

## A Case-Study of Kuwait Finance House: Issues and Concerns in the Financial Reporting of Islamic Banks

Camille Paldi<sup>1</sup>

### Abstract

In this financial and non-financial analysis of Kuwait Finance House Group (KFH), I have conducted a ratio analysis of key liquidity, profitability, and efficiency ratios including the current ratio, EPS, return on equity (ROE), return on assets (ROA), and the debt-to-equity ratio and compared KFH to one of its main competitors, Gulf Finance House (GFH) in order to illuminate the financial health of KFH. In addition, I have examined KFH accounting, disclosure, and reporting practices and their suitability for an Islamic bank, remuneration practice, corporate and Shari'ah governance, corporate social responsibility, significant changes in policy and strategy and their possible financial impact, and have discussed risk mitigation and capital structure in order to provide a snapshot of the financial and non-financial health of the institution for the benefit of a potential investor/depositor. I have investigated various reasons for the performance of KFH and explored the profitability of the investment and real estate segments of the KFH conglomerate. The comprehensive analysis is based on the 2009-2011 annual reports of KFH and GFH, the 2009-2011 KFH Corporate Sustainability Reports, and the 2011 Public Disclosure Report of KFH Bahrain. In addition, I have examined and discussed relevant industry standards including IFRS, IFSB, and AAOIFI regulations regarding accounting and capital adequacy and explored the work of several academics including Haniffa, Safiedinne, Ahmed, Khan, Epstein, Archer, Simon, and Karim, Sarea, Shabbir, and Van Greuning and Iqbal as well as the work of industry practitioners such as Mohammad Amin and Michael Gassner. I conclude with recommendations to KFH and the industry for the best way forward in terms of financial reporting practice. This paper is directed at the stakeholders as defined in the KFH 2011 CSR Report.

**Keywords:** Islamic Finance, Islamic Accounting.

---

<sup>1</sup> Author: C. Paldi is MD, ilovetheuae.com FZLLE, CEO, FAAIF Limited and Events JLT, studying for a MA in Islamic Finance at Ustinov College, Durham University, U.K.