

Kuwait Finance House
Annual Report 2004





H.H. Sheikh Saad Al Abdullah
Al Salem Al Sabah
Crown Prince



H.H. Sheikh Jaber Al Ahmad
Al Jaber Al Sabah
The Amir of Kuwait



H.H. Sheikh Sabah Al Ahmad
Al Jaber Al Sabah
The Prime Minister

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Cable: BAITMAL KT
www.kfh.com



In the Name of Allah the Most Gracious, the Most Merciful
 Ye who believe! Fear Allah and give up what remains of your demand for
 usury, if ye are indeed believers. If ye do it not, take notice of war from
 Allah and his Apostle, but if ye turn back, ye shall have your capital sums
 deal not unjustly and ye shall not be dealt unjustly.

Al Baqara (278 -279)
Al-Qura'an

Kuwait Finance House, with its strong Islamic values, is a financial institution whose aim is to develop and promote Islamic banking worldwide. Kuwait Finance House offers unique yet competitive products and services directed to target markets for both depositors and shareholders.

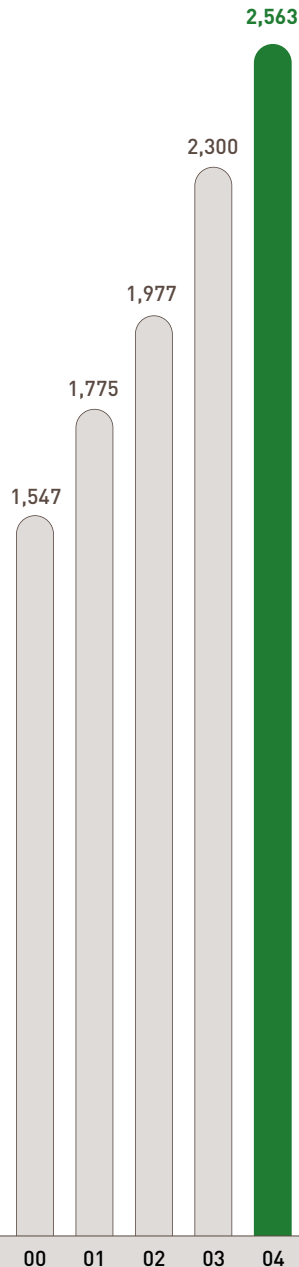
In accordance with the Islamic principles, Kuwait Finance House ensures that while working with the public professionally, the company guarantees an honourable relationship with its client base and the Islamic community as a whole.

These values are continually reinforced and adhered to in all aspects of the company's operations. Its integrity and sincerity has maintained a quality service at all times. The employees of Kuwait Finance House are constantly encouraged to be efficient, creative and above all successful. Career enhancement is actively promoted with an ever-changing financial world, creating a healthy professional environment.

Financial Highlights

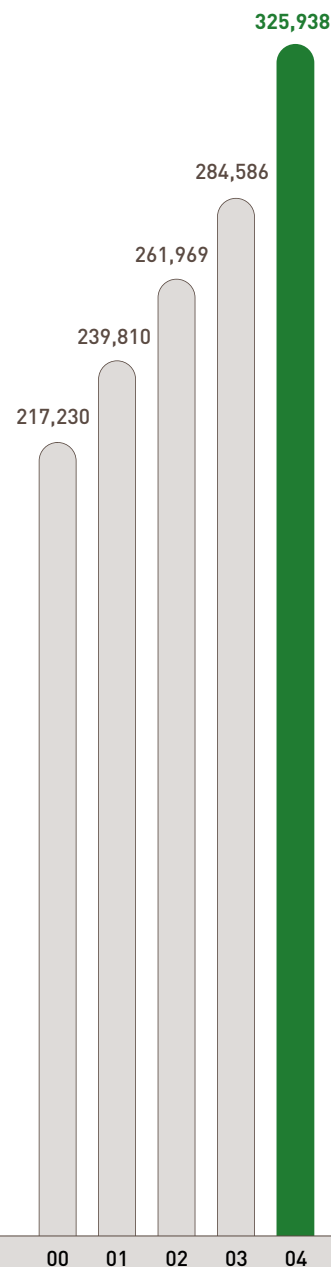
Depositors' Account Growth
(in millions of Kuwaiti Dinars)

+11%



Shareholders' Funds Growth
(in thousands of Kuwaiti Dinars)

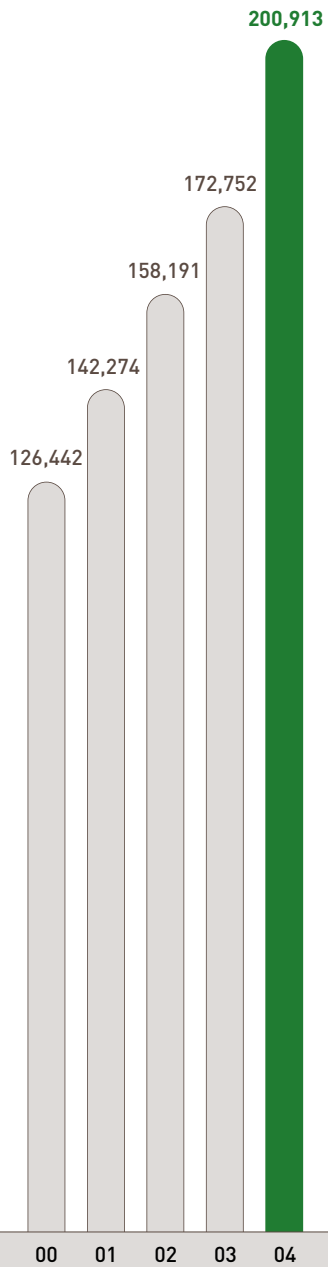
+14.5%





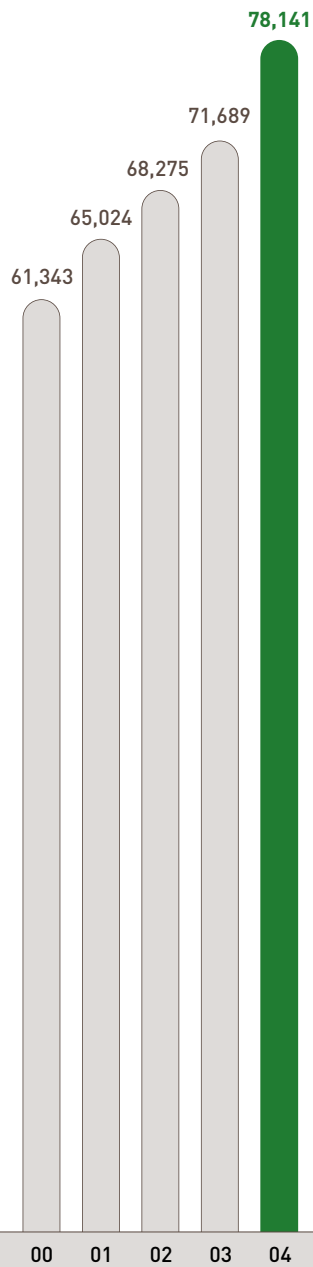
Reserves Growth
(in thousands of Kuwaiti Dinars)

+16%



Capital Growth
(in thousands of Kuwaiti Dinars)

+9%



Board of Directors



Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director



Sameer Yaqoub Al Nafeesi
Vice Chairman



Top row left to right

1. Sami Hussein Al-Anbaee
Board Member

2. Saud Abdul Aziz Al-Babtain
Board Member

3. Essam Saud Al-Rashed
Board Member

4. Ali Mohammed Al-Elaimi
Board Member

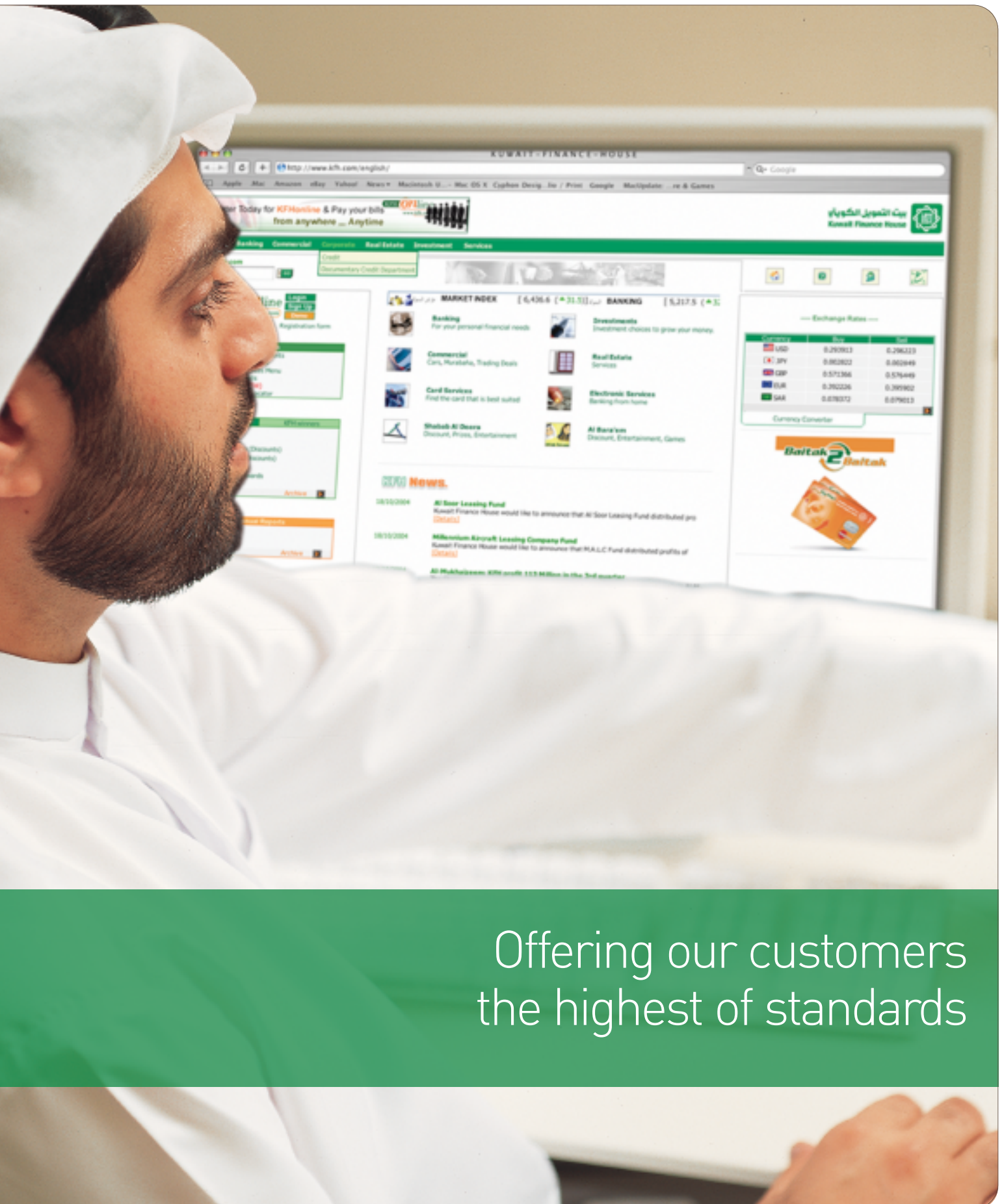
Bottom row left to right

5. Prof. Mohammed A. Al-Sherif
Board Member

6. Mohammed Ali Al-Khudairi
Board Member

7. Meshaal Yousuf Al-Derbas
Board Member

8. Naser Abdul Muhsen Al-Merri
Board Member



Offering our customers
the highest of standards

Management



Jassar D. Al-Jassar
General Manager



Yousuf A. Al-Mailam
Deputy General Manager



Top row left to right

1. **Dr. Anwar Ahmed Al-Fuzaie**
Assistant General Manager
Head of the Legal Department
2. **Salah A. Al-Bassam**
Assistant General Manager
3. **Emad A. Al-Thaqeb**
Assistant General Manager

Bottom row left to right

4. **Mohammad Naser Al-Fouzan**
Assistant General Manager
5. **Fawaz S. Al-Othman**
Assistant General Manager
6. **Dr. Waleed Essa Al-Hasawi**
Assistant General Manager



Servicing our customers better by
building closer relationships

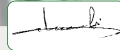
Their Eminences - Members of the Al-Fatwa and Shareea'a Supervisory Committee



Sheikh Ahmad Bazie Al-Yaseen
Chairman



Sheikh Dr. Khalid Mathkour Al-Mathkour
Shareea'a Board Member



Sheikh Dr. Ajeel Jasem Al-Nashmi
Shareea'a Board Member



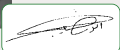
Sheikh Dr. Mohammed Fawzi Faidullah
Shareea'a Board Member



Sheikh Dr. Mohammed Abdul Razaq Al-Tabtabae
Shareea'a Board Member



Sheikh Dr. Anwar Shuaib Abdulsalam
Shareea'a Board Member



Report of Al-Fatwa and Shareea'a Supervisory Board

By following up the performance of Kuwait Finance House during the year ended 31 December 2004, we certify confidently that all activities were practiced in compliance with Islamic Shareea'a and no violations have occurred, to the best of our knowledge.



Delivering the highest quality products without compromising our dedication to integrity.

Chairman's Statement

A Year of Major Milestones

In the Name of Allah, the Merciful, the Compassionate. Praise be to God The Almighty and God's blessings and Peace be Upon Our Prophet Mohammed, His Family, All His Companions and Followers.



Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Dear Sirs,

It is my pleasure to welcome all of you to the 26th General Assembly Meeting and I would like to present to you Kuwait Finance House's ("KFH") Annual Report for the year ended 31st December 2004. This Report includes the Bank's Sharia Board's Report, major milestones during the year, local, regional and international developments and KFH and its subsidiaries' Financial Statements in addition to the Auditors' Report.

Another Year of Major Milestones to Establish its Position as a Leading Regional Bank:

KFH continued to develop and build up its local, regional and international position, multiply its financial, economic and social role. Therefore, it strongly tended to serve foreign markets in addition to its local market after achieving a number of successive milestones of providing services over 25 years. This confirms its firm and strong commitment to Sharia principles and success in providing a comprehensive Islamic banking model in all the Bank's branches and technological channels within a clearly-defined strategy including objects and means of implementation that are based on maintaining the Bank's leading position in the Kuwait banking community, meeting its customers' expectations, developing quality services and promoting staff performance to the highest standards in addition to effective communication with the community and increasing spending on IT infrastructure.

KFH Makes Another Significant Progress by Being Listed in the Central Bank's Registry

By the Grace of God, KFH was able to apply the Kuwait Central Bank's Reports System that ensures fulfilling the Central Bank's requirements with respect to data and information consistency and compatibility that reflect the Bank's financial position and its customers' base as a part of its adherence to instructions regarding the Central Banks' controls in application of the Islamic Banks' Law No. 30 of 2003. This positively reflects the Islamic financial march, improves the performance efficiency, strengthens the Bank's local and international transparency, and strengthens Kuwait's progress as a major Islamic financial service provider. This compatibility is effectively achieved to become one of the major milestones in the Bank's history as it was listed in the Central Bank's Islamic registry effective from 24th May 2004 to undergo the direct supervision of the Central Bank. This enables KFH to go ahead out of a firm base to meet future challenges.

Outstanding Management Contributed to Raise KFH's Rating at International Level

KFH continued to gain a number of international and Gulf recognitions that agreed unanimously on the bank's strength and quality of its assets and stability as a leading regional bank. This confirms the Bank's efforts to develop and update all its business activities and a sign of consistency among its high financial ability, high solvency and carry on its business

activities according to the international rules, systems and standards that provide the opportunity to evaluate its sound base. Moody's, the international rating agency, raised KFH's long term rating from (A3) to (A2), which is a new positive addition that strengthens the Bank's rating and various achievements regionally and internationally. Capital Intelligence, the international emerging markets rating agency raised KFH's rating from (A-) to (A). In this respect, Standard & Poor's granted KFH's (A-) and (A 2) ratings on the long and short term, which is the first rating given to an Islamic financial institution. In addition, Fitch, the international rating agency, raised KFH's long term foreign currency rating from (BBB+) to (A-) with a stable outlook. This new rating is given in recognition of the perfect KFH's financial position, growth, continuing progress, products innovations, and high standard of IT infrastructure. KFH was also honoured in the 8th Real Estate Fair held during the year, which is considered a recognition of the Bank's continuing efforts to deepen its local real estate activities and presence. The Bank won the first prize at 2003 projects category in design for "Deera Tower" project.

KFH is the Best Regional Bank:

For the third successive year, KFH won the Best Islamic Regional Bank by Euromoney as the most developed and outstanding bank for leasing products. The Bank won the best Islamic bank in retail banking and all types of credit cards in the Euromoney/Islamic Finance Weekly Awards. In addition, the Bank won the international conformity certification: ISO 9001: 2000 for the performance of Collection & Follow-up unit by QMI. This year witnessed various positive published reports on KFH in major media, economic and banking institutions publications worldwide.

Outstanding Financial Statements

Dear Sirs,

The Financial Statements for the year ended 31st December 2004 are as follows:

Balance Sheet:

Total assets at the end of the year were KD3.458 billions, a KD417 million increase over 2003, equivalent to 13.7% compared over the previous year. With respect to liabilities, customers' account balances amounted to KD2.563 billions, a KD263 million increase, equivalent to 11.4% over last year while shareholders' equity were KD326 million, a KD41 million increase, or 14.5% compared to the year 2003.

Revenues:

Total revenues for this year amounted to KD204 million, a KD40 million increase equivalent to 24.6%. After deducting expenditures and different provisions, profit before distribution shall be KD148 million, a KD28 million equivalent to 23.5% increase compared with 2003.

Net Profit:

Net Profit amounted to KD74 million, a KD16 million increase equivalent to 28% over 2003.

Profit Distributions:

Profits were distributed to deposit investors for the year ended 31st December 2004 according to the following percentages;

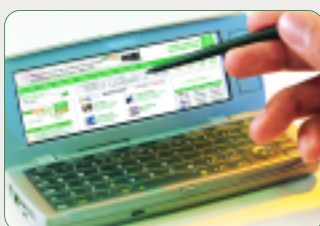
Account Type	Year 2004	Year 2003
Continuing Investments Deposits	4.800%	4.400%
Sidra Investment Deposits	3.733%	3.422%
Investment Savings Account	3.200%	2.933%

KFH's Business Activities

At Local Level: Major Milestones:

Local market tops KFH's strategy in which its share witnesses a continuing growth. In this respect, the Bank applied service re-engineering concept and paid great attention to develop its local market services in real estate finance and corporate finance.

KFH's spending during the year in the Kuwait market exceeded Kuwait Dinars half billion in the form of procurements to meet customers' needs of goods and services. Commercial spending amounted to KD300 million for more than 100 thousand clients and four thousand Kuwaiti companies and establishments that benefited from it. This confirms the Bank's continuous strategy since its incorporation to support national product and co-ordinate multiple economic activities to serve the market and promote economic stability.



Chairman's Statement continued

Real Estate Major Expansion Reflecting Significant Growth in Real Estate Market:

The year witnessed an expansion in property and investment finance. KFHH expanded properties leasing product with a promise of ownership and Istisna'a product in addition to constructing a number of commercial and investment malls as a number of construction projects amounting to KD100 million are underway in different areas in Kuwait such as AL Watih Tower, Dasman Tower, Deera Tower of which 25% is completed. KFHH began to activate its individual and corporate property evaluation service keeping abreast of real estate market developments to enable it to benefit from its more than 25 years experience in real estate business as the Bank is considered one of the most important accredited establishments by government authorities and commercial companies.

This expansion concurred with launching a number of promotion campaigns of the Bank's integral services to promote its comprehensive banking branches, provision of unique benefits and facilities in addition to taking part in various local shows which helped support the real estate market and got clients acquainted with the latest Bank's services, which the Bank is keen in providing to its clients. Adding overseas real estate purchase finance, which the bank provided in a number of countries such as United Kingdom, Lebanon, Saudi Arabia and some Arabian Gulf countries. KFHH and Egyptian Construction and Housing Bank signed "residential units sale and purchase" co-operation protocol that enhances its expansion trends in overseas markets and meet its Kuwaiti, Egyptian and Arab clients residing in Kuwait' needs to buy residential units in Egypt.

Local Investments Growth in Aviation and Health Sector:

To continue the Bank's strategy towards supporting the national economy by increasing its local investment volume, in Aviation Lease and Finance Company share capital from KD19,5 million to KD30 million to meet increasing demand on aircraft charter. The Company signed two leasing agreements. The first USD70 leasing agreement is to buy two aircrafts in which the Bank's contribution amounted to USD35 million while the Bank's share amounted to USD35 million in the second USD98 leasing agreement to increase the Bank's business activities in this sector to USD500 million. The Bank issued (MALC) Fund for subscription last year whose assets are expected to reach USD600 million.

To penetrate into health sector, the Bank's share in Al Salam Hospital Company was increased to 52% of KD18.5 million paid up capital, hence increasing investments volume in private health projects that witness growth and expansion due to increasing demand.

Seeking to Support Major Local Projects: KFHH Contributes to Finance EQUATE Company:

To complement the co-operation between KFHH and major local companies and believing it can fulfill its mission to help in promising infrastructure, EQUATE Petrochemicals Company was financed by Murabaha and leasing products totaling USD600 million in which the Islamic share amounted to 50%. The targeted amount was oversubscribed three times, which raised the Islamic share in project finance from 16% to 50% in co-ordination with other local and regional banks.

At Gulf Market: KFHH Contributes to Finance Major Projects in Gulf Region:

These contributions aimed to enhance the Bank's presence in the Gulf market upon succeeding in issuing Sukuks to the Kingdom of Bahrain, Islamic Development Bank totaling USD250 million and USD400 million respectively last year.





Leading the way in
On-Line Banking

Chairman's Statement continued

AL Taweela Power Station & Water Desalination Project:

To take part in major projects serving development plans and to get benefited from such achievements which the Bank was the first to establish its Sharia principles as it permits to have both traditional and Islamic finance in one project, KFH participated in re-finance AL Taweela Power Station and Water Desalination project in UAE, the total cost of which amounts to USD550 million, the Islamic finance share is USD150 million and the Bank's share amounted to USD25 million.

Um Al Nar Power Station, UAE:

KFH signed a USD50 million Investment Agreement with Abu Dhabi Islamic Bank to take part in financing Um Al Nar power station and water desalination, which is the third participation in a major development project in UAE after Shewaihat and Al Taweela power stations, and the fifth one on the Gulf level after EQUATE Petrochemicals, Kuwait, and Hidd power station, Bahrain. Um Al Nar Project is the biggest of its kind in the Middle East with a total cost amounting to USD2.1 billion.

KFH Contributed to Finance Saudi Telecommunications Sector:

KFH took part in its capacity as a Lead Arranger, Sharia advisor and Participant in co-operation with a host of Gulf and international banks in financing buying mobile G3 second licensing in Saudi Arabia in which its share amounted to USD100 million.

Dubai Civil Aviation Authority Sukuk:

In addition, KFH took part in offering 5-year Islamic Sukuks in favour of Dubai Civil Aviation Authority, by which their issue size increased to USD billion, and in which the Bank's share amounted to USD35 million in co-operation with a host of regional and international banks. This Sukuk will be listed on Luxembourg Stock Exchange and Dubai Securities Exchange.

UAE "Tabreed" Company:

In a significant Gulf economic development, KFH took part in a USD100 leasing and Istisna'a Sukuks in favour of UAE "Tabreed" Company as the first private sector Islamic Sukuk and first to be listed in Luxemburg Stock Exchange by Credit Suisse First Boston in which the Bank's share amounted to USD12 million.

At International Level: KFH Incorporated A New Bank In Malaysia:

As an important step towards expansion and penetration strategy worldwide, KFH obtained the Malaysian official authorities' approval to incorporate Kuwait Finance House - Malaysia, which is fully owned by Kuwait Finance House with 380 million Malaysian Ringgit (USD100 million) paid-up capital. The new Bank will play the role of commercial bridge between Gulf and Kuwaiti markets on one hand and Malaysian and Southeast Asian markets on the other hand which is one of the growing markets that provide investment opportunities considered to be the best and the biggest worldwide.

A Brand New Initiative: KFH Took Part in Issuing Leasing Sukuk to German Saxony Anhalt:

KFH played a vital role in issuing the first 5-year Sharia compliant European leasing sukuk amounting to 100 million Euro in favour of the German State Saxony-Anhalt in which the Bank's share amounted to 30 million Euro. Citigroup is the issue's manager.

Ethmaar Fund For U.K. Properties

KFH took part in establishing Ethmaar Fund For U.K. Properties in the United Kingdom of 49 million Sterling Pounds share capital to be invested in industrial and office properties sector for expected annual returns amounting to 8% and it is expected to manage and administer about 159 million Sterling Pounds overall assets. The Fund's term shall be five years and its profits shall be distributed on a quarterly basis.

Shipping Fund

In confirmation of seeking to diversify its investment opportunities and create new products that keep abreast of world economic developments, most important of which are the significant growth and expansion in sea transport within the expectations of world trade organisation, reliance of major states and companies on using vessels to carry on all kinds of sea transport such as goods and raw materials transport, KFH participated in establishing a Shipping Fund of USD80 million share capital in co-ordination and cooperation with strategic partners such as DVB Bank AG (German) and Northern Navigation International "NNI" (American Company).

Elderly Care Portfolio

KFH bought a new USD164 million property portfolio that consists of old age house in the United States of America. This Fund shall be offered for subscription in the first quarter of 2005 and is expected to achieve 8.5% returns.

Murabaha Product Development Internationally

KFH took part in a number of Murabaha transactions to finance buying oil derivatives, digital technological hardware totaling USD34 million in the Turkish market. A USD73 million Murabaha transaction is also made with Wilmar Company in Singapore in which the Bank's share is USD20 million. In addition, KFH contributed to finance a USD35 million Murabaha transaction in co-operation with the Islamic Development Bank. This confirms the Bank's continuing efforts to strengthen its business activities in the international markets and in co-operation with the regional and international financial institutions.

On Customer Service Level: KFH Promoted its Comprehensive Customer Services in Four Segments:

First: Expanding Local Branch Network:

KFH was keen on expanding its branches network locally to promote its penetration, increase its market share, and service a larger customer section more effectively and efficiently. Number of branches reached 33 branches as six new branches were opened and two branches were re-located. Number of lady sections were up to reach 23 sections in addition to banking branches. Number of ATM machines amounted to 88 machines of which 18 machines are used while drive-through in 14 branches and which is considered the first of its kind in Kuwait. Cash deposit machine service was installed and it was introduced in Kuwait for the first time.

"KFH was keen on expanding its branches network locally to promote its penetration, increase its market share, and service a larger customer section more effectively and efficiently. Number of branches reached 33 branches as six new branches were opened and two branches were re-located."

KFH continued to introduce a host of products that ensure providing immediate services and being made available to clients everywhere. KFH created "Baitak 2 Baitak" instant money transfer product in co-operation with international MasterCard. In addition, Travel insurance product was marketed to clients who wish to obtain travel insurance by calling the Bank through KFH technological channels. In this respect, KFH offered a number of trip packages to its clients to be paid on equal installments at the same rate. Seeking to achieve the highest convenience and safety levels to its clients, the Bank operated "Falcon" system, which is an instant system to detect credit cards and P.O.S. forgery and fraud operation.

KFH maintained building good business relationships with major companies and co-operative societies as it created "KFH Service" in corporate finance and paid a special attention to retail banking and expanded clients' wealth management concept.

Keen on maintaining its young customers, Shabab AlDeera accounts, were set up in Sabah Al Salem and Mubarak Al Kabeer branches as a part of youngsters' club in order to develop this promising product and guarantee the highest participation from new Bank's customers.

With respect to management re-engineering in banking business, a service quality unit was set up to improve and develop services provided to the Bank's customers within certain standards and objects to measure the service quality through a specialized team and according to a deliberate plan.



Chairman's Statement continued

Second: Call Center

To complement technological system, and provide all the possible means of communications to its customers, KFH started to operate Call Center 24 hours a day through "Allo Baitak" service to receive telephone calls, carry out various banking operations by qualified employees in addition to writing down clients' suggestions and comments and providing various products and services. Developing the Bank's relationships with its customers and getting acquainted with their needs to provide the best services shall be the priority objective of the Call Center.

Third: Application of New Customers Service System:

To improve the quality of services provided to its customers, KFH adopted a new system which is the Information Technological Infrastructure Library, which is the first system built upon customers service and one of the organised systems approved by major companies such as Microsoft, Hewlett Packard (HP), IBM, Philips and some governments in the world.

Fourth: Provision of New Electronic Services:

The state-of-the-art technological systems between KFH and its customers over various means of communications witnessed significant developments. Kfh.com site and kfh online finance services were re-designed, new services were added and the number of services online reached 140 services. In addition SMS services with customers and providers dealing with commercial sector was developed to create an effective means of communications between customers and providers to support promotions campaigns.

In addition, SMS on time service was improved in several aspects including fax, SMS service that is the first of its kind in Kuwait.

At Community Service Level:

To effectively serve the community, KFH took part in several development projects in and outside Kuwait. A drug addiction treatment hospital project was built and completed. Prisoners medical and orientation center was handed over by the contractor which is built on 12,000 square meters and accommodate 450 persons to have medical orientation programmes.

KFH donated KD1,425 million to the Ministry of Health to build new 15 aid centers to develop medical emergency services. It also donated KD950,000 to Zakat Fund to help needy families and support charity projects. With respect to educational services, KFH donated KD50,000 to Student Fund, KD100,000 to Needy Children Charity Fund, and KD12,000 to Zakat House to sponsor 40 students.

Economic Developments

Kuwaiti economy during 2004 witnessed a number of positive developments that contributed to establish the economical recovery the country enjoyed. GDP is expected to achieve a growth of 2.8% in 2004. The most important developments is the increasing demand for different goods and services.

Such developments were a result of three main factors. First is the improvement of Kuwaiti investment environment and optimism among investors. Second is the soaring oil prices and Kuwait oil production increase simultaneously which is reflected on public revenues increase amounting to Kuwait Dinars seven billions for the financial year 2003/2004. Kuwait achieved a financial surplus for the third successive year due to the public revenues increase resulting from soaring oil prices. Third is low interest rates on Kuwait Dinars having a significant effect on the banking credit facilities growth that reached 14.9% during the first nine months of the year. To rationalize such growth, goods and services demand, keeping abreast with the latest international economic developments, the Central bank rose discount rate five times during the year from 3.25% to 4.75%.

Kuwait Securities Market continued its positive performance as market index rose by 34.4%, to 6498 points, a growth of 33.5% and 18 new companies were listed.





Comprehensive
Local Investments

Chairman's Statement continued

Such developments were the result of indirect role played by the Government to stimulate the economic circle as it provided the opportunity to the private sector to play the biggest role in the major development projects. It issued several relevant regulations to activate and rebuild the national economy including but not limited to foreign banks licensing law in Kuwait, withdraw deposit guarantees at the local banks and re-activate privatization schemes.

At International Economy Level:

World economic growth during 2004 was enhanced by the economic recovery of USA, Japan and China in particular. This significant development in industrial growth, world trade, private consumption, labour market, and investments contributed to the growth of world economy by 5% which is the highest growth achieved during the last three decades. Such economic growth is expected to reach 4.3% in USA, 4.4% in Japan and 9% in China. As for Euro area, it is expected to be less than 2.2% due to economic slowdown in Germany and France.

The year 2004 witnessed high interest rates on US dollars as the Federal Reserve Bank rose the interest rate five times from 1.0% to 2.25% fearing inflation. The economic recovery reflected on US stocks as Dow Jones and Nasdaq indices rose to 3.1% and 8.1% respectively.

United States suffered from the continuous current account balance of trade deficient and reached 5% of GNP. Such deficient in United States counters surplus growth in other countries such as East Asia countries, Japan and China due to the growth of such countries' exports to the United States, especially electronic consumer goods. In addition, favourable exchange rates for such countries formed a competitive advantage to American exports, hence dollar exchange rate fell back significantly during the year and the US currency lost 7.9% of its value against Euro and 7.4% against Yen.

"The state-of-the-art technological systems between KFH and its customers over various means of communications witnessed significant developments. Kfh.com site and kfh online finance services were re-designed, new services were added and the number of services online reached 140 services."

At GCC Economy Level:

Oil prices were positively reflected on GCC economies in the growth rates, and current account surplus rates. It is expected that GCC will witness continuous growth rates during 2005 as GCC oil revenues are expected to reach USD204 billions, a 46% increase compared with revenues that amounted to USD140 billions, and USD120 billions in 2002.

GCC states witnessed positive growth rates. KSA economy could achieve a real growth rate of 3.6% in 2004, compared with 2003 exceptional rate amounting to 7.2%. Qatari economy achieved a significant growth rate of 9.3% in 2004 accompanied with a state surplus compared with 7.8% in 2003. Omani economy achieved a 2.5% growth rate against 1.4% in 2003 while UAE economy recorded a 3.6% growth rate in 2004 against 7.0% in 2003 and finally Bahraini economy recorded a 5.5% growth rate in 2004 compared with 5.7% in 2003.

In closing, Praise be to God, we achieved such milestones and we thank God the Almighty that we succeeded in our objectives and goals to serve our country and dear customers under the wise leadership and great vision shown by His Highness the Emir Sheikh Jaber Al Ahmed Al Sabah, Crown Prince Sheikh Saad Al Abdullah Al Sabah, HH Sheikh Sabah Al Ahmed Al Sabah, Prime Minister. We would like to express our appreciation to the competent authorities and to our customers for their loyalty and support of this significant Islamic financial institution.

**Bader Abdul Muhsen
Al-Mukhaizeem**

Chairman and Managing Director



Consolidated
Financial
Statements

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 Subsidiaries as of 31 December 2004, and the related consolidated statement of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibilities of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based in 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 principals used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all materials respect, the financial position of the group as of 31 December 2004, and the result of its operation and its cash flows of the year then ended in accordance with International Financial Reporting Standard.

Furthermore, in our opinion proper books of accounts have been kept by the company 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 by the Commercial Companies Law of 1960, as amended, and by the 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 article of association have occurred during the year ended 31 December 2004 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 audit, we have not become aware of any materials violations of the provisions of Law No.32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations during the year ended 31 December 2004.



Waleed A. Al Osaimi
Licence No. 68 A
Ernst & Young
Al Aiban, Al Osaimi & Partners



Jassim Ahmad Al-Fahad
Licence No. 53 A
Deloitte & Touche
Al-Fahad & Co.

18 January 2005
Kuwait

Consolidated Income Statement

Year ended 31 December 2004

	Note	2004 KD 000's	2003 KD 000's
Operating income			
Murabaha, Istisna'a and leasing income		133,463	106,917
Investment income	3	48,293	43,540
Fee and commission income		13,933	10,409
Net gain (loss) from dealing in foreign currencies		1,613	(1,098)
Other operating income		6,304	3,589
		203,606	163,357
Operating expenses			
General and administrative expenses		33,045	28,789
Depreciation		5,940	7,966
Provision for impairment		13,664	4,132
		52,649	40,887
Profit from operations before minority interest		150,957	122,470
Minority interest		2,889	2,603
Profit from operations before distribution to depositors		148,068	119,867
Distribution to depositors	12	71,476	59,833
Profit for the year		76,592	60,034
Contribution to Kuwait Foundation for the Advancement of Sciences		766	600
National Labour Support Tax		1,294	1,184
Directors' fees		120	90
Net profit for the year		74,412	58,160
Basic earnings per share	4	96 fils	77 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Balance Sheet

At 31 December 2004

	Note	2004 KD 000's	2003 KD 000's
Assets			
Cash and balances with banks and financial institutions	5	146,161	129,208
Short-term international murabaha		380,646	369,369
Receivables	6	1,484,971	1,457,494
Leased assets	7	505,550	287,990
Investments	8	565,038	433,410
Trading properties		127,835	139,615
Investment properties	9	105,921	102,447
Other assets		69,736	63,021
Property and equipment	10	72,208	58,556
Total assets		3,458,066	3,041,110
Liabilities, deferred revenue, fair value reserve, minority interest and equity			
Liabilities			
Due to banks and financial institutions	11	121,821	63,676
Depositors' accounts	12	2,563,185	2,300,161
Other liabilities		204,807	169,864
Total liabilities		2,889,813	2,533,701
Deferred revenue		189,002	182,410
Fair value reserve	13	31,680	19,776
Minority interest		21,633	20,637
Equity			
Share capital	14	78,141	71,689
Proposed issue of bonus shares	15	7,814	4,301
Reserves	16	200,913	172,752
		286,868	248,742
Proposed cash dividends	15	39,070	35,844
Total equity		325,938	284,586
Total liabilities, deferred revenue, fair value reserve, minority interest and equity		3,458,066	3,041,110



Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director



Jassar Dakheel Al-Jassar
General Manager

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Share capital KD 000's (Note 14)	Proposed issue of bonus shares KD 000's (Note 15)	Reserves			Treasury shares KD 000's	Sub Total KD 000's	Proposed cash dividends KD 000's (Note 15)	Total equity KD 000's
			Share premium KD 000's (Note 16)	Statutory reserve KD 000's (Note 16)	Voluntary reserve KD 000's (Note 16)				
At 31 December 2002	68,275	3,414	7,708	125,240	26,145	(902)	158,191	32,089	261,969
Movements during the year:									
Issue of bonus shares	3,414	(3,414)	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	118	-	-	-	118	-	118
Zakat	-	-	-	-	(3,607)	-	(3,607)	-	(3,607)
Cash dividends paid	-	-	-	-	-	-	-	(32,089)	(32,089)
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	12,011	-	-	12,011	-	12,011
Transfer to voluntary reserve	-	-	-	-	6,004	-	6,004	-	6,004
Proposed issue of bonus shares	-	4,301	-	-	-	-	-	-	4,301
Proposed cash dividends	-	-	-	-	-	-	-	35,844	35,844
Net movement in treasury shares	-	-	-	-	-	35	35	-	35
At 31 December 2003	71,689	4,301	7,826	137,251	28,542	(867)	172,752	35,844	284,586
Movements during the year:									
Issue of shares (Note 14)	2,151	-	4,774	-	-	-	4,774	-	6,925
Issue of bonus shares (Note 14)	4,301	(4,301)	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	-	18	-	-	-	18	-	18
Zakat	-	-	-	-	(4,010)	-	(4,010)	-	(4,010)
Cash Dividend Paid	-	-	-	-	-	-	-	(35,844)	(35,844)
Distribution of net profit:									
Transfer to statutory reserve	-	-	-	19,868	-	-	19,868	-	19,868
Transfer to voluntary reserve	-	-	-	-	7,660	-	7,660	-	7,660
Proposed issue of bonus shares	-	7,814	-	-	-	-	-	-	7,814
Proposed cash dividends	-	-	-	-	-	-	-	39,070	39,070
Net movement in treasury shares	-	-	-	-	-	(149)	(149)	-	(149)
At 31 December 2004	78,141	7,814	12,618	157,119	32,192	(1,016)	200,913	39,070	325,938

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2004

Note	2004 KD 000's	2003 KD 000's
Operating activities		
Net profit for the year	74,412	58,160
Adjustment for:		
Depreciation	5,940	7,966
Provision for impairment	13,664	4,132
Operating profit before changes in operating assets and liabilities	94,016	70,258
<i>(Increase) decrease in operating assets:</i>		
Exchange of deposits	-	26,624
Receivables	32,476	(158,500)
Leased assets	(217,437)	(179,022)
Trading properties	11,790	(27,517)
Other assets	29,914	(5,092)
<i>Increase (decrease) in operating liabilities</i>		
Due to banks and financial institutions	58,144	51,038
Depositors' accounts	263,023	323,300
Other liabilities	35,940	69,087
Deferred revenue	6,592	6,686
Net cash from operating activities	314,458	176,862
Investing activities		
Purchase of investments	(119,895)	(169,114)
(Purchase) sale of investment properties	(5,557)	661
Purchase of property and equipment	(55,057)	(39,520)
Net cash used in investing activities	(180,509)	(207,973)
Financing activities		
Issue of shares	6,925	-
Cash dividends paid	(35,844)	(32,089)
Cash received on cancellation of share options	18	118
Payment of Zakat	(4,010)	(3,607)
Net movement in treasury shares	(149)	35
Net cash used in financing activities	(33,060)	(35,543)
Increase (decrease) in cash and cash equivalents	100,889	(66,654)
Cash and cash equivalents at 1 January	238,426	305,080
Cash and cash equivalents at 31 December	339,315	238,426

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2004

1 Activities

The consolidated financial statements of Kuwait Finance House K.S.C. and subsidiaries (the group) for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the board of directors on 18 January 2005.

The group comprises Kuwait Finance House K.S.C. (the parent company) and its consolidated subsidiaries as noted in Note 17. The parent company is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practising usury. Trading activities are conducted on the basis of purchasing various goods and selling them on Murabaha at negotiated profit margins which can be settled in cash or on instalment credit basis. The parent company's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

The parent company operates through 33 local branches (2003: 27) and employed 1,594 employees as of 31 December 2004 (2003: 1,452), out of which 742 (2003: 637) were Kuwaiti nationals representing 47% (2003: 44%) of the total number of employees.

2 Significant Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Interpretations Committee.

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous year.

The significant accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2004, Al Enma'a Real Estate Company K.S.C. (Closed) for the year ended 31 October 2004, The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed) for the year ended 31 October 2004 and Al Muthana Investment Company K.S.C. (Closed) for the year ended 30 September 2004. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

The financial statements used in the consolidation are drawn up to different reporting dates, hence adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and 31 December 2004, the reporting date of the parent company.

Some of the consolidated subsidiaries use accounting policies other than that adopted in the consolidated financial statements for certain assets. Hence, appropriate adjustments are made to their financial statements when used in preparing the consolidated financial statements.

Short-term international murabaha

Short-term international murabaha are financial assets originated by the parent company and represent deals with high credit quality international banks and financial institutions with a residual maturity of upto three months from the balance sheet date. These are stated at amortised cost.

Notes to the Consolidated Financial Statements

At 31 December 2004

2 Significant Accounting Policies (continued)

Receivables

Receivables are financial assets originated by the group and principally comprise Murabaha and Istisna'a receivables. These are stated at amortised cost.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows discounted at original profit rates, recognised in the consolidated income statement. For receivables, the future anticipated cash flows include anticipated recoveries from guarantees and collateral.

In addition, a provision is made to cover impairment which, although not specifically identified, are deemed to be present in the group's portfolio of receivables. These are estimated based on the historical patterns of losses in each component, the credit ratings allocated to the debtors, the current economic investment in which the debtors operate and Central Bank of Kuwait guidelines.

Leased assets

This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

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

Investments

Investments are classified as available for sale investments.

Investments are initially recognised at cost and are subsequently remeasured to fair value unless fair value cannot be reliably determined. Changes in fair value are reported in the fair value reserve until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain or loss previously included within the fair value reserve is included within investment income in the consolidated income statement.

Trading properties

Trading properties are carried at the lower of cost and market value determined on an individual basis.

Investment properties

Investment properties 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 on an individual basis by reference to their fair value to assess whether they are recorded in excess of their recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Impairment losses, if any, are recognised in the consolidated income statement where carrying values exceed the recoverable amount.

Notes to the Consolidated Financial Statements

At 31 December 2004

2 Significant Accounting Policies (continued)

Fair values

Investments

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Investment properties

For local investment properties, fair value is determined by the group's specialist resources which have recent experience in the local property market. For overseas investment properties, fair value is determined based on external valuations by independent, registered real estate valuers.

Financial assets and liabilities

For financial assets and liabilities, fair value is determined based on expected future cash flows or management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Revenue recognition

- i) Income from Murabaha and Istisna'a is recognised on a weighted time apportionment basis.
- ii) Income from leased assets is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.
- iii) Rental income from investment properties is recognised on a weighted 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.
- v) Fee and commission income is recognised at the time the related services are provided.

Zakat

Zakat is calculated at 2.577% on the opening reserves of the parent company (excluding proposed distributions) which have remained for one complete fiscal year and is paid under the direction of the parent company's Al-Fatwa and Sharee'a Supervisory Board. Zakat is charged to voluntary reserve.

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 consolidated income statement.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with banks and financial institutions and international murabaha contracts and exchange of deposits maturing within three months of contract date.

Notes to the Consolidated Financial Statements

At 31 December 2004

2 Significant Accounting Policies (continued)

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 Investment Income

	2004 KD 000's	2003 KD 000's
Income from sale of trading properties	9,042	13,290
Rental income	8,812	8,058
Dividend income and gain from sale of investments	30,439	22,192
	48,293	43,540

4 Basic Earnings per Share

Basic earnings per share are based on the net profit for the year of KD 74,412 thousand (2003: KD 58,160 thousand) and the weighted average number of ordinary shares outstanding during the year of 773,336 thousand (2003: 759,070 thousand) after adjusting for treasury shares held by the group.

The basic earnings per share of the previous year has been restated for bonus shares issued in 2004.

5 Cash and Balances with Banks and Financial Institutions

	2004 KD 000's	2003 KD 000's
Cash	18,919	23,510
Balances with the Central Bank of Kuwait	69,960	17,934
Balances with banks and financial institutions - current accounts	45,880	29,326
Balances with banks and financial institutions - exchange of deposits	11,402	58,438
Cash and balances with banks and financial institutions	146,161	129,208
Short-term international murabaha - maturing within 3 months of contract date	193,154	109,218
Cash and cash equivalents	339,315	238,426

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

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:

	2004 KD 000's	2003 KD 000's
Due from banks and financial institutions	341,273	364,314
Due to banks and financial institutions	(378,140)	(368,511)
	(36,867)	(4,197)

Notes to the Consolidated Financial Statements

At 31 December 2004

5 Cash and Balances with Banks and Financial Institutions (continued)

Included in the consolidated balance sheet as net balances:

	2004 KD 000's	2003 KD 000's
In assets:		
Cash and balances with banks and financial institutions - exchange of deposits	11,402	58,438
In liabilities:		
Due to banks and financial institutions - exchange of deposits (Note 11)	(48,269)	(62,635)
	(36,867)	(4,197)

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

6 Receivables

Receivables principally comprise Murabaha and Istisna'a balances and are stated net of provision for impairment as follows:

	2004 KD 000's	2003 KD 000's
International murabahas	131,601	268,121
Local murabahas	1,362,911	1,196,655
Istisna'a and other receivables	113,144	102,788
	1,607,656	1,567,564
Less: provision for impairment	(122,685)	(110,070)
	1,484,971	1,457,494

The industry concentration of receivables is as follows:

	2004 KD 000's	2003 KD 000's
Trading and manufacturing	193,977	122,410
Banks and financial institutions	306,616	364,632
Construction and real estate	335,116	383,960
Individuals	759,989	653,716
Other	11,958	42,846
	1,607,656	1,567,564
Less: provision for impairment	(122,685)	(110,070)
	1,484,971	1,457,494

Provisions for losses on receivables from customers for finance facilities are as follows:

	2004 KD 000's	Specific 2003 KD 000's	2004 KD 000's	General 2003 KD 000's	2004 KD 000's	Total 2003 KD 000's
Balance at						
beginning of year	80,375	77,806	29,695	27,105	110,070	104,911
Provided during the year	6,901	2,569	5,714	2,590	12,615	5,159
Balance at end of year	87,276	80,375	35,409	29,695	122,685	110,070

Notes to the Consolidated Financial Statements

At 31 December 2004

6 Receivables (continued)

At 31 December 2004, non-performing finance facilities amounted to KD 98,316 thousand (2003: KD 98,714 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	Pre-invasion KD 000's	Post liberation KD 000's	Total KD 000's
2004			
Finance facilities	31,790	66,526	98,316
Provisions	31,790	55,486	87,276
2003			
Finance facilities	35,333	63,381	98,714
Provisions	35,333	45,042	80,375

The policy of the group for calculation of the impairment provision for receivables complies in all material respects with the specific provision requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a general provision of 2% on all finance facilities not subject to specific provision has been provided. The analysis of specific and general provision set out above is based on the requirements of the Central Bank of Kuwait.

Provisions include certain amounts in respect of debts purchased by the Central Bank of Kuwait. Such 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 institutions.

The group's receivables are principally concentrated in Kuwait.

The fair values of receivables do not differ from their respective book values.

7 Leased Assets

The net investment comprises the following:

	2004 KD 000's	2003 KD 000's
Gross investment	525,598	307,837
Unearned revenue	(19,157)	(18,833)
Provision for impairment	(891)	(1,014)
	505,550	287,990

Notes to the Consolidated Financial Statements

At 31 December 2004

7 Leased Assets (continued)

The future minimum lease payments receivable in the aggregate are as follows:

	2004 KD 000's	2003 KD 000's
Within one year	423,491	192,917
One to five years	65,386	82,169
Later than five years	36,721	32,751
	525,598	307,837

The unguaranteed residual value of the leased assets at 31 December 2004 is estimated at KD Nil (2003: KD Nil).

8 Investments

	2004 KD 000's	2003 KD 000's
Investments comprise:		
Quoted equity investments	49,444	32,697
Unquoted equity investments	26,277	5,777
Managed portfolios and funds	205,339	196,510
Sukooks	64,089	36,880
Unconsolidated subsidiaries	180,601	121,563
Associated companies	39,288	39,983
	565,038	433,410
Investments carried at fair value	345,149	271,864
Investments carried at cost less impairment	219,889	161,546
	565,038	433,410

Included in managed portfolios is an amount of KD 6,699 thousand (2003: KD 3,667 thousand) which represents the group's investment in 5,953 thousand (2003: 3,353 thousand) of its own shares on behalf of depositors, equivalent to 0.76% of the total issued share capital at 31 December 2004 (2003: 0.47%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares are classified under investments.

The unconsolidated subsidiaries and associated companies of the group primarily consist of the following:

Unconsolidated subsidiaries:

	Interest in equity %	Country of registration	Principal activities
Al-Nakheel United Real Estate Company K.S.C. (Closed)	100	Kuwait	Real estate investment and trading
Baitak Holding Company K.S.C. (Closed)	100	Kuwait	Holding Company
Gulf International Automobile Trading Company K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
Kuwait Finance House B.S.C.	100	Bahrain	Islamic Banking Services
Kuwait Finance House (Malaysia) Berhad	100	Malaysia	Islamic Banking Services
ALAFCO - Aviation Lease and Finance Company K.S.C. (Closed)	88	Kuwait	Leasing and financing of aircraft
International Turnkey Systems Company K.S.C. (Closed)	85	Kuwait	Development of computer software and hardware
Public Services Company K.S.C. (Closed)	80	Kuwait	Administrative services

Notes to the Consolidated Financial Statements

At 31 December 2004

8 Investments (continued)

Unconsolidated companies:

	Interest in equity %	Country of registration	Principal activities
Kuwait Turkish Evkaf Finance House	62	Turkey	Islamic banking services
Al Salaam Hospital Company K.S.C. (Closed)	52	Kuwait	Health care
Aref Investment Group K.S.C. (Closed)	52	Kuwait	Islamic investments

Associated companies:

First Takaful Insurance Company K.S.C. (Closed)	27	Kuwait	Islamic Takaful insurance
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments
Liquidity Management Centre Company B.S.C. (Closed)	25	Bahrain	Islamic banking and financial services
National Bank of Sharjah PJSC	20	United Arab Emirates	Islamic banking services
A'ayan Leasing & Investment Company K.S.C. (Closed)	19	Kuwait	Leasing and Islamic investments

9 Investment Properties

	2004 KD 000's	2003 KD 000's
At 1 January	102,447	106,279
Additions	6,625	4,500
Disposals, at net book value	(1,068)	(6,757)
Depreciation charged for the year	(2,075)	(2,068)
Impairment losses (charged) released	(8)	493
At 31 December	105,921	102,447

	2004 KD 000's	2003 KD 000's
Cost	133,143	129,132
Accumulated depreciation	(20,532)	(18,456)
Impairment	(6,690)	(8,229)
	105,921	102,447

Included in investment properties is an investment in Al-Muthana Complex in Kuwait which is constructed on land leased from the Government of Kuwait. 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.

The fair value of the investment properties at the balance sheet date is KD 122,982 thousand (2003: KD 118,686 thousand).

10 Property and Equipment

Included in property and equipment are the head office building and all branches of the parent company constructed on land leased from the Government of Kuwait. The ownership of the buildings as well as the net rental income from these buildings are attributable only to the shareholders of the parent company.

Notes to the Consolidated Financial Statements

At 31 December 2004

11 Due to Banks and Financial Institutions

	2004 KD 000's	2003 KD 000's
Current accounts	4,624	1,041
Murabaha payable	68,928	-
Exchange of deposits (Note 5)	48,269	62,635
	121,821	63,676

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 their respective book values.

12 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 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 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 bear 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 ("Mustamera"), 70% of investment deposits for an unlimited period ("Al-Sedra") and 60% of investment savings accounts ("Tawfeer"). 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, 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:

	2004 % per annum	2003 % per annum
Investment deposits for an unlimited period ("Mustamera")	4.800	4.400
Investment deposits for an unlimited period ("Al-Sedra")	3.733	3.422
Investment savings accounts ("Tawfeer")	3.200	2.933

c) The fair values of depositors' accounts do not differ from their respective book values.

Notes to the Consolidated Financial Statements

At 31 December 2004

13 Fair Value Reserve

Changes in fair value of available for sale investments are reported in the fair value reserve. Management of the parent company is of the opinion that since a significant proportion of this reserve is attributable to its depositors and would be allocated to depositors on realisation, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

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

	2004 KD 000's	2003 KD 000's
Balance at 1 January	19,776	5,771
Change in fair value during the year	15,314	13,188
Impairment loss recognised during the year	-	389
(Gain) loss realised during the year	(3,410)	428
Balance at 31 December	31,680	19,776

14 Share Capital

The extraordinary general assembly meeting of the parent company held on 16 February 2004 approved an increase in the authorised share capital from KD 71,689 thousand to KD 78,141 thousand by way of an issue of 6% bonus shares amounting to KD 4,301 thousand and 21,506,575 shares under an employee share purchase scheme amounting to KD 2,151 thousand. The bonus shares were issued by a transfer from the profits for the year ended 31 December 2003. The employee share purchase scheme shares were issued at par value of 100 fils and premium of 222 fils per share. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2004 comprises 781,406 thousand (2003: 716,886 thousand) shares of 100 fils each.

15 Proposed Cash Dividend and Issue of Bonus Shares

The board of directors of the parent company have proposed a cash dividend of 50% for the year ended 31 December 2004 (2003: 50%) and an issue of bonus shares of 10% (2003: 6%) of paid-up share capital. This proposal is subject to the approval of the Ordinary General Assembly of the shareholders of the parent company and completion of legal formalities. Proposed dividends are shown separately within equity.

16 Reserves

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 19,868 thousand equivalent to approximately 27% (2003: KD 12,011 thousand equivalent to approximately 20%), of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax 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 statutory 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 parent company. Distribution of the balance of the statutory 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.

10% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to voluntary reserve.

The share premium account is not available for distribution.

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17 Consolidated Subsidiaries

Details of consolidated subsidiaries are set out below:

Name	Country of registration	Interest in equity %	Principal activities
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.

18 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:

	2004 KD 000's	2003 KD 000's
Acceptances and letters of credit	36,846	41,420
Guarantees	160,842	122,308
	197,688	163,728
Capital commitments	244,460	98,836

19 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 financing facilities customers of the parent company, 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 shareholders of the parent company.

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

	The number of Board Members or Executive Officers		The number of related parties		2004 KD 000's	2003 KD 000's
	2004	2003	2004	2003		
Board Members						
Finance facilities	6	3	2	-	111	72
Contingent liabilities	-	-	-	-	-	-
Credit cards	4	4	6	5	9	8
Deposits	8	8	48	47	1,634	2,007
Collateral against financing facilities	-	-	-	-	-	-
Executive Officers						
Finance facilities	19	9	6	-	869	360
Contingent liabilities	-	-	-	-	-	-
Credit cards	11	10	9	8	8	7
Deposits	19	19	61	60	1,315	926
Collateral against financing facilities	7	8	-	-	1,645	2,000

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20 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the parent company's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. The group where necessary matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

The group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2004 KD 000's equivalent	2003 KD 000's equivalent
U.S. Dollars	83,994	106,380
Sterling Pounds	1,197	(7,843)
Japanese Yen	645	36
Euros	1,346	722
Gulf Cooperation Council currencies	(10,557)	(12,465)
Others	1,530	1,243

21 Segmental Analysis

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, associated companies and international leasing.

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

31 December 2004	Treasury KD 000's	Investment KD 000's	Retail and Corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	146,161	-	-	-	146,161
Short-term international murabaha	380,381	265	-	-	380,381
Receivables	94,885	12,862	1,356,020	21,204	1,484,971
Leased assets	-	73,029	432,521	-	505,550
Investments	-	565,038	-	-	565,038
Trading properties	-	127,835	-	-	127,835
Investment properties	-	105,921	-	-	105,921
Other assets	-	14,996	51,127	3,613	69,736
Property and equipment	304	153	36,356	35,395	72,208
	621,731	900,099	1,876,024	60,212	3,458,066

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At 31 December 2004

21 Segmental Analysis (continued)**Liabilities, deferred revenue, fair value reserve, minority interest and equity**

31 December 2004	Treasury KD 000's	Investment KD 000's	Retail and Corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Due to banks and financial institutions	121,821	-	-	-	121,821
Depositors' accounts	168	87,621	2,181,292	294,104	2,563,185
Other liabilities	75	4,865	122,663	77,204	204,807
Deferred revenue	9,764	-	179,238	-	189,002
Fair value reserve	-	31,680	-	-	31,680
Minority interest	-	-	-	21,633	21,633
Equity	-	-	-	325,938	325,938
	131,823	124,166	2,483,193	718,879	3,458,066

Year ended 31 December 2004

Operating income	17,720	51,104	127,018	7,764	203,606
Profit from operations before distribution to depositors	9,367	44,539	88,473	5,689	148,068

31 December 2003	Treasury KD 000's	Investment KD 000's	Retail and Corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	129,208	-	-	-	129,208
Short-term international murabaha	360,259	9,110	-	-	369,369
Receivables	240,128	9,221	1,190,741	17,404	1,457,494
Leased assets	-	68,932	219,058	-	287,990
Investments	-	433,410	-	-	433,410
Trading properties	-	139,615	-	-	139,615
Investment properties	-	102,447	-	-	102,447
Other assets	-	11,404	49,233	2,384	63,021
Property and equipment	349	171	50,657	7,379	58,556
	729,944	774,310	1,509,689	27,167	3,041,110

Liabilities, deferred revenue, fair value reserve, minority interest and equity

Due to banks and financial institutions	63,676	-	-	-	63,676
Depositors' accounts	151	78,630	1,957,456	263,924	2,300,161
Other liabilities	78	5,200	105,379	59,207	169,864
Deferred revenue	8,976	-	173,434	-	182,410
Fair value reserve	-	19,776	-	-	19,776
Minority interest	-	-	-	20,637	20,637
Equity	-	-	-	284,586	284,586
	72,881	103,606	2,236,269	628,354	3,041,110

Year ended 31 December 2003

Operating income	14,066	46,454	97,156	5,681	163,357
Profit from operations before distribution to depositors	6,754	40,742	68,499	3,872	119,867

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At 31 December 2004

21 Segmental Analysis (continued)

Secondary segment information

The group operates in different geographical areas. A geographical analysis is as follows:

	Assets		Liabilities, deferred revenue, fair value reserve, minority interest and equity		Contingencies and commitments under letters of credit and guarantees	
	2004 KD 000's	2003 KD 000's	2004 KD 000's	2003 KD 000's	2004 KD 000's	2003 Total
Geographical areas:						
Kuwait and the rest of the Middle East	2,985,770	2,572,753	3,414,246	3,022,198	140,940	114,610
North America	135,036	128,641	22,722	282	1,892	1,637
Western Europe	237,887	311,186	20,889	18,527	9,458	8,186
Other	99,373	28,530	209	103	45,398	39,295
	3,458,066	3,041,110	3,458,066	3,041,110	197,688	163,728

	Local		International		Total	
	2004 KD 000's	2003 KD 000's	2004 KD 000's	2003 KD 000's	2004 KD 000's	2003 Total
Operating income	173,778	139,499	29,828	23,858	203,606	163,357
Profit from operations before distribution to depositors	125,953	101,980	22,115	17,887	148,068	119,867

22 Concentrations of Assets and Deposit Liabilities

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

a) The distribution of assets by industry sector was as follows:

	2004 Assets KD 000's	2003 Assets KD 000's
Trading and manufacturing	310,018	198,434
Banks and financial institutions	1,260,765	1,186,788
Construction and real estate	1,148,230	987,083
Other	739,053	668,805
	3,458,066	3,041,110

See Note 21 for distribution of assets by geographical areas.

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At 31 December 2004

22 Concentrations of Assets and Deposit Liabilities (continued)

b) The distribution of deposit liabilities was as follows:

	2004 Assets KD 000's	2003 Assets KD 000's
Geographic region		
Kuwait and the rest of the Middle East	2,643,897	2,347,277
North America	22,103	-
Western Europe	18,957	16,551
Other	49	9
	2,685,006	2,363,837
Industry sector		
Trading and manufacturing	461,392	402,507
Banks and financial institutions	121,884	63,730
Construction and real estate	13,344	10,522
Other	2,088,386	1,887,078
	2,685,006	2,363,837

23 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

All policies relating to credit including the determination of approval limits are approved by the parent company's 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.

The credit risk concentrations within receivables, which form a significant portion of asset's subject to credit risk, is given in Note 6.

24 Liquidity Risk

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

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24 Liquidity Risk (continued)

The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2004 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	146,161	-	-	-	146,141
Short-term international murabaha	380,646	-	-	-	380,646
Receivables	315,967	199,317	226,901	742,786	1,484,971
Leased assets	194,578	125,018	86,938	99,016	505,550
Investments	-	-	-	565,038	565,038
Trading properties	-	127,835	-	-	127,835
Investment properties	-	-	-	105,921	105,921
Other assets	37,008	32,001	562	165	69,736
Property and equipment	-	-	-	72,208	72,208
	1,074,360	484,171	314,401	1,585,134	3,458,066
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	121,821	-	-	-	121,821
Depositors' accounts	1,532,055	6,181	6,181	1,018,768	2,563,185
Other liabilities	130,796	17,958	56,053	-	204,807
Deferred revenue	27,044	24,451	34,537	102,970	189,002
Fair value reserve	-	-	-	31,680	31,680
Minority interest	-	-	-	21,633	21,633
Equity	-	-	-	325,938	325,938
	1,811,716	48,590	96,771	1,500,989	3,458,066

Notes to the Consolidated Financial Statements

24 Liquidity Risk (continued)

The maturity profile of assets, liabilities, deferred revenue, fair value reserve, minority interest and equity at 31 December 2003 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	2003 Total KD 000's
Assets					
Cash and balances with banks and financial institutions	129,208	-	-	-	129,208
Short-term international murabaha	369,369	-	-	-	369,369
Receivables	196,943	300,453	171,377	788,721	1,457,494
Leased assets	4,500	30,222	147,735	105,533	287,990
Investments	-	-	-	433,410	433,410
Trading properties	-	139,615	-	-	139,615
Investment properties	-	-	-	102,447	102,447
Other assets	36,098	-	26,923	-	63,021
Property and equipment	-	-	-	58,556	58,556
	736,118	470,290	346,035	1,488,667	3,041,110
Liabilities, deferred revenue, fair value reserve, minority interest and equity					
Due to banks and financial institutions	63,676	-	-	-	63,676
Depositors' accounts	1,305,827	6,606	6,606	981,122	2,300,161
Other liabilities	92,923	22,153	54,788	-	169,864
Deferred revenue	23,923	20,703	30,857	106,927	182,410
Fair value reserve	-	-	-	19,776	19,776
Minority interest	-	-	-	20,637	20,637
Equity	-	-	-	284,586	284,586
	1,486,349	49,462	92,251	1,413,048	3,041,110

25 Market Risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices.

Market risk is 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 Shareea'a the group does not provide contractual rates of return to its depositors.

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26 Operational Risk

The parent company has a set of policies and procedures, which is approved by its Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the parent company. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The operational risk function of the parent company is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and supervising operational risks in banks.

27 Management of Purchased Debts

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the group is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

28 Financial Instruments

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, 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.

29 Fiduciary Assets

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2004 amounted to KD 155,266 thousand (2003: KD 243,951 thousand).

30 Comparative Amounts

Trading properties, investment properties, property and equipment, and other assets have been restated due to reclassification of certain balances in order to conform with the current year presentation. Such restatement does not affect the prior year reported net profit or shareholders' equity.