-	-	-	-	-	-	-	319,458	-	319,458	-	319,458
Cash dividends paid (Note 8)	-	-	-	-	-	-	-	-	-	-	-	(28,429)	(28,429)	-	(28,429)
Net movement in treasury shares	-	-	-	5,244	-	-	-	(258)	(258)	-	4,986	-	4,986	-	4,986
Net change in non-controlling interests	-	-	-	-	-	-	-	-	-	49,822	49,822	-	49,822	(6,895)	(6,895)
Profit for the period	-	-	-	-	-	-	-	-	-	49,822	49,822	-	49,822	15,618	65,440
At 30 June 2013	383,350	720,332	-	(48,784)	271,578	286,973	4,246	6,418	569,215	49,822	1,673,935	-	1,673,935	320,041	1,993,976

The attached notes 1 to 14 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 2013

	<i>KD 000's</i>	
	<i>Six months ended</i>	
	<i>30 June</i>	<i>30 June</i>
<i>Note</i>	<i>2013</i>	<i>2012</i>
OPERATING ACTIVITIES		
Profit for the period	65,440	50,633
Adjustment for:		
Depreciation	32,729	32,374
Impairment	103,035	109,217
Gain on sale of financial assets available for sale	(9,235)	(30,750)
Dividend income	(7,529)	(8,780)
Sukuk income	(12,951)	(10,725)
Gain on cancellation of aircraft contract	(7,119)	-
Share of results of associates	(17,088)	(1,126)
Gain on sale of investment properties	(3,027)	(27,646)
Other investment income	(15,807)	4,189
	<u>128,448</u>	<u>117,386</u>
Changes in operating assets and liabilities		
<i>(Increase) decrease in operating assets:</i>		
Receivables	(228,182)	(257,856)
Leased assets	(194,363)	(71,456)
Trading properties	(21,425)	(17,243)
Other assets	245,498	(30,674)
Statutory deposit with Central Banks	(89,777)	(84,921)
<i>(Decrease) increase in operating liabilities:</i>		
Due to banks and financial institutions	(128,419)	528,089
Depositors' accounts	922,107	12,638
Other liabilities	18,093	(72,797)
Net cash from operating activities	<u>651,980</u>	<u>123,166</u>
INVESTING ACTIVITIES		
(Purchase of) proceeds from financial assets available for sale, net	(19,580)	36,156
Purchase of investment properties	(56,881)	(177,971)
Proceeds from sale of investment properties	18,775	200,584
Purchase of property and equipment	(32,262)	(37,617)
Proceeds from sale of property and equipment	25,316	14,824
(Purchase of) proceeds from investments in associates	(48,602)	12,055
Dividend income received	7,529	26,484
Sukuk income received	12,951	10,725
Cash proceeds from cancellation of aircraft contracts	7,119	-
Net cash (used in) from investing activities	<u>(85,635)</u>	<u>85,240</u>
FINANCING ACTIVITIES		
Issue of share capital	319,458	-
Cash dividends paid	(28,429)	(39,623)
Cash dividends paid to non-controlling interests of a subsidiary	(1,849)	(20,946)
Proceeds from (purchase of) treasury shares, net	4,986	(7,215)
Net cash from (used in) financing activities	<u>294,166</u>	<u>(67,784)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	860,511	140,622
Cash and cash equivalents at 1 January	<u>992,362</u>	<u>1,368,515</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	7 <u>1,852,873</u>	<u>1,509,137</u>

The attached notes 1 to 14 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 2013

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 2013 were authorised for issue by the Chairman on 28 July 2013 in accordance with resolution of the Bank's Board of Directors on 8 July 2013.

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 Shareea'a, as approved by the Bank's Fatwa and Shareea'a Supervisory Board.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no 97 of 2013 (the Decree).

According to article 2 and 3 of the Decree, Executive Regulations, which shall be issued by the Ministry of Industry and Commerce by 26 September 2013 will determine the basis and rules which the Bank shall adopt to regularise its affairs with the Companies Law as amended.

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 2012. The annual consolidated financial statements for the year ended 31 December 2012 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 collaterals) that are not provided specifically.

Operating results for the six months period ended 30 June 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

New standards or amendments which are effective as of 1 January 2013

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed to risks or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure to risk or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2013

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards or amendments which are effective as of 1 January 2013 (continued)

IFRS 10 – Consolidated Financial Statements (continued)

The Group's management is in the process of assessing the full effect of this standard on the consolidated financial position, and at this stage does not believe that the application of the standard will significantly impact the financial position of the Group.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The Group's management is in the process of assessing the full impact of this standard on the consolidated financial position and, at this stage, does not believe that the application of the standard will significantly impact the financial position of the Group.

IFRS 12 – Disclosure of Involvement with Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of the consolidated entities. The Group will provide additional disclosures in the annual consolidated financial statements.

IFRS 13 – Fair Value measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group (Note 13).

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Group.

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

The 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 of six months ended 30 June 2013 or for the year ending 31 December 2013.

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 2013.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2013

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

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 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 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>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Profit for the period attributable to equityholders of the Bank (thousands KD)	<u>26,821</u>	<u>22,081</u>	<u>49,822</u>	<u>42,134</u>
Weighted average number of shares outstanding during the period (thousands shares)	<u>3,403,060</u>	<u>3,315,857</u>	<u>3,345,824</u>	<u>3,317,703</u>
Basic and diluted earnings per share	<u>7.9 fils</u>	<u>6.7 fils</u>	<u>14.9 fils</u>	<u>12.7 fils</u>

The comparative basic and diluted earnings per share have been restated for the adjustment for the impact of bonus shares and right shares issued during the six month period ended 30 June 2013 (See Note 8).

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2013

5 FAIR VALUE RESERVE

Changes in fair value of financial assets available for sale, currency swaps, profit rate swaps and forward foreign exchange contracts are reported in the fair value reserve. The 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:

	30 June 2013		(Audited) 31 December 2012		30 June 2012	
	Financial assets available for sale	Currency swaps, profit rate swaps and forward foreign exchange contracts	Financial assets available for sale	Currency swaps, profit rate swaps and forward foreign exchange contracts	Financial assets available for sale	Currency swaps, profit rate swaps and forward foreign exchange contracts
Balance at the beginning of the period/year	(10,906)	1,712	(13,003)	(9,194)	(13,003)	(13,003)
Change in fair value of financial assets available for sale during the period/year	(9,814)	-	(29,576)	(9,814)	1,022	1,022
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	-	(113)	1,337	(113)	544	544
Realised loss (gain) on financial assets available for sale during the period/year	1,575	-	1,883	1,575	(13,631)	(13,631)
Impairment losses transferred to the interim condensed consolidated statement of income	-	-	39,071	-	12,210	12,210
Share of other comprehensive income of associates	200	-	14	200	(1,849)	(1,849)
Acquisition of non-controlling interest	-	-	(8,920)	-	-	-
Balance at the end of the period/year	(18,945)	1,599	(9,194)	(17,346)	(14,707)	(14,707)

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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6 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates. The 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>KD 000's</i>		
	<i>30 June</i>	<i>(Audited)</i>	
	<i>2013</i>	<i>31 December</i>	<i>30 June</i>
		<i>2012</i>	<i>2012</i>
Cash	113,849	96,437	68,495
Balances with Central Banks	445,446	345,225	305,644
Balances with banks and financial institutions - current accounts	389,833	192,025	258,871
Balances with banks and financial institutions - exchange of deposits	104,431	180,569	97,500
Cash and balances with banks and financial institutions	<u>1,053,559</u>	<u>814,256</u>	<u>730,510</u>
Short-term murabaha - maturing within 3 months of contract date	598,020	357,119	555,137
Tawarruq balances with Central Bank of Kuwait (included within short-term international murabaha)	610,169	140,085	415,192
Less: Statutory deposits with Central Banks	<u>(408,875)</u>	<u>(319,098)</u>	<u>(191,702)</u>
Cash and cash equivalents	<u><u>1,852,873</u></u>	<u><u>992,362</u></u>	<u><u>1,509,137</u></u>

8 SHARE CAPITAL, SHARE PREMIUM, ISSUE OF BONUS SHARES, AND CASH DIVIDENDS

Bonus shares of 10% on outstanding shares amounting KD 29,042 thousands (30 June 2012: KD 21,512 thousands) and cash dividends of 10 fils per share proposed for the year ended 31 December 2012, to the Bank's shareholders on record as of the date of the general assembly, were approved by the Bank's ordinary general assembly of the shareholders held on 7 April 2013.

The extraordinary general assembly meeting of the shareholders of the Bank held on 24 April 2013 approved an increase in the authorised share capital by 20% by issuing right shares for the existing shareholders of 638,916,063 shares. The share price is 500 fils per share (100 fils par value and 400 fils premium). As at 30 June 2013, the interim condensed consolidated financial information is affected by the increase in both the share capital and the share premium; the Bank has registered the increase in authorised share capital in the Islamic Banks register at 17 July 2013.

Accordingly, the authorised, issued and fully paid-up share capital at 30 June 2013 comprises of 3,833,496 thousand (31 December 2012: 2,904,164 thousand and 30 June 2012: 2,904,164 thousand) shares of 100 fils each.

9 DIRECTORS' FEES

On 14 January 2013, the Board of Directors of the Bank had proposed Directors' fees of KD 905 thousand (2011: KD 260 thousand) for the year ended 31 December 2012, which was subject to approval by the annual general assembly of the shareholders of the Bank. On 4 April 2013, The Board of Directors of the Bank resolved in their meeting to cancel the Directors' fees proposed earlier. Subsequently in the ordinary general assembly meeting of the shareholders of the Bank held on 7 April 2013, the shareholders approved Directors' fees of KD 520 thousand (2011: KD 260 thousand) for the year ended 31 December 2012, and the Bank as a result reversed KD 385 thousand in the interim condensed consolidated financial information for the six months period ended 30 June 2013 (Note 11).

Kuwait Finance House K.S.C. and Subsidiaries

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10 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>KD 000's</i>		
	<i>30 June</i>	<i>(Audited)</i>	<i>30 June</i>
	<i>2013</i>	<i>31 December</i>	<i>2012</i>
		<i>2012</i>	<i>2012</i>
Acceptances and letters of credit	242,991	209,079	168,283
Letter of guarantees	1,374,210	1,220,710	1,138,869
	1,617,201	1,429,789	1,307,152
Capital commitments	1,846,617	1,702,187	1,731,281

11 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>KD 000's</i>						
	<i>Major</i>		<i>Board</i>	<i>Other</i>	<i>30 June</i>	<i>(Audited)</i>	<i>30 June</i>
	<i>shareholders</i>	<i>Associates</i>	<i>members</i>	<i>related</i>	<i>2013</i>	<i>31 December</i>	<i>2012</i>
			<i>and</i>	<i>parties</i>	<i>Total</i>	<i>2012</i>	<i>2012</i>
			<i>executive</i>				
			<i>officers</i>				
Related parties							
Receivables	-	114,770	9,411	117,376	241,557	180,743	171,595
Due to banks and financial institutions	860,293	25,572	-	9,824	895,689	1,046,918	652,664
Depositors' accounts	-	23,097	3,619	26,073	52,789	80,409	85,770
Commitments and contingencies	956	9,745	6	5,420	16,127	6,752	10,235
Investment managed by related party	-	27,248	-	1,458	28,706	48,583	36,446

Transactions with related parties included in the consolidated statement of income are as follows:

	<i>KD 000's</i>					
						<i>Total</i>
	<i>Major</i>		<i>Board Members</i>	<i>Other</i>	<i>30 June</i>	<i>30 June</i>
	<i>shareholders</i>	<i>Associates</i>	<i>and Executive</i>	<i>related</i>	<i>2013</i>	<i>2012</i>
			<i>Officers</i>	<i>party</i>		
Financing income	-	1,988	134	2,411	4,533	5,502
Fee and commission income	-	515	-	49	564	352
Finance costs	3,711	34	-	370	4,115	3,761

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At 30 June 2013

11 RELATED PARTY TRANSACTIONS (continued)

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

KD 000's

	The number of Board Members or Executive Officers		The number of related parties				Values (Audited)	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012	30 June 2012	31 December 2012	30 June 2012	31 December 2012
Board Members								
Finance facilities	5	6	2	2	-	6,355	6,356	6,356
Credit cards	4	9	3	3	3	15	43	43
Deposits	29	33	45	39	31	3,857	2,432	3,720
Collateral against finance facilities	4	5	-	-	-	8,232	7,982	8,283
Executive Officers								
Finance facilities	23	14	3	6	4	3,636	4,621	12,477
Credit cards	16	11	1	4	4	35	28	29
Deposits	42	41	36	56	45	2,541	4,173	3,905
Collateral against finance facilities	13	8	2	1	3	5,027	6,940	13,784

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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11 RELATED PARTY TRANSACTIONS (continued)

The transactions included in the consolidated statement of income are as follows:

	Bank	Subsidiaries	KD 000's	
			30 June 2013	30 June 2012
Board Members				
Finance income	48	17	65	151
Executive officers				
Finance income	29	39	68	100
	<u>77</u>	<u>56</u>	<u>133</u>	<u>251</u>

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	Bank	Subsidiaries	KD 000's	
			30 June 2013	30 June 2012
Salaries, allowances and bonuses of key management personnel	665	5,926	6,591	6,584
Termination benefits of key management personnel	51	627	678	616
Remuneration of chairman and board members *	-	524	524	850
(Reversal of) remuneration of chairman and board members (Note 9)	(385)	-	(385)	-
	<u>331</u>	<u>7,077</u>	<u>7,408</u>	<u>8,050</u>

* Remuneration of chairman and board members includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

12 SEGMENTAL ANALYSIS

Segment information

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

30 June 2013	KD 000's				Total
	Treasury	Investment	Banking	Other	
Total assets	4,604,543	3,842,141	6,014,379	1,472,409	15,933,472
Total liabilities	1,846,168	238,631	10,333,951	782,801	13,201,551
Income	42,994	78,871	297,381	41,813	461,059
Profit (loss) before estimated distribution to depositors	5,880	25,674	143,166	(24,150)	150,570

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2013

12 SEGMENTAL ANALYSIS (continued)

30 June 2012	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Investment</i>	<i>Banking</i>	<i>Other</i>	<i>Total</i>
Total assets	3,128,406	3,558,944	5,942,740	1,384,638	14,014,728
Total liabilities	1,930,430	181,206	8,968,166	766,418	11,846,220
Income	35,585	56,918	262,659	39,283	394,445
Profit (loss) before estimated distribution to depositors	2,796	39,515	98,676	(20,813)	120,174

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2013, the Group held the following classes of financial instruments measured at fair value:

	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
30 June 2013				
Quoted shares	55,495	-	-	55,495
Unquoted shares	-	7,914	103,121	111,035
Managed portfolio	75,338	5,182	11,443	91,963
Mutual funds	-	24,179	-	24,179
Sukok	239,252	137,431	-	376,683
Forward contracts	-	5,240	-	5,240
Profit rate swaps	-	1,511	-	1,511
Currency swaps	-	8,761	-	8,761
Embedded precious metals	-	(78)	-	(78)
Total	370,085	190,140	114,564	674,789

The valuation technique or pricing models are used primarily for unquoted equities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

No transfers have been made between levels of hierarchy.

14 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank at 30 June 2013 amounted to KD 630,603 thousand (31 December 2012: KD 635,086 thousand and 30 June 2012: KD 686,626 thousand).

Fee and commission income include fees of KD 2,491 thousand (30 June 2012: KD 1,671 thousand) arising from trust and fiduciary activities.