

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

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

30 JUNE 2003

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

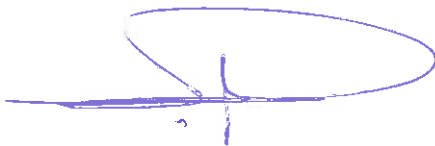
We have reviewed the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. and Subsidiaries at 30 June 2003, and the related consolidated statements of income, changes in equity and cash flows for the six month period then ended. These interim condensed consolidated financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

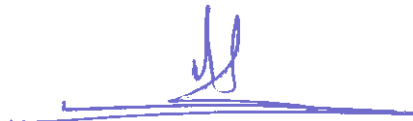
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

Furthermore, based on our review, the interim condensed consolidated financial statements are in agreement with the books of the company. We further report that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association of the company have occurred that might have had a material effect on the business of the company or on its financial position.

We further report that, during the course of our review, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.



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



JASSIM AHMAD AL-FAHAD
LICENCE NO. 53 A
AL-FAHAD & CO.
DELOITTE & TOUCHE

6 July 2003

Kuwait

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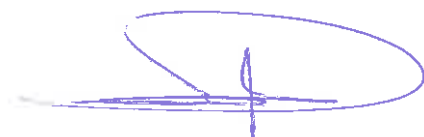
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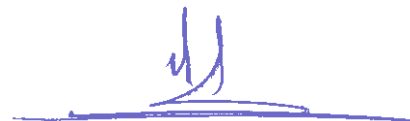
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Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

30 June 2003

	<i>Note</i>	3 months ended 30 June 2003 KD 000's	3 months ended 30 June 2002 KD 000's	6 months ended 30 June 2003 KD 000's	6 months ended 30 June 2002 KD 000's
OPERATING INCOME					
Murabaha, Istisna'a and leasing		29,002	29,239	57,625	56,414
Investment income		9,234	6,491	13,762	13,685
Fee and commission income		2,236	2,249	4,392	4,051
Net gain from dealing in foreign currencies		166	178	658	505
Other operating income		765	873	1,553	1,498
		41,403	39,030	77,990	76,153
OPERATING EXPENSES					
General and administration		5,540	5,512	10,390	10,161
Depreciation		1,935	1,796	3,740	3,479
Provision for impairment		1,500	-	1,500	-
		8,975	7,308	15,630	13,640
PROFIT FROM OPERATIONS BEFORE MINORITY INTEREST					
		32,428	31,722	62,360	62,513
Minority interest		(690)	(430)	(1,133)	(775)
PROFIT FROM OPERATIONS BEFORE ESTIMATED DISTRIBUTION TO DEPOSITORS					
Estimated distribution to depositors	3	31,738 (19,130)	31,292 (18,426)	61,227 (34,548)	61,738 (35,406)
		12,608	12,866	26,679	26,332
Provision for contribution to Kuwait Foundation for the Advancement of Sciences		(126)	(206)	(267)	(413)
PROFIT BEFORE PROVISION FOR NATIONAL LABOUR SUPPORT TAX					
		12,482	12,660	26,412	25,919
Provision for National Labour Support tax		(271)	(252)	(546)	(505)
NET PROFIT FOR THE PERIOD	3	12,211	12,408	25,866	25,414
BASIC EARNINGS PER SHARE					
		17 fils	17 fils	36 fils	35 fils

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET (UNAUDITED)

30 June 2003

		(Audited)	
	30 June 2003	31 December 2002	30 June 2002
Note	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and balances with banks and financial institutions	160,982	147,882	101,275
Short-term international murabaha	435,987	458,916	485,109
Receivables	1,394,249	1,285,361	1,347,864
Leased assets	177,741	107,662	66,006
Investments	330,386	250,763	220,637
Trading properties	110,612	112,098	118,078
Investment properties	139,328	104,684	100,787
Other assets	71,245	62,164	53,248
Property and equipment	30,964	24,847	25,037
TOTAL ASSETS	2,851,494	2,554,377	2,518,041
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, CONSOLIDATION RESERVE, MINORITY INTEREST AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	36,654	12,640	77,163
Depositors' accounts	2,208,303	1,976,861	1,916,718
Other liabilities	146,971	102,572	94,445
TOTAL LIABILITIES	2,391,928	2,092,073	2,088,326
DEFERRED REVENUE	174,989	175,724	171,355
FAIR VALUE RESERVE	12,908	5,771	4,692
CONSOLIDATION RESERVE	-	-	4,178
MINORITY INTEREST	19,237	18,840	16,434
EQUITY			
Share capital	71,689	68,275	68,275
Proposed issue of bonus shares	-	3,414	-
Reserves	180,743	158,191	164,781
	252,432	229,880	233,056
Proposed cash dividend	-	32,089	-
TOTAL EQUITY	252,432	261,969	233,056
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, CONSOLIDATION RESERVE, MINORITY INTEREST AND EQUITY	2,851,494	2,554,377	2,518,041

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

JASSAR DAKHEEL AL JASSAR
(GENERAL MANAGER)

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

30 June 2003

	Reserves							Sub total KD 000's	Proposed cash dividends KD 000's	Total equity KD 000's
	Share capital KD 000's	Proposed Issue of bonus shares KD 000's	Share premium KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares KD 000's				
At 1 January 2002	65,024	3,251	7,708	111,762	23,718	(914)	142,274	29,261	239,810	
Movements during the period:										
Issue of bonus shares	3,251	(3,251)	-	-	-	-	-	-	-	
Cash dividends paid	-	-	-	-	-	-	-	(29,261)	(29,261)	
Net movement in treasury shares	-	-	-	-	-	298	298	-	298	
Zakat	-	-	-	-	(3,205)	-	(3,205)	-	(3,205)	
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	25,414	-	25,414	-	25,414	
At 30 June 2002	68,275	-	7,708	111,762	45,927	(616)	164,781	-	233,056	
At 1 January 2003	68,275	3,414	7,708	125,240	26,145	(902)	158,191	32,089	261,969	
Movements during the period:										
Issue of bonus shares	3,414	(3,414)	-	-	-	-	-	-	-	
Cash received on cancellation of share options	-	-	71	-	-	-	71	-	71	
Cash dividends paid	-	-	-	-	-	-	-	(32,089)	(32,089)	
Net movement in treasury shares	-	-	-	-	-	222	222	-	222	
Zakat	-	-	-	-	(3,607)	-	(3,607)	-	(3,607)	
Net profit for the period attributable to shareholders credited to voluntary reserve	-	-	-	-	25,866	-	25,866	-	25,866	
At 30 June 2003	71,689	-	7,779	125,240	48,404	(680)	180,743	-	252,432	

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

30 June 2003

	<i>Note</i>	<i>6 months ended 30 June 2003 KD 000's</i>	<i>6 months ended 30 June 2002 KD 000's</i>
OPERATING ACTIVITIES			
Net profit for the period		25,866	25,414
Adjustment for:			
Depreciation		3,740	3,479
Provision for impairment		1,500	-
		<u>31,106</u>	<u>28,893</u>
Operating profit before changes in operating assets and liabilities		31,106	28,893
Exchange of deposits - given		(34,168)	-
Receivables		(100,250)	(209,371)
Leased assets		(69,366)	(14,018)
Trading properties		1,486	(9,238)
Other assets		(8,872)	(5,910)
Due to banks and financial institutions		24,014	(4,770)
Depositors' accounts		231,442	141,562
Other liabilities		44,794	7,728
Deferred revenue		(734)	(1,158)
		<u>119,452</u>	<u>(66,282)</u>
Net cash from (used in) operating activities		119,452	(66,282)
INVESTING ACTIVITIES			
Purchase of investments		(72,823)	(6,312)
(Purchase) sale of investment properties		(35,316)	90
Purchase of property and equipment		(15,909)	(5,437)
Proceeds from disposal of property and equipment		7,048	3,024
		<u>(117,000)</u>	<u>(8,635)</u>
Net cash used in investing activities		(117,000)	(8,635)
FINANCING ACTIVITIES			
Cash received on cancellation of share options		71	-
Cash dividends paid		(32,089)	(29,261)
Payment of Zakat		(3,607)	(3,205)
Net movement in treasury shares		222	298
		<u>(35,403)</u>	<u>(32,168)</u>
Net cash used in financing activities		(35,403)	(32,168)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(32,951)	(107,085)
Cash and cash equivalents at the beginning of the period		<u>305,081</u>	<u>362,527</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7	<u><u>272,130</u></u>	<u><u>255,442</u></u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)

30 June 2003

1 ACTIVITIES

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

For details of consolidated subsidiaries please see Note 6.

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

The interim condensed consolidated financial statements of Kuwait Finance House K.S.C. and Subsidiaries (the group) for the period ended 30 June 2003 were authorised for issue in accordance with a resolution of the board of directors on 6 July 2003.

2 BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the group have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2002.

Operating results for the period are not necessarily indicative of the results that may be expected for the year ending 31 December 2003.

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

Management of the parent company is of the opinion that the estimated distribution to depositors is presented for information purposes only, and accordingly the estimated distribution to depositors and the net profit for the period attributable to shareholders should not be relied upon to indicate distribution of profit to all parties concerned for the period ended 30 June 2003, or for the year ending 31 December 2003.

The actual profit to be distributed to all parties concerned will be determined by the board of directors of the parent company in accordance with the parent company's articles of association, based on the annual audited results for the year ending 31 December 2003.

For the purpose of these interim condensed consolidated financial statements, the net profit for the period ended 30 June 2003 attributable to shareholders has been credited to the voluntary reserve.

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2003

4 FAIR VALUE RESERVE

	30 June 2003 KD 000's	<i>(Audited)</i> 31 December 2002 KD 000's	30 June 2002 KD 000's
Balance at beginning of the period	5,771	2,923	2,923
Change in fair value recognised during the period	6,372	3,028	2,041
Realised during the period	428	(180)	(272)
Impairment loss recognised during the period	337	-	-
	<u>12,908</u>	<u>5,771</u>	<u>4,692</u>

5 SHARE CAPITAL

The extraordinary general assembly meeting of the parent company held on 3 February 2003 approved an increase in the authorised share capital from KD 68,275 thousand to KD 71,689 thousand by way of an issue of 5% bonus shares amounting to KD 3,414 thousand.

6 CONSOLIDATED SUBSIDIARIES

Details of consolidated subsidiaries are set out below:

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

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2003

7 CASH AND CASH EQUIVALENTS

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

	<i>30 June 2003 KD 000's</i>	<i>(Audited) 31 December 2002 KD 000's</i>	<i>30 June 2002 KD 000's</i>
Cash and balances with banks and financial institutions	160,982	147,882	101,275
Short-term international murabaha – maturing within 3 months of contract date	171,940	183,823	154,167
Exchange of deposits – maturing after 3 months of contract date	(60,792)	(26,624)	=
	<u>272,130</u>	<u>305,081</u>	<u>255,442</u>

8 CONTINGENCIES AND COMMITMENTS

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

	<i>30 June 2003 KD 000's</i>	<i>(Audited) 31 December 2002 KD 000's</i>	<i>30 June 2002 KD 000's</i>
Acceptances and letters of credit	32,311	29,021	23,188
Guarantees	114,774	112,212	98,660
	<u>147,085</u>	<u>141,233</u>	<u>121,848</u>
Capital commitments	<u>91,101</u>	<u>102,968</u>	<u>111,144</u>

9 NET OPEN FOREIGN CURRENCY POSITION

	<i>30 June 2003 KD 000's equivalent</i>	<i>(Audited) 31 December 2002 KD 000's equivalent</i>	<i>30 June 2002 KD 000's equivalent</i>
Net assets (liabilities) in major foreign currencies:			
U.S. Dollars	123,009	97,893	(19,764)
Sterling Pounds	(7,395)	(10,686)	(10,141)
Japanese Yen	1,897	(253)	(735)
Euros	3,678	111	313
Gulf Co-operation Council currencies	(12,363)	(12,610)	(12,381)
Others	489	1,039	(127)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2003

10 RELATED PARTY TRANSACTIONS

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

11 SEGMENTAL ANALYSIS*Primary segment information*

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

30 June 2003

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

30 June 2002

	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>Retail and corporate banking KD 000's</i>	<i>Other segments KD 000's</i>	<i>Total KD 000's</i>
Operating income	12,238	11,915	49,822	2,178	76,153
Net profit for the period	3,807	4,508	17,065	34	25,414
Total assets	911,921	518,940	1,066,213	20,967	2,518,041
Total liabilities, deferred revenue, fair value reserve, consolidation reserve, minority interest and equity	83,558	67,633	1,846,537	520,313	2,518,041

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2003

11 SEGMENTAL ANALYSIS (continued)

Secondary segment information

The group operates in different geographical areas as designated below:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	<i>30 June 2003 KD 000's</i>	<i>30 June 2002 KD 000's</i>	<i>30 June 2003 KD 000's</i>	<i>30 June 2002 KD 000's</i>	<i>30 June 2003 KD 000's</i>	<i>30 June 2002 KD 000's</i>
Operating income	<u>68,443</u>	<u>64,849</u>	<u>9,547</u>	<u>11,304</u>	<u>77,990</u>	<u>76,153</u>
Net profit for the period	<u>22,540</u>	<u>21,456</u>	<u>3,326</u>	<u>3,958</u>	<u>25,866</u>	<u>25,414</u>
Total assets	<u>2,346,562</u>	<u>1,845,400</u>	<u>504,932</u>	<u>672,641</u>	<u>2,851,494</u>	<u>2,518,041</u>
Total liabilities, deferred revenue, fair value reserve, consolidation reserve, minority interest and equity	<u>2,840,770</u>	<u>2,489,830</u>	<u>10,724</u>	<u>28,211</u>	<u>2,851,494</u>	<u>2,518,041</u>

12 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 30 June 2003 amounted to KD 233,316 thousand (31 December 2002: KD 324,278 thousand, 30 June 2002: KD 341,032 thousand).