

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2000

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
KUWAIT FINANCE HOUSE K.S.C.**

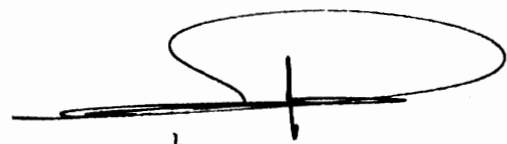
We have audited the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and its Subsidiary (the group) as of 31 December 2000, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2000, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the group and the consolidated financial statements, together with the contents of the report of the board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and 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 have occurred during the year ended 31 December 2000 that might have had a material effect on the business of the group or on its financial position.

We further report that, during the course of our audit, 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 year ended 31 December 2000.



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



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

8 January 2001
Kuwait

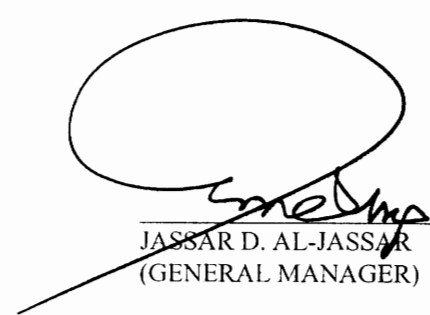
Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED BALANCE SHEET

31 December 2000

	Notes	2000 KD 000's	1999 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	3	133,295	117,617
Short-term international murabaha	3	357,330	159,710
Receivables	4	1,070,519	1,009,593
Leased assets	5	80,064	75,600
Government debt bonds	6	19,087	60,679
Investments	7	303,455	281,070
Property and equipment		27,448	22,262
Other assets		34,414	42,278
TOTAL ASSETS		2,025,612	1,768,809
LIABILITIES, DEFERRED REVENUE, MINORITY INTEREST AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks and financial institutions	9	7,615	5,689
Depositors' accounts	10	1,547,065	1,334,943
Other liabilities	11	71,940	65,424
TOTAL LIABILITIES		1,626,620	1,406,056
DEFERRED REVENUE		165,507	156,218
MINORITY INTEREST		16,255	15,013
SHAREHOLDERS' FUNDS			
Share capital	12	61,343	56,799
Proposed issue of bonus shares	13	3,681	3,408
Reserves	12	126,442	108,595
Proposed cash dividend	13	191,466	168,802
		25,764	22,720
TOTAL SHAREHOLDERS' FUNDS		217,230	191,522
TOTAL LIABILITIES, DEFERRED REVENUE, MINORITY INTEREST AND SHAREHOLDERS' FUNDS		2,025,612	1,768,809


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


 JASSAR D. AL-JASSAR
 (GENERAL MANAGER)

The attached notes 1 to 22 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2000

	<i>Notes</i>	2000 KD 000's	<i>1999</i> <i>KD 000's</i>
OPERATING INCOME			
Murabaha, Istisna'a and leasing		112,804	101,844
Subvention of government debt bonds		2,666	4,245
Investment income		20,509	20,287
Fees and commissions		5,486	4,223
Net gain from dealing in foreign currencies		1,940	1,566
Miscellaneous		2,584	1,889
		145,989	134,054
OPERATING EXPENSES			
General and administration		19,940	18,645
Depreciation		5,118	4,131
Provisions		4,766	5,107
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST			
		116,165	106,171
Minority interest		1,241	1,298
PROFIT FROM OPERATIONS BEFORE DISTRIBUTION TO DEPOSITORS			
		114,924	104,873
Distribution to depositors	10	66,522	59,734
		48,402	45,139
Contribution to Kuwait Foundation for the Advancement of Sciences		701	627
Directors' fees		80	80
NET PROFIT			
		47,621	44,432
BASIC EARNINGS PER SHARE			
	14	78 fils	74 fils

The attached notes 1 to 22 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2000

	Reserves							Total share-holders' funds KD 000's
	Share capital KD 000's (Note 12a)	Proposed Issue of bonus shares KD 000's (Note 13)	Proposed cash dividends KD 000's (Note 13)	Statutory KD 000's (Note 12b)	Share premium KD 000's (Note 12c)	Voluntary KD 000's (Note 12d)	Treasury shares KD 000's	
At 31 December 1998	53,584	3,215	19,290	71,139	5,641	16,087	(672)	168,284
Movements during 1999:								
Issue of bonus shares	3,215	(3,215)	-	-	-	-	-	-
Zakat	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	(19,290)	-	-	(1,886)	-	(1,886)
Net movement in treasury shares	-	-	-	-	-	-	-	(19,290)
Transfer to statutory reserve	-	-	-	-	-	-	(18)	(18)
Transfer to voluntary reserve	-	-	-	13,790	-	-	-	13,790
Proposed issue of bonus shares	-	3,408	-	-	-	4,514	-	4,514
Proposed cash dividends	-	-	22,720	-	-	-	-	3,408
								22,720
At 31 December 1999	56,799	3,408	22,720	84,929	5,641	18,715	(690)	191,522
Movements during 2000:								
Issue of bonus shares	3,408	(3,408)	-	-	-	-	-	-
Issue of shares for cash	1,136	-	-	-	2,067	-	-	3,203
Zakat	-	-	-	-	-	-	-	(2,345)
Cash dividends paid	-	-	(22,720)	-	-	(2,345)	-	(22,720)
Net movement in treasury shares	-	-	-	-	-	-	(51)	(51)
Transfer to statutory reserve	-	-	-	13,336	-	-	-	13,336
Transfer to voluntary reserve	-	-	-	-	-	-	-	-
Proposed issue of bonus shares	-	3,681	-	-	-	4,840	-	4,840
Proposed cash dividends	-	-	25,764	-	-	-	-	3,681
								25,764
At 31 December 2000	61,343	3,681	25,764	98,265	7,708	21,210	(741)	217,230

The attached notes 1 to 22 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary
 CONSOLIDATED STATEMENT OF CASH FLOWS
 Year ended 31 December 2000

	Notes	2000 KD 000's	1999 KD 000's
OPERATING ACTIVITIES			
Net profit		47,621	44,432
Adjustment for:			
Minority interest		1,241	1,298
Depreciation		5,118	4,131
Operating profit before changes in operating assets and liabilities		53,980	49,861
<i>(Increase) decrease in operating assets:</i>			
Receivables		(60,926)	(59,058)
Leased assets		(4,464)	719
Trading properties		(12,686)	2,638
Other assets		7,864	(10,513)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		1,926	(15,708)
Depositors' accounts		212,122	73,144
Other liabilities		6,516	11,766
Deferred revenue		9,289	7,440
Net cash from operating activities		213,621	60,289
INVESTING ACTIVITIES			
Redemption of government debt bonds		41,592	80,715
Purchase of non trading investments		(11,179)	(40,000)
Purchase of property and equipment		(13,106)	(5,815)
Proceeds from sale of property and equipment		4,232	802
Net cash from investing activities		21,539	35,702
FINANCING ACTIVITIES			
Issue of shares		3,203	-
Cash dividends paid		(22,720)	(19,290)
Minority interest		-	(1,011)
Payment of Zakat		(2,345)	(1,886)
Net cash used in financing activities		(21,862)	(22,187)
NET INCREASE IN CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS		213,298	73,804
Cash and balances with banks and financial institutions at 1 January		277,327	203,523
CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS AT 31 DECEMBER	3	490,625	277,327

The attached notes 1 to 22 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2000

1 ACTIVITIES

The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiary for the year ended 31 December 2000 were authorised for issue in accordance with a resolution of the board of directors on 8 January 2001.

Kuwait Finance House K.S.C. (the parent company) is a public shareholding company incorporated in Kuwait and is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own accounts 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 a cash, credit or Murabaha basis at negotiated profit margins. The company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

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

The company operates through 25 branches (1999: 24) and employed 1,328 employees as of 31 December 2000 (1999: 1,256).

2 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in conformity with International Accounting Standards issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of the IASC. The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Kuwait Finance House K.S.C. for the year ended 31 December 2000, and of its subsidiary Al-Enma'a Real Estate Company K.S.C. (Closed), for the year ended 31 October 2000. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

Other subsidiaries listed in Note 8 are not significant to the financial position or results of the group and, accordingly, are not consolidated. Similarly, investments in associated companies are not significant and not accounted for under the equity method of accounting. These investments are carried at cost less provision for any decline other than temporary in value determined on an individual basis.

Short-term international murabaha

International murabaha transactions with a residual maturity of upto three months from the balance sheet date with high credit quality international banks and financial institutions are classified as 'short-term international murabaha' under cash and balances with banks.

Receivables

Receivables are stated in the balance sheet net of specific and general provisions on the basis of a continuous appraisal of the receivables, having regard to the group's past experience, current economic conditions, Central Bank of Kuwait guidelines and other relevant factors. Specific provisions are made to reduce all impaired receivables to their expected realisable value whereas general provisions are made to provide for losses known from experience to exist but not yet specifically identified.

Leased assets

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Government debt bonds

Government debt bonds are stated at cost.

Investments

i) Investment properties

Rental properties are held for long-term purposes and are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties, other than freehold land which is deemed to have an indefinite life. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down.

Trading properties are held for short-term purposes and are carried at the lower of cost and market value determined on an aggregate portfolio basis.

Other properties comprise participations in real estate funds, portfolios, projects and certain buildings and are held for their investment potential on a long-term basis. These properties are carried at cost less provision for decline other than temporary in value, determined on an individual basis.

ii) Investments in securities and managed portfolios

Investments in securities and managed portfolios are held for long-term purposes and are carried at cost less provision for decline other than temporary in value, determined on an individual basis.

iii) Parent company's investment in own shares

The parent company's investment in own shares classified under investments is held for long-term purposes on behalf of depositors and is carried at cost less provision for decline other than temporary in value.

The parent company's investment in own shares classified as treasury shares is shown as a deduction from reserves.

Property and equipment

All items of property and equipment are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment, other than freehold land which is deemed to have an indefinite life.

Revenue recognition

i) Income from *Murabaha* and *Istisna'a* is recognised on a time apportionment basis.

ii) Income from leased assets is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.

iii) Subvention on government debt bonds and income from rental buildings are recognised on a time apportionment basis.

iv) Dividend income, including dividend income on own shares (held on behalf of depositors), is recognised when the right to receive payment is established. Treasury shares are not entitled to any cash dividend.

v) Fee and commission income is recognised at the time the related services are provided.

Zakat

Zakat is calculated at 2.577% on the reserves of the parent company (excluding proposed distributions) at the end of the year before transfers to reserves for the year, and paid under the direction of the company's Fatwa and Shareea'a Supervisory Board. Zakat is charged to voluntary reserve.

31 December 2000

2 SIGNIFICANT ACCOUNTING POLICIES (continued)*Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly are not included in these consolidated financial statements.

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2000 KD 000's	1999 KD 000's
Cash	22,632	31,162
Balances with the Central Bank of Kuwait	24,344	25,170
Balances with banks and financial institutions - current accounts	72,372	54,760
Balances with banks and financial institutions - exchange of deposits	13,947	6,525
	<u>133,295</u>	<u>117,617</u>
Short-term international murabaha	357,330	159,710
	<u>490,625</u>	<u>277,327</u>

In accordance with Islamic Shareea'a, no interest is receivable on amounts due from banks and financial institutions.

Short-term international murabaha represents murabaha transactions with high credit quality international banks and financial institutions with a residual maturity of upto three months from the balance sheet date.

The parent company exchanges deposits with high credit quality banks and financial institutions in local and foreign currencies with the legal right reserved to set off such deposits exchanged in the event that a bank or a financial institution becomes insolvent. The gross balances of deposits exchanged were as follows:

	2000 KD 000's	1999 KD 000's
Due from banks and financial institutions	317,331	178,570
Due to banks and financial institutions	(309,898)	(176,622)
	<u>7,433</u>	<u>1,948</u>

Included in the consolidated balance sheet as net balances:

	2000 KD 000's	1999 KD 000's
In assets:		
Due from banks and financial institutions	13,947	6,525
In liabilities:		
Due to banks and financial institutions	(6,514)	(4,577)
	<u>7,433</u>	<u>1,948</u>

The fair values of cash and balances with banks and financial institutions do not differ from their respective book values.

31 December 2000

4 RECEIVABLES

Receivables comprise Murabaha, Istisna'a and Qard Hasan and are stated net of specific and general provisions.

The composition of receivables is as follows:

	<i>2000</i> <i>KD 000's</i>	<i>1999</i> <i>KD 000's</i>
Trading and manufacturing	131,626	155,449
Banks and financial institutions	202,675	193,299
Construction and real estate	363,658	331,646
Individuals	459,535	435,247
Other	20,475	668
	<u>1,177,969</u>	<u>1,116,309</u>
Less: Specific and general provisions	<u>(107,450)</u>	<u>(106,716)</u>
	<u>1,070,519</u>	<u>1,009,593</u>

The movement in provisions during the year was as follows:

	<i>2000</i> <i>KD 000's</i>	<i>1999</i> <i>KD 000's</i>
Provisions at 1 January	106,716	101,919
Provided during the year	2,153	4,797
Amounts written off during the year	(1,419)	-
Provisions at 31 December	<u>107,450</u>	<u>106,716</u>

Provisions include certain amounts in respect of debts purchased by the Central Bank of Kuwait. In accordance with the regulations specified in Note 6 to the consolidated financial statements, these provisions must be ceded to the Central Bank of Kuwait when they are no longer required.

Whenever necessary, murabaha receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Real Estate murabaha receivables are secured by mortgage on the underlying property.

Receivables from banks and financial institutions comprise mainly murabaha transactions with high credit quality "AA" rated banks.

It is the group's intention to hold receivables to maturity. The estimated fair value of the group's receivables is not significantly different from their respective book value which represents the gross receivables less specific and general provisions established to reduce book value to estimated realisable value.

31 December 2000

5 LEASED ASSETS

This represents net investment in assets leased for periods which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide a purchase option to lessees at a price equal to the estimated residual value of the gross investment outstanding at the time when such option is exercised. The net investment comprises the following:

	<i>2000</i> <i>KD 000's</i>	<i>1999</i> <i>KD 000's</i>
Gross investment	82,418	77,412
Unearned revenue	(1,664)	(950)
Provision	(690)	(862)
	<u>80,064</u>	<u>75,600</u>

The unguaranteed residual value of the leased assets at 31 December 2000 is estimated at KD Nil (1999: KD 592 thousand).

6 GOVERNMENT DEBT BONDS

The Central Bank of Kuwait, (on behalf of the Government of Kuwait), purchased from the parent company its local real estate portfolio, debts of resident Kuwaiti customers and resident debts of other Gulf Co-operation Council nationals existing at 31 December 1991, in accordance with Decree Law No. 32 of 1992, concerning the treatment of the financial and banking sector, Law No. 41 of 1993, concerning the purchase of certain debts by the Government, as amended by Law No. 80 of 1995, the Council of Ministers Resolution No. 865, and chapter five, concerning regulations pertaining to the management of the local real estate portfolio purchased from Kuwait Finance House K.S.C., of the Council of Ministers Resolution No. 1096 of 1993 relating to the executive regulations of Law No. 41 of 1993.

The purchase value of the local real estate portfolio and debts was determined in accordance with the above regulations and were settled by the issue of bonds dated 31 December 1991.

Under the terms of the above mentioned regulations, the parent company is committed to re-purchase the local real estate portfolio from the Government within a period not to exceed 10 years as of 31 December 1991, at the lower of the market price prevailing at the date of the re-purchase of the local real estate concerned and the purchase price thereof at the date of the issue of the bonds. The parent company is also committed to manage the local real estate portfolio without remuneration.

The subvention on the bonds was 5.37 % per annum for the first half and 5.62 % per annum for the second half of the year ended 31 December 2000 (1999: 5.38% per annum for the first half and 5.05% per annum for the second half of the year), and is payable semi-annually. Management has estimated the fair value of Government Debt Bonds to be at least equal to their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2000

7 INVESTMENTS	<i>2000</i> <i>KD 000's</i>	<i>1999</i> <i>KD 000's</i>
a) Investment properties:		
-Rental properties		
Cost	53,891	55,901
Accumulated depreciation	(13,053)	(11,760)
	<u>40,838</u>	<u>44,141</u>
-Trading properties	89,950	82,342
-Other properties	64,414	55,889
	<u>195,202</u>	<u>182,372</u>
b) Investments in securities and managed portfolios	43,150	41,114
c) Investments in subsidiaries and associated companies (Note 8)		
-Unconsolidated subsidiary companies	33,760	28,489
-Associated companies	31,343	29,095
	<u>303,455</u>	<u>281,070</u>

Included in investments in rental properties above is an investment in the Al-Muthana Complex in Kuwait which is constructed on land leased from the Government. The ownership of the building, as well as any results from the activities relating to the investment are attributed only to the shareholders of the parent company.

Included in investments in securities and managed portfolios is an amount of KD 4,404 thousand (1999: KD 4,404 thousand) which represents the group's investment in 6,547 thousand (1999: 6,176 thousand) of its own shares on behalf of depositors, equivalent to 1.08% of the total issued share capital at 31 December 2000. The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares continue to be classified under investments.

The estimated fair values of the investments are not significantly different from their respective book values.

31 December 2000

8 SUBSIDIARY COMPANIES AND ASSOCIATED COMPANIES

Subsidiary companies of Kuwait Finance House K.S.C. are as follows:

	<i>Interest in equity %</i>	<i>Country of registration</i>	<i>Principal activities</i>
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	100	Kuwait	Contracting, trading and project management
Gulf Universal Company for Trading in Motor Vehicles K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
Malaysian KFH Capital Sdn. Bhd	100	Malaysia	Investment holding company
Muthana Investment Company K.S.C. (Closed)	100	Kuwait	Islamic investments
Zaafraan Investment Limited	100	Cayman	Financial services
International Turnkey Systems Company K.S.C. (Closed)	85	Kuwait	Development of computer software and hardware
KFH Ijarah House (Malaysia) Sdn. Bhd	70	Malaysia	Leasing, finance and murabaha
Human Investment Corporation for Training and Consulting K.S.C. (Closed)	69	Kuwait	Training services
Aviation Lease and Finance Company K.S.C (Closed)	60	Bermuda	Leasing and financing of aircraft
Al-Enma Real Estate Company K.S.C. (Closed)	54.78	Kuwait	Real estate investment and trading

The associated companies of Kuwait Finance House K.S.C. are as follows:

	<i>Interest in equity %</i>	<i>Country of registration</i>	<i>Principal activities</i>
Kuwait Turkish Evkaf Finance House	50	Turkey	Islamic banking services
Markets and Marketing Services Company K.S.C. (Closed)	35	Kuwait	Marketing services
Aref Investment Group K.S.C. (Closed)	30	Kuwait	Islamic investments
First Takaful Insurance Company K.S.C. (Closed).	27.5	Kuwait	Islamic Takaful Insurance
A'ayan Leasing & Investment Company K.S.C. (Closed)	27	Kuwait	Leasing and Islamic investments
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments

31 December 2000

9 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2000 KD 000's	1999 KD 000's
Balances due to banks and financial institutions - current accounts	1,101	1,112
Balances due to banks and financial institutions - exchange of deposits (Note 3)	6,514	4,577
	<u>7,615</u>	<u>5,689</u>

In accordance with Islamic Shareea'a, no interest is payable on accounts due to banks and financial institutions. The fair values of balances due to banks and financial institutions do not differ from the respective book values.

10 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the parent company comprise the following:

- i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the parent company guarantees to pay the related balances on demand. Accordingly, these deposits are considered *Qard Hasan* from depositors to the parent company on the grounds of Islamic Shareea'a.
- ii) Investment deposits comprise deposits for unlimited periods, limited periods and savings accounts. Unlimited investment deposits are initially valid for one year and are automatically renewable for the same period unless notified to the contrary in writing by the depositor. Investment deposits for a limited period are initially valid for one year and are renewable only by specific instructions from the depositors concerned. Investment savings accounts are valid for an unlimited period.

In all cases the investment deposits receive a proportion of the profit as the board of directors of the parent company determines, or bears a share of loss based on the results of the financial year.

The parent company generally invests approximately 90% of investment deposits for an unlimited period, 80% of investment deposits for a limited period and 60% of investment savings accounts, respectively. The parent company guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered *Qard Hasan* from depositors to the parent company, on the grounds of Islamic Shareea'a. Investing such *Qard Hasan* is made at the discretion of the board of directors of the parent company and the results of which are attributable to the shareholders of the parent company.

b) On the basis of the results for the year the board of directors of the parent company determined the depositors' share of profit at the following rates:

	2000 % per annum	1999 % per annum
Investment deposits for an unlimited period	6.625	6.750
Investment deposits for a limited period	5.889	6.000
Investment savings accounts	4.417	4.500

11 OTHER LIABILITIES

The estimated fair values of other liabilities are not significantly different from their respective book values.

12 SHAREHOLDERS' FUNDS

- a) The Extraordinary General Assembly of the shareholders of the parent company held on 20 March 2000 approved an increase in the paid-up share capital by the issuance of 34,080 thousand (1999: 32,150 thousand) bonus shares of 100 fils each and an issue for cash of 11,360 thousand (1999: Nil) shares to members of staff at 282 fils per share. The bonus shares were issued by a transfer from profits for the year ended 31 December 1999. The amount received in excess of the nominal value has been transferred to the share premium account. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2000 comprises 613,430 thousand (1999: 567,990 thousand) shares of 100 fils each.
- b) The Extraordinary General Assembly of the parent company held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the net profit for the year to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the parent company. As a result, an amount of KD 13,336 thousand equivalent to approximately 28% (1999: KD 13,790 thousand equivalent to approximately 31%), of the net profit for the year has been transferred to statutory reserve. The Ordinary General Assembly may resolve to discontinue such annual transfers, if proposed by the board of directors of the parent company.

Only that part of the reserve in excess of 50% of paid-up share capital is freely distributable and useable at the discretion of the Ordinary General Assembly in ways that may be deemed beneficial to the group. Distribution of the balance of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

- c) The share premium account is not available for distribution.
- d) 10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences and Directors' fees has been transferred to voluntary reserve.

13 PROPOSED CASH DIVIDENDS AND ISSUE OF BONUS SHARES

The board of directors of the parent company have proposed cash dividends of 42% for the year ended 31 December 2000 (1999: 40%) and an issue of bonus shares of 6% (1999: 6%) of paid-up share capital. This proposal is subject to the approval of the Ordinary General Assembly of the shareholders of the company and completion of legal formalities. Proposed dividends are shown as a separate component of shareholders' funds.

14 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the year of KD 47,621 (1999: KD 44,432) and the weighted average number of ordinary shares outstanding during the year of 609,675 thousand (1999: 601,155 thousand) after adjusting for treasury shares held by the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2000

15 CONTINGENCIES AND COMMITMENTS

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

	<i>2000</i> <i>KD 000's</i>	<i>1999</i> <i>KD 000's</i>
Acceptances and letters of credit	32,660	25,385
Guarantees	86,593	78,559
	<u>119,253</u>	<u>103,944</u>
Commitments in respect of the uncalled capital of investee companies	-	26,659
	<u>-</u>	<u>26,659</u>

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

16 NET OPEN FOREIGN CURRENCY POSITION

	<i>2000</i> <i>KD 000's</i> <i>equivalent</i>	<i>1999</i> <i>KD 000's</i> <i>equivalent</i>
Net assets (liabilities) in major foreign currencies:		
U.S. Dollars	40,680	78,405
Sterling Pounds	(5,430)	(6,398)
Japanese Yen	870	193
Euros	1,020	1,114
Others	1,492	1,852
	<u>38,632</u>	<u>75,166</u>

17 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 the directors are approved by the Ordinary General Assembly of the shareholders of the parent company. The year end balances of related parties included in the balance sheet are considered insignificant.

31 December 2000

18 CONCENTRATION OF ASSETS AND LIABILITIES

Primary segment information

For management purposes the parent company is organised into three major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, international murabaha investments, exchange of deposits with banks and financial institutions and international banking relationships.

Investment: Managing direct investments, investments in subsidiaries and associated companies and investment in Government debt bonds;

Retail and corporate banking: Providing a range of banking services and investment products to corporate and individual customers, providing commercial and real estate murabaha finance and local leasing and Istisna'a facilities.

	<i>Treasury</i> <i>KD 000's</i>	<i>Investment</i> <i>KD 000's</i>	<i>Retail and</i> <i>corporate</i> <i>banking</i> <i>KD 000's</i>	<i>Other</i> <i>groups</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Cash and balances with banks and financial institutions	133,295	-	-	-	133,295
Short-term international murabaha	357,330	-	-	-	357,330
Receivables	140,345	6,344	909,814	14,016	1,070,519
Leased assets	-	62,571	17,493	-	80,064
Government debt bonds	-	19,087	-	-	19,087
Investments	-	303,455	-	-	303,455
Property and equipment	468	224	11,889	14,867	27,448
Other assets	-	10,096	19,623	4,695	34,414
Due to banks and financial institutions	(7,615)	-	-	-	(7,615)
Depositors' accounts	(101)	(52,886)	(1,316,565)	(177,513)	(1,547,065)
Other liabilities	(48)	(230)	(36,371)	(35,291)	(71,940)
Deferred revenue	(5,962)	-	(159,545)	-	(165,507)
Minority interest	-	-	-	(16,255)	(16,255)
Share capital	-	-	-	(61,343)	(61,343)
Proposed issue of bonus shares	-	-	-	(3,681)	(3,681)
Proposed cash dividends	-	-	-	(25,764)	(25,764)
Reserves	-	-	-	(126,442)	(126,442)
	<u>617,712</u>	<u>348,661</u>	<u>(553,662)</u>	<u>(412,711)</u>	<u>-</u>
Revenue	<u>31,791</u>	<u>24,777</u>	<u>85,421</u>	<u>4,000</u>	<u>145,989</u>
Profit from operations before distribution to depositors	<u>23,752</u>	<u>21,474</u>	<u>67,899</u>	<u>1,799</u>	<u>114,924</u>

Kuwait Finance House K.S.C. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2000

18 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

Secondary segment information

The group operates in different geographical areas as designated below:

	<i>Assets</i>		<i>Liabilities, minority interest and shareholders' funds</i>		<i>Contingencies and commitments under letters of credit and guarantees</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Geographical areas:						
Kuwait and the rest of Middle East	1,601,447	1,501,884	2,022,974	1,765,580	83,477	72,760
North America	128,400	85,417	1,063	1,373	1,192	1,039
Western Europe	278,512	165,859	1,519	1,835	5,963	5,197
Other	17,253	15,649	56	21	28,621	24,948
	<u>2,025,612</u>	<u>1,768,809</u>	<u>2,025,612</u>	<u>1,768,809</u>	<u>119,253</u>	<u>103,944</u>
		<i>Local</i>		<i>International</i>		
		<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	
		<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	
Revenue		<u>112,557</u>	<u>113,522</u>	<u>33,432</u>	<u>20,532</u>	
Profit from operations before distribution to depositors		<u>88,960</u>	<u>88,720</u>	<u>25,964</u>	<u>16,153</u>	

19 MATURITIES OF ASSETS, LIABILITIES, DEFERRED REVENUE, MINORITY INTEREST AND SHAREHOLDERS' FUNDS

The maturity profile of assets, liabilities, deferred revenue, minority interest and shareholders' funds at 31 December 2000 is as follows:

	<i>Within 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>After one year</i>	<i>2000 Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Assets					
Cash and balances with banks and financial institutions	133,295	-	-	-	133,295
Short-term international murabaha	357,330	-	-	-	357,330
Receivables	190,187	191,925	170,634	517,773	1,070,519
Leased assets	6,493	8,469	6,051	59,051	80,064
Government debt bonds	1,193	1,193	2,386	14,315	19,087
Investments	-	-	89,950	213,505	303,455
Property and equipment	-	-	-	27,448	27,448
Other assets	25,123	-	6,543	2,748	34,414
31 December	<u>713,621</u>	<u>201,587</u>	<u>275,564</u>	<u>834,840</u>	<u>2,025,612</u>
Liabilities, deferred revenue, minority interest and shareholders' funds					
Due to banks and financial institutions	7,615	-	-	-	7,615
Depositors' accounts	784,371	269,579	161,394	331,721	1,547,065
Other liabilities	50,336	1,408	20,196	-	71,940
Deferred revenue	27,522	15,746	25,682	96,557	165,507
Minority interest	-	-	-	16,255	16,255
Shareholders' funds	-	-	-	217,230	217,230
31 December	<u>869,844</u>	<u>286,733</u>	<u>207,272</u>	<u>661,763</u>	<u>2,025,612</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2000

19 MATURITIES OF ASSETS, LIABILITIES, DEFERRED REVENUE, MINORITY INTEREST AND SHAREHOLDERS' FUNDS (continued)

The maturity profile of assets, liabilities, minority interest and shareholders' funds at 31 December 1999 is as follows:

	<i>Within 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>After one year KD 000's</i>	<i>1999 Total KD 000's</i>
Assets					
Cash and balances with banks and financial institutions	117,617	-	-	-	117,617
Short-term international murabaha	159,710	-	-	-	159,710
Receivables	205,409	180,861	142,658	480,665	1,009,593
Leased assets	4,465	6,954	8,406	55,775	75,600
Government debt bonds	3,792	3,792	7,586	45,509	60,679
Investments	-	-	82,342	198,728	281,070
Property and equipment	-	-	-	22,262	22,262
Other assets	31,307	-	7,870	3,101	42,278
31 December	<u>522,300</u>	<u>191,607</u>	<u>248,862</u>	<u>806,040</u>	<u>1,768,809</u>

Liabilities, deferred revenue, minority interest and shareholders' funds

Due to banks and financial institutions	5,689	-	-	-	5,689
Depositors' accounts	642,623	233,769	143,423	315,128	1,334,943
Other liabilities	42,786	2,698	19,940	-	65,424
Deferred revenue	15,983	15,998	17,737	106,500	156,218
Minority interest	-	-	-	15,013	15,013
Shareholders' funds	-	-	-	191,522	191,522
31 December	<u>707,081</u>	<u>252,465</u>	<u>181,100</u>	<u>628,163</u>	<u>1,768,809</u>

Maturities of assets (net of provisions), liabilities, minority interest and shareholders' funds have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

20 FINANCIAL INSTRUMENTS AND FAIR VALUES

In the ordinary course of business, the group uses primary financial instruments such as cash and balances with or due to banks and other financial institutions, investments in securities and managed portfolios, receivables and payables. The group does not make use of derivative financial instruments. Information about fair values of financial assets and liabilities are disclosed in the related notes to the consolidated financial statements.

Fair values are determined on the basis of: market values for exchange traded assets; management's estimate of value determined on the basis of a multiple of expected future earnings in respect of unquoted equity investments; open market valuations based upon the opinion of external valuers and the group's own specialist resources in respect of trading and investment properties; expected future cash flows in respect of receivables (net of provisions) and for other assets and liabilities, management's estimate of the amount at which these assets could be exchanged for cash on the basis of an arms length transaction or a liability settled to the satisfaction of creditors.

21 RISK MANAGEMENT

In accordance with Central Bank of Kuwait's guidelines and taking into account the nature of activities of the group, the parent company has a comprehensive system for the measurement and management of risks.

The main risks to which the group's assets and liabilities are exposed and the principal methods of risk management are as follows:

Credit Risk:

All policies relating to credit including the determination of approval limits are approved by the Board of Directors.

The group manages credit risk on both an individual counterparty and portfolio or product line basis together with geographical and business diversification to avoid undue concentration of risk. Credit limits or individual transactions resulting in credit risk are approved in accordance with appropriately defined procedures for the assessment of creditworthiness, collateral requirements and approval limits by the group's management and executive credit committees. Security is obtained when considered appropriate and is considered by management in the determination of provisions. The group's credit granting process including the subsequent monitoring, timely identification of defaults and determination of provisions are subject to periodic independent internal reviews.

Foreign exchange risk:

Foreign exchange risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. The group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

Price risks:

Price risks comprising market and valuation risks are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The group is not exposed to any risk in terms of the repricing of its liabilities since in accordance with Islamic Sharee'a the group does not provide contractual rates of return to its depositors.

22 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2000 amounted to KD 318,482 thousand (1999: KD 242,585 thousand).