Kuwait

Kuwait Finance House K.S.C

Religiously showing strong growth

Reuters Code:
KFIN.KW

Listing:
Kuwait Stock Exchange

CMP:
2,040fils (April 25th, 2006)

April 2006

BUY

Investment Summary

- **Kuwait Finance House (KFH)** showed excellent results in 2005 exceeding our expectations made in our last report (May-05). The bank reported net profit of KD118.7mn, up 19% as compared to our forecasted net profit of KD99.6mn for 2005. The banks assets in 2005 too increased by more than 13.5% compared to our estimates. However, the banks net commission income lagged by 12.2% from our estimates as it increased distribution to depositors.

- KFH's Murabaha, Istisna and Leasing income increased by 42.3% during 2005 to reach KD189.9mn as compared to KD133.46mn over the previous year. In line with the hardening of yields, the distribution to depositors also witnessed a faster increase of 71.5% to reach KD122.6mn during the same period.

- KFH's net profit attributable to shareholders was higher by 59.5% at KD118.7mn over the last fiscal. The improved net income resulted in EPS moving up from 95.2fils in 2004 to 108.5fils in 2005. The bank's ROE improved to 25.6% in 2005 as compared to 24.4% reported in the previous year. However, it is to be noted that KFH increased it paid-up capital to KD109.4mn by offering rights and bonus shares leading to equity dilution of 40% in 2005.

- KFH's total assets stood at KD4.68bn at the end of 2005, representing a strong increase of 35.4% over the previous year. Around 47.9% of the assets were deployed in receivables and 14.9% of assets were classified as investment, mostly available for sale. Leased assets further constituted about 13.4% of the total assets base.

- Majority of KFH's assets are in Kuwait and the Middle East region but the proportion of KFH's assets in the region decreased from 86.3% in 2004 to 82.6% in 2005 indicating that the bank is expanding and increasing its presence in other regions as well. KFH is working ahead in establishing its presence in another major Islamic banking hub, Malaysia after setting up the first branch in the country in Sep-05.

- Despite the stiff competition, deposits from customers increased by 24.4% to reach KD3.19bn at the end of 2005. The deposit growth was also aided by the hardening of yields resulting in an increase in deposit rates.

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- Kuwait banking sector saw strong growth as the aggregate net profit of the Kuwait banks (barring KREB) rose 40.57% in 2005 to reach KD620.15mn. However, the industry leaders, NBK & KFH accounted for 52.3% of the total earnings of the banking sector. The inclination towards religion has called for the requirement of Islamic banking and finance which will help in increasing the profitability and asset size of Islamic banks in general and KFH in particular on account of its leadership position.

- Since our last investment update in May 2005, the central bank has hiked the benchmark discount rates by 75bp which currently stands at 6%. This was the eleventh such hike since June 2004 raising the benchmark rates to the current 6% level.

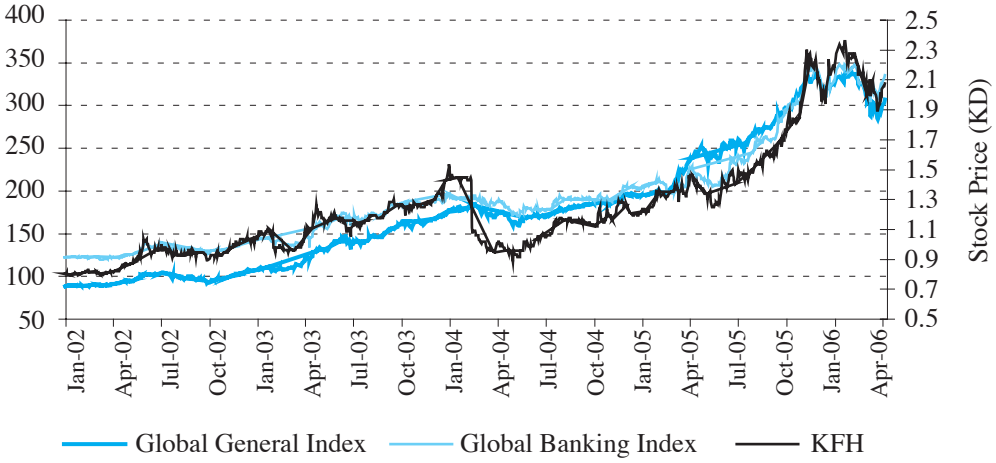
- We have revised upwards our earlier projections due to the excellent performance displayed by KFH during FY2005 and in 1Q-2006. The estimated fair value of KFH's stock works out to 2,304fils based on DDM. This represents a premium of 12.9% as compared to the current market price. We, therefore, upgrade our earlier recommendation of "Hold" to "**Buy**" on KFH stock with a medium term perspective.

Table 1: Investment Indicators

	Price (April 25th, 2006)	Shares in Issue (mn)	Market Cap (KD mn)	52 week price range			
	2,040 fils	1,225.25	2,499.5	1,232-2,339 fils			
Year	**Operating Income (KD '000)**	**Net Profit (KD '000)**	**EPS (fils)**	**Book Value (fils)**	**ROAE**	**P/E***	**P/BV***
2007 E	391,483	212,619	173.5	512.6	28.8%	11.8	4.0
2006 E	322,076	164,793	134.5	474.4	25.5%	15.2	4.3
2005 A	223,690	118,687	108.5	493.7	25.6%	21.9	4.8
2004 A	118,466	74,412	95.2	367.1	24.4%	17.2	4.5

Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on market price in the Kuwait Stock Exchange as on April 25, 2006.
*Source: KFH and "**Global**'s" Estimates*

Chart 1: Share Price Performance Chart



Source: Reuters

Recent Performance of the Bank

KFH showed excellent results in 2005 exceeding our expectation made in our last report (May-05). The bank reported net profit of KD118.7mn, up 19% as compared to our forecasted net profit for 2005 and 59.5% as compared to the previous year. The banks assets in 2005 too increased by more than 13.5% compared to our estimates. However, the banks net commission income lagged by 12.2% from our estimates as it increased distribution to depositors.

Table 2: Financial Summary

Ending Date:	2003	2004	2005	Growth 2005/2004
Income from Murabaha, Istisna and Leasing	106,917	133,463	189,947	42.3%
Distribution to Depositors	(59,833)	(71,476)	(122,591)	71.5%
Fees & Commission	10,409	13,933	33,363	139.5%
Investment Income	43,540	48,293	140,453	190.8%
Other Income & Foreign Exchange Gains	2,491	7,917	19,565	147.1%
Provisions	(4,132)	(13,664)	(37,047)	171.1%
Total Operating Income	99,392	118,466	223,690	88.8%
Total Operating Expenses	(36,755)	(38,985)	(90,623)	132.5%
Operating Profit	62,637	79,481	133,067	67.4%
Net Profit attributable to Shareholders	**58,160**	**74,412**	**118,687**	**59.5%**

Source: Company Reports

Income & Profitability

The Murabaha, Istisna and Leasing income of the bank increased by 42.3% during 2005 to reach KD189.9mn as compared to KD133.46mn over the previous year. In line with the hardening of yields, the distribution to depositors also witnessed a faster increase of 71.5% to reach KD122.6mn during the same period. Although the bank's spread reported a decline from 3% in FY2004 to 2.6% in FY2005, we expect it to improve on the back of slight hardening of the yield rates which should work well for the bank in term of rising spreads.

The net profit attributable to shareholders was higher by 59.5% at KD118.7mn over the last fiscal. The improved net income resulted in EPS moving up from 95.2fils in 2004 to 108.5fils in 2005. The bank's ROE improved to 25.6% in 2005 as compared to 24.4% reported in the previous year. However, it is to be noted that KFH increased it paid-up capital to KD109.4mn by offering rights and bonus shares leading to equity dilution of 40% in 2005.

Among the segments, retail and the corporate banking activities generated around KD148.9mn or 58.3% of the total group's operating income (before distribution to depositors and provisions) of KD255.65mn recorded in 2005. Investments segment generated around KD93.7mn in 2005 or 36.6% of the group's total operating income (before distribution to depositors and provisions). The bank has done prudent investments that have yielded increased returns in 2005. It is to be noted that in 2004, investment segment generated only 31.4% of the total operating income (before distribution to depositors and provisions).

Fees and commissions income were up by a whopping 139.5% as the bank increased it fee-based activities such as funds management, investment banking and stock trading in

the booming Kuwaiti market. The bank reported investment income of KD140.5mn during the period, a significant 190.8% increase from the previous year. KFH's gain from sale of investment added considerably to its bottom line as it jumped to KD55.4mn in 2005 compared to only KD12.4mn reported in the previous year.

Operational efficiency…

On the efficiency front, the ratio of operating expense to operating income increased from 27.9% reported in 2004 to 33.6% in 2005. This is mainly due to the 127% increase in general and administrative expenses as the bank increased its operations. The bank's general and administrative expenses increased on account of ramping up of the operations in Turkey and Bahrain. KFH has also been increasing its branch network in order to capture a larger slice of the strongly increasing Kuwaiti banking sector deposit. The bank had 36 branches in Kuwait at the end of 2005, adding 3 branches in the year. KFH has also been focusing on the e-banking and web-based products/services in order to increase the operating efficiencies and expanding its presence through the web.

Equity multiplier of KFH remains more than adequate with Equity to Total Assets Ratio increasing to 12.8% in 2005 as compared to 9.4% reported in the previous year. As a result, the bank remains well positioned to participate in the business opportunities stemming from regional as well as international growth. The return on total assets jumped to 2.9% in 2005 as compared to 2.3% reported in the previous year.

As per the management, KFH did not witness any release of capital as a result of migration to Basel II standards. The bank has increased it capital in 2005 offering rights shares for subscription at a par value of 100fils per share, in addition to a premium of 750fils per share. The bank distributed cash dividend of 55% and stock dividend of 12% for 2005. The bank has been maintaining a dividend payout ratio of more than 50% in the last few years and we expect this trend to continue in future.

Strong assets growth…

KFH's total assets stood at KD4.68bn at the end of 2005, representing a strong increase of 35.4% over the previous year. Around 47.9% of the assets were deployed in receivables and 14.9% of assets were classified as investment, mostly available for sale. Leased assets further constituted about 13.4% of the total assets base.

In terms of assets distribution by industry, trading and manufacturing sector reported a whopping growth as it grew from a mere KD310mn (11% of total assets) reported in 2004 to KD1.42bn (30.4% of total assets) in 2005. We believe that this will continue to show strong growth in future on the back of increased trading activity as a result of the economic boom prevailing in the GCC region. Also the improvement in geo-political situation in Iraq is expected to provide impetus to the trading activity via Kuwait, in future.

Majority of KFH's assets are in the Kuwait and the Middle East but the proportion of KFH's assets in Kuwait and Middle East decreased from 86.3% in 2004 to 82.6% in 2005 indicating that the bank is looking outwards and increasing its presence in other regions as well. We believe that KFH will continue to increase its market presence in the Middle East markets

especially where it has a strong foothold and increased market share. KFH has been looking favorably at regional alliances as evident by the reports that Sharjah Islamic Bank and KFH are negotiating to launch joint banking services, expand investment cooperation and build a high level of strategic relationships in different Islamic banking sectors. This will help the bank to cross-sell its banking products in the market where it does not have a major presence.

KFH is working ahead in establishing its presence in another major Islamic banking hub, Malaysia after setting up the first branch in the country in Sep-05. Recently, KFH announced its participation in a US$200mn Murabaha arrangement to finance crude oil purchases of Pertamina, a leading Indonesian oil company. KFH also plans to invest around US$131.6mn through "Baituk fund for Asian real estates" in Pavilion real estate project in Malaysia, which consists of commercial centers and residential and administrative towers, scheduled to open by 2007. We believe the KFH, through its presence in Malaysia will be able to penetrate the lucrative ASEAN Islamic banking sector. However, the increase in the number of banks/investment companies offering exclusive Islamic Banking products will increase the competition and hence force itself to concentrate towards maintaining its leadership position in its key markets.

KFH receivables portfolio…

The bank reported a growth of 39.4% in total loans and advances (gross) to reach KD2.24bn at the end of 2005. KFH receivables portfolio continued to exhibit the historical trends in terms of the sectoral allocations. In 2005, the increased thrust of the bank in lending to the trading and manufacturing sector can be seen from the 38.9% increase in the receivables to the trading and manufacturing sector as it reached KD1.32bn at the end of 2005. As a result, trading and manufacturing accounted for 59.2% of the total gross receivable of KFH in 2005.

The "Bank and Financial Institutions" segment also increased by 29.3% in 2005 to reach KD396.6mn. The housing real estate finance sector, however, has seen its share of the credit portfolio decline from 20.8% of the total gross receivable in 2004 to 16.9% in 2005. But we believe that with the economic growth, the construction activity has picked up in a big way and KFH will use the opportunity to provide the financing needs of the real estate sector.

Low-cost, stable deposit base…

KFH has been increasing its deposits using its extensive branch network, technological innovations and aggressive marketing strategies. KFH has also been taking advantage of the customer's changing preference and migration from the conventional banking products towards Islamic banking products. Despite the stiff competition, deposits from customers increased by 24.4% to reach KD3.19bn at the end of 2005 which was mainly due to the increased liquidity and hardening of yield rates. KFH's strength is its low-cost, stable and fast growing deposits which puts it on an advantageous position vis-à-vis other banks in Kuwait.

KFH has been increasing the offering of new technology products specially web-based banking that has facilitated the customer service. According to the reports, KFH successfully

transferred all its credit cards into the Smart Card Chip system as the first Kuwaiti bank to do so. It also launched an automated system that enables monitoring and managing its investments from any location.

We believe that the adoption of new technology, combined with the bank's strategy of enticing a new segment of customer especially the young (which have relatively more urge for spending) is likely to increase its growth and consolidate its position in the retail segment. However, we need to monitor the spending levels especially in the credit card and the housing finance segments to realize the true potential of the retail segment. Management has indicated that with the introduction of new banks, the competition in the Islamic banking sector in Kuwait is likely to increase. We believe that the cost of acquiring new customers and retaining the existing depositors will be more with the advent of competition. However, we do not believe KFH's leadership position to change in near to medium term due to its brand and network

Asset-Liability mismatch –Not a major concern…

KFH's short-term assets (assets with residual maturities within 3 months) as a percent of total assets increased to 32% in 2005 as compared to 31% in 2004. KFH had a mismatch in the profile of short term assets/liabilities as it had KD1.49bn of short-term assets as compared to KD2.25bn of liabilities in 2005 which was primarily due to the presence of depositor's accounts (KD1.94bn). However, this is a common trend for all the Islamic banks and we do not believe that liquidity mismatch is likely to affect KFH significantly.

First Quarter -2006 Results

- KFH reported net profit of KD37.14mn in 1Q-2006, reporting a strong growth of 51.6% as compared to KD24.5mn reported in the corresponding quarter of the previous year. The first quarter profits of KD24.5mn were 20% of the full year profit recorded by KFH in 2005.

Table 3: KFH - 1Q2006- Highlights

(KD'000)	1Q2005	1Q2006	Growth
Income from Murabahas, Istisna and Leasing	41,546	73,415	76.7%
Distribution to Depositors	(24,687)	(42,363)	71.6%
Fees & Commission	6,498	10,255	57.8%
Investment Income	26,609	42,482	59.7%
Total Operating Income	**77,161**	**127,631**	**65.4%**
Total Operating Expenses	**26,569**	**38,792**	**46.0%**
Net Profit attributable to Shareholders	**24,505**	**37,140**	**51.6%**

- Murabaha, Istisna and Leasing Income recorded 76.7% growth over 1Q05 aggregating to KD73.4mn in 1Q-2006. However, KFH also increased its distribution to depositors by 71.6% over the same period.

- The total assets of the bank reached KD4.95bn at the end of 1Q-2006 reporting a growth of 5.7% over KD4.68bn reported at the end of 2005. Customers deposits grew to KD3.4bn at the end of 1Q-2006, up 6.5% over KD3.19bn reported at the end of 2005.

- The property and equipment jumped from KD107.7mn reported at the end of 2005 to KD245.6mn at the end of 1Q-2006 which can be attributed to the ramp up of branches in Kuwait, Turkey and Malaysia.

- The company approved of the increase in share capital from KD109.4mn at the end of 2005 to KD122.5mn due to issue of 12% bonus shares.

Recent updates in the Kuwait Banking sector

Increased competition….

CBK Board of Directors gave its initial approval of licensing to Citibank N.A., New York, to open a branch in Kuwait during September 2005. Citibank is the fourth foreign bank to get such a license in Kuwait after NBAD, HSBC and BNP-Paribas. HSBC started operations in 2005 while BNP Paribas have opened its branch in Kuwait in April-06. More licenses are expected by the end of the year as other international banks such as UK's Standard Chartered are believed to have applied for Kuwaiti license. Moreover, CBK announced that banks of other GCC countries will be given priority to open their branches in Kuwait. However, CBK announced that the license approval for any foreign bank should be within the guidelines regulating the banking sector in the state. The regulations implied that foreign banks who wish to open and operate branches in Kuwait are required to maintain 50% of the staff as Kuwaitis, as required by the law in support of national labor.

In a move to establish a competitive Islamic banking sector in Kuwait, CBK also gave license to the country's second Islamic bank- Boubyan Islamic Bank, which has already started operations. Kuwait Real Estate Bank will be the other Islamic bank in the country as it announced that it will be completing the procedures to work according to the Islamic Shariah.

In another development, in August 2005, Ahli United Bank (AUB) of Bahrain increased its stake in BKME to 75% through the acquisition of an additional 138.2mn shares or 19.6% of its issued capital.

Increased discount rates….

Since our last investment update report in May 2005, the central bank has hiked the benchmark discount rates by 75bp which currently stands at 6%. This was the eleventh such hike since June 2004 raising the benchmark rates to the current 6% level.

Concerning money supply, the rising yields since December 2004 have not been able to douse liquidity to a great extent. Money supply, as measured by M2, has been growing at a very high rate. The money supply (M2) expanded by 12.4% in 2005, as compared to 12.1% growth rate reported in the previous year. This was led by the growth in newly originated deposits within the banking system. Sight deposits grew by 19.1% in 2005 while quasi money, after a stagnation period in its growth rates during 2002 and 2003, began to pick up during 2004 and 2005 to grow at 8.9% and 10.3% respectively. This was mainly the result of its positive relation with yields as rising yields have prompted many to re-direct funds into KD and foreign currency deposits. This tightening of monetary policy by CBK was adopted

as a way to manage the excess liquidity and prevent inflationary pressures from being built up in the economy.

Kuwait Banking Sector Performance...

Kuwait banking sector saw strong growth as the aggregate net profit of the Kuwait banks rose 42.8% in 2005 to reach KD629.8mn. However, the industry leaders, NBK & KFH accounted for 51.5% of the total earnings of the banking sector.

Table 4: Kuwait Banking Sector Performance

(KD mn)	Net Profit		Change %
	2005	2004	
National Bank of Kuwait	205.6	150.3	36.8%
Gulf Bank	85.4	74.7	14.4%
Commercial Bank of Kuwait	81.2	62.3	30.3%
Al-Ahli Bank of Kuwait	47.0	27.2	73.2%
Bank of Kuwait and the Middle East	39.9	22.8	75.3%
Kuwait Real Estate Bank	9.7	22.54	57.0%
Burgan Bank	42.4	29.6	43.2%
Kuwait Finance House	118.7	74.4	59.5%
Aggregate	**629.8**	**441.2**	**42.8%**

*Source: Company Financials & **Global** Research*

Outlook…

The Islamic banking sector, though increasing at a rapid pace, will see increased competition in Kuwait with the establishment of new banks and increased pressure on the conventional banks to offer Islamic products through their separate divisions. This will require banks to adhere to the latest technological innovation in the banking sector, besides vigorously pursuing development of new products. The bank is undergoing systems implementation by "Path Solutions" which is expert in devising IT solution for Islamic banking that will provide KFH an edge in IT solution to serve both internal and external customers. Also, the customer service quality will play a key role in retaining the existing customers and enticing new customers into their fold. The bank is also in midst of restructuring currently being handled by international major, Arthur D. Little and the management expects the new structure to be in place by 2007.

In Dec-05, KFH received Capital Intelligence's 'A' credit rating for Foreign and Local currency. In Sep-05, Standard & Poor's assigned its A-long-term and A-2 short-term counterparty credit rating & has assigned a full interactive rating to an Islamic financial institution (IFI).

KFH is concentrating on improving its non-investment based activities. The bank is an active player in the funds management business. Also, the increase in the private banking business in the region, augurs well for the bank as it has the critical mass of branches to cater to the private banking operations. We believe that KFH is well placed to exploit the increase in the Islamic banking activity in Kuwait and the other GCC markets due to its leadership position,

strong deposit franchise, extensive coverage, management expertise and strategy of using latest technology and improving customer relationship. The bank is looking for establishing a larger presence in Oman and Bahrain in particular. In terms of fund management, KFH intends to bring out a Malaysian Fund which will be the first Asian Fund for KFH. Besides the bank intends to develop innovative products such as a Shipping Fund and syndicating Deira II Fund.

We believe that revenue momentum will be robust from the retail banking activities. The bank enjoys a loyal investor base who have been transacting with the bank for a long time. Although now all banks offer Islamic banking products and services, many investors still transact through KFH due to its image of being the “pure-play Islamic Bank” in the country.

Valuation and Recommendation

Although we use a combination of the Dividend Discounting Model (DDM) and a comparative valuation method (Price to Book value) in valuation, we have used only the DDM to arrive at the fair value of KFH as there no comparable listed Islamic banks in Kuwait. We have not used comparative valuation method as KFH, being an Islamic bank, commands a P/BV premium over other commercial banks in Kuwait due the growth witnessed by this sector. The weighted average P/BV multiple for the major banks in Kuwait, based on closing prices of April 25, 2004 and the book value for FY2005 adjusted for dividends and bonus shares, ranges from 2.0x to 5.1x, with NBK having the highest P/BV of 5.1x.

The model constructed is a 4-year forecast of the Bank's dividends for the 2006-2009 period. The dividends for the forecast period and the terminal value are then discounted back at the cost of capital, to provide the total net present value (NPV) of KFH. The parameters used are as follows:

- Risk Free Rate of 6%.
- Beta of 1.0. (The calculated Beta for the stock was low, as such a Beta of 1.0 was used to more appropriately reflect the market risk).
- A market risk premium of 5.5% was assumed.
- The terminal value was estimated assuming a terminal growth rate of 4.5%, looking at the prospects of the economy and the bank.
- A derived discount rate of 11.5% pa.

Table 5: DDM Valuation

('000 KD)	2006F	2007F	2008F	2009F	Terminal Value
Dividends Expected	112,802	153,989	195,261	228,487	3,410,991
NPV of dividends expected	533,091				
NPV of Terminal Value	2,290,101				
NPV of the Firm	2,823,192				
Estimated Fair Value of Equity	2,823,192				
No. of Outstanding Shares ('000)	1,225				
DDM Value of KFH per share (fils)	2,304				

Source: ***Global*** *Research*

Based on all the above parameters, the DDM model yields a total fair value of KD2,823.2mn which translates into a fair value per share of 2,304fils.

Risk Factors:

- Increase in capital to dilute earnings & lower return ratios in the future.
- Improvement in yields might affect the spread till the rates on all the assets get readjusted.
- Entry of new players will impede its growth rates in the long run.
- Changes in the asset-liability management and in the liquidity profile can affect the balance sheet composition and profitability.
- Future of the bank would depend on how well it is able to manage its overseas expansions.

Sensitivity Analysis

A sensitivity analysis for different estimated long-run future growth rates and cost of capital is provided. The table provides estimated value of KFH shares based on a range of varying inputs. The shaded area at the center shows the most probable range of alternatives.

Table 6: Sensitivity Analysis

		Terminal Growth Rate				
		3.5%	**4.0%**	**4.5%**	**5.0%**	**5.5%**
Cost Of Capital	**10.5%**	2,358	2,515	2,698	2,915	3,175
	11.0%	2,196	2,331	2,486	2,667	2,881
	11.5%	2,055	2,171	**2,304**	2,458	2,637
	12.0%	1,930	2,032	2,147	2,278	2,430
	12.5%	1,820	1,909	2,009	2,123	2,253
	13.0%	1,721	1,800	1,888	1,987	2,099

*Source: **Global** Research*

It appears to us that the 2,040fils at which the KFH is currently trading represents an upside potential of 12.9% at a fair value of 2,304fils arrived as above. The operating environment will prove to be beneficial for KFH where a rising yield environment will help the bank the most because of its significant low-cost Islamic deposit base. We expect the bank to post healthy growth in its profits as it expands its operations and increase its market share. Hence, we upgrade our earlier recommendation of "Hold" to "**Buy**" on the KFH stock with a medium term perspective.

BALANCE SHEET	Kuwait Finance House						
Amount in Kuwaiti Dinar'000	**2003**	**2004**	**2005**	**2006 (F)**	**2007 (F)**	**2008 (F)**	**2009 (F)**
Assets:							
Bank & cash equivalents	129,208	146,161	158,293	175,130	171,711	204,119	218,208
Short Term Intl. Murabaha incl Exchange of Deposits	369,369	380,646	663,848	600,000	450,000	350,000	350,000
Gross Receivables	1,567,564	1,607,656	2,241,103	2,913,434	3,554,389	4,194,179	4,865,248
Leased Assets	307,837	525,598	629,607	742,936	854,377	956,902	1,071,730
Investments	433,410	565,038	698,013	837,616	963,258	1,107,747	1,240,676
Trading Properties	139,615	127,835	93,009	94,869	96,767	101,605	106,685
Investment Properties	102,447	105,921	184,479	248,540	298,529	337,632	367,433
Property and Equipment	58,556	72,208	107,695	286,949	410,751	490,190	538,115
Other assets	63,021	69,736	68,102	71,507	75,083	78,837	82,778
Less : provision	(129,917)	(142,733)	(163,031)	(203,789)	(254,736)	(305,683)	(360,706)
Total Assets	**3,041,110**	**3,458,066**	**4,681,118**	**5,767,193**	**6,620,127**	**7,515,528**	**8,480,168**
Liabilities:							
Deposits from banks and FIs	63,676	121,821	281,617	323,860	331,956	340,255	348,761
Depositors Accounts	2,300,161	2,563,185	3,189,344	4,082,360	4,817,185	5,587,935	6,426,125
Other liabilities	169,864	204,807	220,795	242,875	255,018	267,769	281,158
Proposed cash dividends	35,844	39,070	60,168	112,802	153,989	195,261	228,488
Total Current Liabilities	**2,569,545**	**2,928,883**	**3,751,924**	**4,761,897**	**5,558,149**	**6,391,220**	**7,284,532**
Deferred Revenues	182,410	189,002	235,239	254,058	259,139	264,322	269,609
Minority Interest	20,637	21,633	80,420	96,504	101,329	106,396	111,715
Fair Value Reserve	19,776	31,680	62,092	62,092	62,092	62,092	62,092
Foreign Exchange Translation Reserve	-	-	11,401	11,401	11,401	11,401	11,401
Owner's Equity:							
Paid-up Equity Capital	71,689	78,141	109,397	122,525	122,525	122,525	122,525
Proposed Issue of Bonus Share	4,301	7,814	13,128	-	-	-	-
Statutory Reserve	137,251	157,119	169,386	185,865	207,127	233,167	263,528
Share premium reserve	7,826	12,618	188,465	188,465	188,465	188,465	188,465
Voluntary Reserve	28,542	32,192	60,944	85,663	111,177	137,217	167,578
Treasury Shares	(867)	(1,016)	(1,278)	(1,278)	(1,278)	(1,278)	(1,278)
Total Shareholder's Equity	**248,742**	**286,868**	**540,042**	**581,240**	**628,016**	**680,098**	**740,820**
Total Liabilities	**3,041,110**	**3,458,066**	**4,681,118**	**5,767,192**	**6,620,127**	**7,515,528**	**8,480,168**

OPERATING STATEMENT	Kuwait Finance House						
Amount in Kuwaiti Dinar'000	**2003**	**2004**	**2005**	**2006 (F)**	**2007 (F)**	**2008 (F)**	**2009 (F)**
Murabaha, Istisna and Leasing Income	106,917	133,463	189,947	261,660	311,427	360,388	408,839
Payment to Depositors	(59,833)	(71,476)	(122,591)	(164,846)	(195,420)	(227,044)	(259,613)
Net Commission Income	**47,084**	**61,987**	**67,356**	**96,814**	**116,007**	**133,344**	**149,226**
Add : Fees and Commission	10,409	13,933	33,363	53,381	72,064	90,080	112,600
Add : Foreign Exchange Gains	(1,098)	1,613	6,214	6,338	6,465	6,594	6,726
Add : Investments Income	43,540	48,293	140,453	189,612	227,534	261,664	293,064
Add : Other operating income	3,589	6,304	13,351	16,689	20,360	23,414	26,927
Less : Provisions for loan & non cash credit facilities	(4,132)	(13,664)	(37,047)	(40,758)	(50,947)	(50,947)	(55,023)
Operating income	99,392	118,466	223,690	322,076	391,483	464,149	533,520
Less : General & Admnistration Expenses	(28,789)	(33,045)	(75,095)	(99,844)	(117,445)	(129,962)	(149,386)
Less: Depreciation	(7,966)	(5,940)	(15,528)	(35,865)	(49,553)	(60,132)	(65,214)
Operating profit	62,637	79,481	133,067	186,368	224,485	274,056	318,920
Minority Interest	2,603	2,889	10,391	16,084	4,825	5,067	5,320
Net Profit After Minority Interest	60,034	76,592	122,676	170,284	219,660	268,989	313,600
Less : Contribution to KFAS	(600)	(766)	(1,227)	(1,538)	(1,984)	(2,430)	(2,832)
Less: National Labor Support Tax	(1,184)	(1,294)	(2,612)	(3,803)	(4,907)	(6,009)	(7,006)
Less : Directors' fees	(90)	(120)	(150)	(150)	(150)	(150)	(150)
Net Profit attributable to Shareholders	**58,160**	**74,412**	**118,687**	**164,793**	**212,619**	**260,401**	**303,611**
P&L Appropriation Account							
Op Balance of Retained Earnings	-	-	-	-	-	-	-
Zakat	(3,607)	(4,010)	(4,372)	(10,792)	(11,854)	(13,059)	(14,402)
Cash Dividends paid	(32,089)	(35,844)	(39,070)	(60,168)	(112,802)	(153,989)	(195,261)
Net Movement in Treasury Shares	35	(149)	(262)	-	-	-	-
Net Profit for the year	58,160	74,412	118,687	164,793	212,619	260,401	303,611
Trfr to Statutory Reserve	12,011	19,868	12,267	16,479	21,262	26,040	30,361
Trfr to Voluntary Reserve	6,004	7,660	33,124	24,719	25,514	26,040	30,361
Cash Dividend	35,844	39,070	60,168	112,802	153,989	195,261	228,488
Issue of Bonus shares	4,301	7,814	13,128	-	-	-	-
Cl Balance of Retained Earnings	-	-	-	-	-	-	-

CASH FLOW STATEMENT	Kuwait Finance House						
Amount in Kuwaiti Dinar'000	**2003**	**2004**	**2005**	**2006(F)**	**2007(F)**	**2008(F)**	**2009(F)**
Operating							
Operating Activities	96,882	94,016	155,320	241,415	313,119	371,479	423,849
Profit from operations	58,160	74,412	118,687	164,793	212,619	260,401	303,611
Depreciation	7,966	5,940	15,528	35,865	49,553	60,132	65,214
Minority Interest	-	-	10,391	-	-	-	-
Share of results of associates	-	-	(14,376)	-	-	-	-
Share of accumulated Retained Earnings of newly consolidated subsidiaries	-		(11,957)	-	-	-	-
Provision for investment securities	4,132	13,664	37,047	-	-	-	-
Other provisions and valuation adjustments	-	-	-	40,758	50,947	50,947	55,023
Exchange of Deposits	26,624	-	-	-	-	-	-
Working Capital	79,980	220,442	78,753	(294,209)	152,278	146,075	70,453
Dec/(inc.) in international Murabaha	-	-	(4,727)	(479,441)	150,000	100,000	-
Dec/ (inc) Receivables	(158,500)	32,476	(289,610)	(672,331)	(640,956)	(639,790)	(671,069)
(Increase) / Decrease in Leased assets	(179,022)	(217,437)	(53,124)	(113,329)	(111,440)	(102,525)	(114,828)
(Increase) / decrease in Trading Properties	(27,517)	11,790	34,826	(1,860)	(1,897)	(4,838)	(5,080)
Dec/ (inc) Other assets	(5,092)	29,914	20,285	(3,405)	(3,575)	(3,754)	(3,942)
Inc/(dec) from banks & other financial institutions	51,038	58,144	24,769	42,243	8,097	8,299	8,506
Inc/(dec) of deposits from customers	323,300	263,023	313,244	893,016	734,825	770,750	838,190
Inc/(dec) other liabilities	69,087	35,940	(13,147)	22,080	12,144	12,751	13,389
Deferred Revenue	6,686	6,592	46,237	18,819	5,081	5,183	5,286
Total Operating	**176,862**	**314,458**	**234,073**	**(52,794)**	**465,397**	**517,554**	**494,301**
Investing							
Capex	(39,520)	(55,057)	(31,669)	(210,047)	(168,037)	(134,430)	(107,544)
Sale of assets	-	-	-	-	-	-	-
Purchase of investments	(169,114)	(119,895)	4,386	(139,603)	(125,642)	(144,489)	(132,930)
Purchase of Investment Properties	661	(5,557)	(108)	(69,133)	(55,306)	(44,245)	(35,396)
Total Investing	**(207,973)**	**(180,509)**	**(27,391)**	**(418,782)**	**(348,986)**	**(323,163)**	**(275,869)**
Financing							
Dividend paid to shareholders	(32,089)	(35,844)	(39,070)	(60,168)	(112,802)	(153,989)	(195,261)
Capital Increase	-	6,925	199,258	-	-	-	-
Cash Received on cancellation of Share options	-	-	31	-	-	-	-
Minority Interest	-	-	-	16,084	4,825	5,067	5,320
Acquisition of own shares	118	18	-	-	-	-	-
Payment of Zakat	(3,607)	(4,010)	(4,372)	(10,792)	(11,854)	(13,059)	(14,402)
Proceeds from disposal of own shares	35	(149)	(262)	-	-	-	-
Total Financing	**(35,543)**	**(33,060)**	**155,585**	**(54,876)**	**(119,831)**	**(161,982)**	**(204,343)**
Net Change in Cash	(66,654)	100,889	362,267	(526,452)	(3,420)	32,409	14,089
Net Cash at beginning	305,080	238,426	339,315	701,582	175,130	171,711	204,119
Net Cash at end	**238,426**	**339,315**	**701,582**	**175,130**	**171,711**	**204,119**	**218,208**

Ratios	Kuwait Finance House						
	2003	2004	2005	2006 (F)	2007 (F)	2008 (F)	2009 (F)
Profitability							
- Return on Average Assets	2.1%	2.3%	2.9%	3.2%	3.4%	3.7%	3.8%
- Return on Average Equity	21.3%	24.4%	25.6%	25.5%	28.8%	31.4%	32.9%
- Net Ijara, Murabaha etc Income/ Total Op. Income	47.4%	52.3%	30.1%	30.1%	29.6%	28.7%	28.0%
- Commissions/ Total Op. Income	10.5%	11.8%	14.9%	16.6%	18.4%	19.4%	21.1%
- Dividend payout ratio	61.6%	52.5%	50.7%	68.5%	72.4%	75.0%	75.3%
Margins							
- Net Income/ Revenues	54.4%	55.8%	62.5%	63.0%	68.3%	72.3%	74.3%
- Operating Profit / Revenues	58.6%	59.6%	70.1%	71.2%	72.1%	76.1%	78.0%
- Commission Expense to Commission Income	56.0%	53.6%	64.5%	63.0%	62.8%	63.0%	63.5%
-Commission Income to Commission Earning Assets	5.1%	5.6%	6.3%	6.7%	6.8%	7.0%	6.9%
- Commission Expense to Commission Bearing Liabilities	2.6%	2.6%	3.7%	4.0%	3.9%	3.9%	3.9%
- Net Spread	2.5%	3.0%	2.6%	2.8%	2.9%	3.0%	3.0%
- Net Commission Margin	2.2%	2.6%	2.2%	2.5%	2.5%	2.6%	2.5%
Efficiency							
-Cost to Total Op Income	29.0%	27.9%	33.6%	31.0%	30.0%	28.0%	28.0%
- General & Administration Expense to Total Op Income	29.0%	27.9%	33.6%	31.0%	30.0%	28.0%	28.0%
- Cost to Average Total Assets	1.3%	1.2%	2.2%	2.6%	2.7%	2.7%	2.7%
Liquidity							
- Loans to Customer Deposits	68.2%	62.7%	70.3%	71.4%	73.8%	75.1%	75.7%
- Customer Deposits to Equity	808%	786%	531%	588%	616%	638%	663%
Credit Quality							
- Provisions to Total Operating Income	4.2%	11.5%	16.6%	12.7%	13.0%	11.0%	10.3%
- Provisions to Average Receivables	8.8%	9.0%	8.5%	7.9%	7.9%	7.9%	8.0%
Capital Adequacy							
- Equity to Total Assets	9.4%	9.4%	12.8%	12.0%	11.8%	11.6%	11.4%
- Equity to Gross Receivables	18.2%	20.3%	26.8%	23.8%	22.0%	20.9%	19.9%
Constitution of Total Income							
- Fees & Comm. to Total Op. Income	10.5%	11.8%	14.9%	16.6%	18.4%	19.4%	21.1%
- Investment Income to Total Op Income	43.8%	40.8%	62.8%	58.9%	58.1%	56.4%	54.9%
- FX Income to Total Op. Income	-1.1%	1.4%	2.8%	2.0%	1.7%	1.4%	1.3%
- Other Income to Total Op. Income	3.6%	5.3%	6.0%	5.2%	5.2%	5.1%	5.1%
Operating Performance							
- Change in Net Murabahas, Istisna and Leasing Income	-4.7%	12.5%	-37.3%	85.0%	16.1%	26.6%	14.3%
- Change in Fees and Commission	10.0%	33.9%	139.5%	60.0%	35.0%	25.0%	25.0%
- Change in Investment Income	52.1%	10.9%	190.8%	35.0%	20.0%	15.0%	12.0%
- Change in Fx Income	-231.8%	246.9%	285.2%	2.0%	2.0%	2.0%	2.0%
- Change in Other Income	3.3%	75.6%	111.8%	25.0%	22.0%	15.0%	15.0%
RATIOS USED FOR VALUATION							
- Shares in Issue (mn)	716.1	781.4	1,094.0	1,225.3	1,225.3	1,225.3	1,225.3
- EPS (fils)	81.2	95.2	108.5	134.5	173.5	212.5	247.8
- Book Value Per Share (fils)	347.4	367.1	493.7	474.4	512.6	555.1	604.6
- Market Price Year End (fils)*	1,600	1,640	2,380	2,040	2,040	2,040	2,040
- P/E	19.70	17.2	21.9	15.2	11.8	9.6	8.2
- P/BV	4.6	4.5	4.8	4.3	4.0	3.7	3.4

** Market price for 2006 and subsequent years as on April 25, 2006.*

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