

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No: 672174-T)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS - 31 DECEMBER 2006

Registered Office
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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No. 672174-T)
(Incorporated in Malaysia)

CONTENTS	PAGE
PERFORMANCE OVERVIEW	1
STATEMENT OF CORPORATE GOVERNANCE	1 - 13
DIRECTORS' REPORT	14 -19
STATEMENT BY DIRECTORS	20
STATUTORY DECLARATION	21
REPORT OF SHARIAH COMMITTEE	22 - 23
REPORT OF AUDITORS TO THE MEMBER	24
BALANCE SHEETS	25
INCOME STATEMENTS	26
STATEMENTS OF CHANGES IN EQUITY	27
CASH FLOW STATEMENTS	28 - 29
ACCOUNTING POLICIES AND EXPLANATORY NOTES	30 - 76

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No. 672174-T)
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1. PERFORMANCE OVERVIEW

The Group and the Bank registered a profit before zakat and taxation of RM9.5 million and RM6.5 million respectively for the financial year ended 31 December 2006.

The total assets of the Group and the Bank have increased by RM2,507 million and RM2,506 million to RM3,012 million and RM3,021 million respectively as at 31 December 2006.

The gross financing, advances and other receivables of the Group and the Bank have increased to RM818 million as at the year ended 31 December 2006.

2. STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

Kuwait Finance House (Malaysia) Berhad (hereinafter referred to as “the Bank”) acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. The Bank continuously pursues its efforts in implementing a corporate governance framework and structure which ensures protection of shareholders’ rights as well as recognition of the rights of all other stakeholders ranging from customers, creditors, suppliers, employees, regulators and the community.

Roles and Responsibilities of the Board

As a custodian of corporate governance, the Board provides strategic direction and effective control of the Bank with a view to preserve the long term viability of the Bank whereby the Board reviews and evaluates the strategic planning process and monitors the implementation of the strategy carried out by the management.

In safeguarding the Bank’s assets, shareholders’ investment and stakeholders’ interest, the Board also ensures that the Bank is equipped with an effective system of internal control and that there is a satisfactory framework of reporting on internal financial controls and regulatory compliance, as well as an effective risk management system which effectively monitors and manages the principal risks of the business.

Accountability is part and parcel of governance in the Bank as whilst the Board is accountable to the shareholders, the Management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its shareholders by working to enhance the Bank’s performance.

The Board oversees the conduct of the Bank’s businesses by ensuring that the business is properly managed by a management team of the highest calibre.

The separation of powers between the Chairman of the Board and the Executive Director ensures a balance of power and authority thus providing a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring Board effectiveness as well as representing the Board to the Shareholders.

There is a clear division of responsibility between the Board and the Management. The Executive Director who is also the Managing Director, supported by his team of management is responsible for the implementation of Board resolutions, overall responsibilities over the day-to-day operations of the Bank’s business and operational efficiency.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Board Balance

The Board currently has five (5) members, comprising three (3) independent non-executive directors, one (1) non-independent non-executive director (the Chairman) and one (1) executive director.

Directors' Profile

The directors' profile are as follows:

Jassar Dakheel Jassar Abdulaziz Al Jassar ***Chairman***

Non-independent non-executive director

(50 years of age - Kuwaiti) Master of Business Administration, Bachelor of Commerce and Business.

Mr. Jassar was an employee of Kuwait Finance House, State of Kuwait and had worked in various capacities within the company. His last position held at Kuwait Finance House, State of Kuwait was as General Manager.

He was appointed as the Chairman of the Bank on 15 December 2004.

Khawaja Mohammad Salman Younis ***Member***

Executive Director/Managing Director

(50 years of age -Pakistani) Master of Business Administration, Bachelor of Commerce - International Financial Management, Economics & Management Information Systems.

Mr. Salman worked for Saudi American Bank in Saudi Arabia for more than ten (10) years before joining Citi Islamic Investment Bank in Bahrain. In September 2001, he joined Kuwait Finance House, State of Kuwait.

He was appointed as the Executive Director of the Bank on 15 December 2004 and as the Managing Director on 1 June 2006.

Mohamed Ismail Mohamed Shariff ***Member***

Independent non-executive director

(62 years of age – Malaysian) LL.B. (Hons.) (S'pore), LL.M. (Lond.), FCI Arb., FMI Arb., Barrister at Law, Lincoln's Inn

Mr Ismail has been in private legal practice since 1970 and is presently the principal partner of the law firm, Mohamed Ismail & Co. He has been involved in Islamic banking since its introduction in Malaysia in 1983.

He was appointed a Director of the Bank on 10 November 2004, being the first Director at incorporation date. Prior to his appointment as Director, he served for 4 years as a Director of another local Islamic bank.

Khairil Anuar Abdullah ***Member***

Independent non-executive director

(55 years of age - Malaysian) Masters of Business Administration, Bachelor of Economics.

Mr. Khairil was with the Economic Planning Unit in the Prime Minister's Department from 1973 until 1982 before joining Kumpulan Guthrie Sdn Bhd. In 1988, he joined Arthur D Little Inc as director before joining the Securities Commission. Between 1997 and 2002, he was the executive chairman of Mesdaq Berhad. He has been the chairman of Accelteam Sdn Bhd from 2003 until the present time.

He was appointed as the Director of the Bank on 10 December 2004.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Dr. Radzuan A. Rahman

Member

Independent non-executive director

(63 years of age - Malaysian) Phd, Cornell University, Master of Science, Bachelor of Agriculture Science

Dr. Radzuan worked for University Pertanian Malaysia from 1969 until 1980 before joining Sime Darby Plantations Berhad as Regional Director. In 1984, he joined Golden Hope Plantations Berhad before being appointed as Managing Director of Island & Peninsular Berhad in 1999. He has been the Managing Director of Tradewinds Malaysia Berhad since 2004 until 9 August 2006.

He was appointed as the Director of the Bank on 15 December 2004.

Board Meetings

During the financial year ended 31 December 2006, 4 Board meetings were held and were attended by all the directors. In the said Board Meetings, reports on the progress of the Bank's business operations and minutes of meetings of Board Committees were tabled for review by Members of the Board. At these Board Meetings, Members of the Board also evaluated business propositions and corporate proposals which require the approval of the Board.

The agenda for every Board Meeting together with Management reports, proposals and supporting documents were circulated to all Directors in advance prior to the scheduled Board meetings for their perusal.

Minutes of every Board Meeting were also circulated to all the Directors for their perusal prior to confirmation of the minutes at the following Board Meeting.

Board Committee

The Board is assisted by four Board Committees with specific terms of reference and functions as follows:

Audit Committee

The Audit Committee consists of three independent non-executive directors and had four meetings during the financial year. The members are as follows :

Mohamed Ismail Mohamed Shariff - Chairman

Khairil Anuar Abdullah - Member

Dr. Radzuan A. Rahman - Member

The roles and responsibilities of the Audit Committee are to assist the Board in discharging its oversight duties and oversee the financial reporting process to ensure the balance, transparency and integrity of its published financial information. The Audit Committee also reviews the effectiveness of the Bank's internal financial control and risk management system, the effectiveness of the internal audit function, the independent audit process including the appointment and assessing the performance of the external auditor, the Bank's process for monitoring compliance with laws and regulations affecting financial reporting and its code of business conduct.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Risk Management Committee

The Risk Management Committee consists of three Independent non-executive directors and one executive director and had seven meetings during the financial year. The members are as follows :

Khairil Anuar Abdullah - Chairman
Mohamed Ismail Mohamed Shariff - Member
Dr. Radzuan A. Rahman - Member

The roles and responsibilities of the Risk Management Committee are to oversee the senior management officers' activities in managing credit, market, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

Nominating Committee

The Nominating Committee consists of three independent non-executive directors, one non-independent non-executive director and one executive director. No meetings was held during the financial year. Resolution on re-appointment of directors were approved vide a Directors' Circular Resolution. The members are as follows:

Dr. Radzuan A. Rahman - Chairman
Mohamed Ismail Mohamed Shariff - Member
Jassar Dakheel Jassar Abdulaziz Al Jassar- Member
Khairil Anuar Abdullah - Member
Khawaja Mohammad Salman Younis - Member

The roles and responsibilities of the Nominating Committee are to provide a formal and transparent procedure for the appointment of Directors and Chief Executive Officer as well as assessment of effectiveness of individual Directors, the Board as a whole and the performance of Chief Executive Officer and key senior management officers.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors and one executive director. One meeting was held during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Dr. Radzuan A. Rahman - Member
Khairil Anuar Abdullah - Member
Khawaja Mohammad Salman Younis - Member

The roles and responsibilities of the Remuneration Committee are to provide a formal and transparent procedure for developing remuneration policy for Directors, Chief Executive Officer and key senior management officers and ensuring that the Bank's compensation package is competitive and consistent with the Bank's culture, objectives and strategy.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(ii) Internal audit and internal control activities

The Board is responsible for the Bank's system of internal controls and its effectiveness. Such a system is designed to manage the Bank risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, it can only provide reasonable assurance and not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board via a Board Risk Management Committee (BRMC) has established an on-going process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and to comply with the regulatory guidelines for directors on internal control, Islamic financial institutions and the Statement on Internal Control.

The Board is of the view that the system of internal controls in place for the period under review and up to the date of issuance of the financial statements is sound and sufficient to safeguard the shareholders' investment, the interests of customers, regulators and employees and the Bank's assets.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

In August 2006, a new Internal Control unit was added to the structure.

Key Internal Control Processes

The key processes below have been established in reviewing the adequacy and integrity of the system of internal controls.

The BRMC is established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. The BRMC also formulates strategies on an on-going basis and addresses issues arising from changes in both the external business environment and internal operating conditions.

The Audit Committee reviews internal control and corporate governance issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management as well as evaluating the adequacy and effectiveness of the Bank's risk management and internal control systems. It also supports and monitors the internal audit function with particular emphasis on the scope of audits, quality of internal audits, audit implementation and independence of the Internal Audit Division of the Bank. The minutes of Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The audit committee is supported by the internal audit division which examines the Bank and its subsidiary for compliance with policies and procedures and assesses the effectiveness of the internal control systems, highlighting any significant findings in respect of non-compliance. The annual audit plan is reviewed and approved by the Audit Committee.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

The BRMC is established by the Board to assist the Board to oversee the overall management of principal areas of risk. The other committees set up to manage specific areas of risk for the Bank include the Asset & Liabilities Management Committee which manages market and liquidity risks; three Credit Risk Management Committees which manages Retail, Commercial and Corporate credit respectively, Management Investment Committee, Private & Equity Investment Committee.

Operational Committees which have also been established include the Human Resource Committee, Information Technology Steering Committee, Tender Committee, Business Continuity Management Committee and Fraud Management Committee.

The Board receive and review reports from management on a regular basis. In addition to the accounts, financial information reports, reports on monitoring of compliance with banking laws and Bank Negara Malaysia's and other central bank's guidelines on financing, capital adequacy and other regulatory requirements, monthly progress reports on business operations are tabled before the Board at their periodic meetings.

The annual business plan and annual budget which are prepared by the Bank's business units are reviewed and approved by the Board.

The Bank has also put in place policies guidelines and authority limits imposed on executive directors and management within the Bank in respect of the day-to-day banking and financing operations, extension of credits, investments, acquisitions and disposal of assets.

In addition, there are proper guidelines within the Bank for hiring and termination of staff, formal training programmes for staff, annual/semi-annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities.

(iii) Risk Management

Commitment to Risk Management

In the second year of operation, the Bank has continued to give full commitment to ensure that risk management plays a substantial role in the governance of the Bank. Given that the Islamic Banking license is a universal banking license, the Bank recognises the diversity and complexity of banking operations and the exposure to various kinds of risk, including credit, market and operational risks. In addition to this are new risk classification identified by the Islamic Financial Services Board (IFSB) where the additional risks include inventory risk and equity position risk.

In order to raise the Bank's corporate value while ensuring that the business remains healthy and stable, the Bank has adopted effective risk management and control measures that complements the Bank's operations and their inherent risks which was an issue of key importance to the management.

For risk management to enhance in shareholder value, the risk management ethos needs to be fully embedded within the Bank's people and culture, business processes and technology. This challenge has been met by a dynamic framework that establishes the appropriate structure, tools, techniques and culture for effective risk management.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Integrated Risk Management

In pursuing dynamic risk management, the Bank has adopted an Integrated Risk Management framework which provides a holistic approach in managing risks within four key segments: Risk Strategy, Risk Organisation, Risk Measurement and Risk Operations. All key risks such as Credit, Market, Operational, Liquidity, Equity Position and Inventory Risks are captured in this framework to ensure comprehensiveness.

Essentially, there are three broad areas of risk management. For comprehensiveness purposes, first, the management of credit risk and market risk aims to control risks appropriately in order to secure profits. Both Inventory risk and Equity Position risk are captured in the market risk framework. Second, the management of operational risks seeks to control risk in order to avoid losses. Thirdly, the management of Asset & Liability portfolios to ensure there are earnings stability through profit rate risk management and to ensure the Bank's liquidity is in a position to meet all obligations.

The Bank uses quantitative methods to control total credit risk, market risk and operational risk which in line with the Integrated Risk Management Framework. The Bank also takes a proactive approach in enhancing the sophistication of the risk management infrastructure and capabilities by tailoring them to the characteristics of different type of risks, in particular the diversities of risks in Islamic Banking.

The Bank has a strategy to address the Integrated Risk Management which shall also comprise:

- a) Uniform recognition of Bank-wide risk appetite in terms of loss tolerance and target credit rating for the Bank;
- b) Awareness and a common understanding of all risks and their impact on the Bank's earnings/net worth, given the Bank's business strategy, lines of business and nature of business operations;
- c) Clarity of the Bank's philosophy and approach to various risks (whether these need to be controlled/eliminated, managed or looked upon as an opportunity for gaining competitive advantage) across the Bank;
- d) Clarity of risk management objectives, roles and responsibilities;
- e) Appropriate alignment of individual risks with the overall business tolerance of the Bank;
- f) Defining a comprehensive limit structure for all its risk taking activities;

Extending from this responsibility, the Bank's top management is also responsible for:

- g) Establishing a Bank-wide risk organisation structure and defining the roles and responsibilities for risk management, including the mandate of the Board Risk Management Committee ("BRMC"), Asset & Liability Management Committee and various Investment and Credit Committees together with the role of a Head of Risk Management Division;
- h) Establishing risk assessment, management and monitoring processes and regularly benchmarking the Bank's practices against industry good practice;
- i) Instilling risk culture within the organisation; and
- j) Providing appropriate opportunities for organisational learning.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Effective risk management is an essential element to ensure the Bank's continued profitability and enhancement of shareholder value, particularly in today's rapidly changing financial markets both internationally and domestically, Conventional and Islamic Banking alike. With the setting up and active involvement from the members of the BRMC, it ensures the disciplined and consistent application of the Integrated Risk Management principles further enhances corporate governance and risk-return management in the long-term.

General System of Risk Control and Risk Management

Importance of Risk Control and Risk Management

Risk, to varying degrees, is present in all business activities of a financial institution and the need for an effective risk management is fundamental to the success of the Bank. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and within the risk tolerance level and that there is an appropriate balance between risk and reward in order to maximise shareholder returns. The Bank's Risk Management is independent of the Bank's business units for independently managing risk within the powers delegated by the BRMC.

The Bank's risk management activities rely on its comprehensive risk management framework to monitor evaluates and manages the principal risks assumed in conducting its activities. The major risk exposures include:

1. Credit
2. Market
3. Operational

The Bank's Integrated Risk Management Framework is integrated with the Bank's strategy and business planning objective. The effectiveness of this framework is enhanced by strong risk governance, which includes active participation of the Board of Directors ("Board"), Senior Management and Business and Support Line Management.

Consequently, the Bank considers risk control and risk management to be vitally important aspects of its business operations and management activities, establishing and integrating these functions into the corporate organisation in the form of continuous processes. In doing so, the Bank sets high standards of risks transparency as the basis for controlling, limiting and managing risks. At the same time, these measures also enable the Bank to keep pace with the increasingly extensive requirements of the banking supervisory authorities.

Management of Risk On A Portfolio Basis

Risk Management Division is responsible for independently managing risk within the limits of the powers delegated by the BRMC. Above all, the duties consist of adopting and implementing business and risk management strategies on the level of the overall portfolio. The core elements of the professional portfolio management program includes the development and issuance of policy guidelines together with a comprehensive limit structure, the continuous analysis of risk and the creation and ongoing maintenance of appropriate data resources.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Organisation and Duties of Risk Management

The Credit risk, Market risk and Operational risk departments are responsible for developing methods used to measure risks and for independently measuring and monitoring risks under their respective areas of responsibility on an ongoing basis.

They also provide periodic and monthly information to the BRMC.

Organisation and Duties of Internal Audit

Internal Audit's activities revolve prominently around preventing losses for the Bank and its customers through a disciplined and systematic approach to improve and maintain the effectiveness of risk management, control and governance. With every regular audit, Internal Audit makes a significant contribution to the goal of identifying and quantifying risks. This is the indispensable prerequisite for adopting concrete measures aimed specifically at reducing such risks.

Policies & Limits

Policies define the Bank's overall risk appetite and are also developed based on the requirements of regulatory authorities and input from the Board and Senior Management. Policies also provide guidance to the businesses and risk management units by setting the boundaries on the types of risks the Bank is prepared to assume. Limits are set for two purposes. First, limits ensure risk-taking activities will achieve predictable results within the tolerances established by the Board and Senior Management. Second, limits establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

The Bank's internal policies and procedures are also regularly updated from time to time to ensure the primacy of customer interests and to maintain the integrity of the Bank.

Measurement, Monitoring and Reporting

Measurement tools that quantify risk across products and businesses are used, among other things, to determine risk exposure. The Bank's Risk Management is responsible for developing and maintaining an appropriate suite of such tools to support its risk management activities. Reporting tools are also required to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, limits and guidelines and providing a mechanism for communicating the amounts, types and sensitivities of the various risks in the portfolio. This information is used by the Board via BRMC to understand the Bank's risk profile and the performance of the portfolio against defined goals.

Credit Risk Management

The Bank defines credit risk as the risk of potential losses arising from a customer default or deterioration of the credit standing of a customer with whom the Bank has entered transactions into. They serve to provide cover for on and off balance sheet items within the framework of asset and liability management. Credit risk also include counterparty risk.

This also includes the Bank's exposure to the risks that might incur losses because of a decline in, or total loss of, the value of assets (including off-balance sheet assets) as a result of deterioration in the counterparty's financial position.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Year 2006 has seen a substantial growth in financing and investment assets in both the respective Business units.

Controlling and Monitoring

The Bank has implemented its various credit and investment risk policies taking into consideration the recommendations by Bank Negara Malaysia's ("BNM") Best Practices for the Management of Credit Risk, Islamic Financial Services Board ("IFSB")'s Capital Adequacy Standards and Guiding Principles of Risk Management and various parts of BASEL II documents as well as adopting any best practices of credit risk management.

Credit risk is restricted by adopting volume limits at customer level and at portfolio level. This is derived with alignment to the Bank's overall Business Strategy and its risk appetite. The limit structure provides the matrix for financing and investment approval authority for all types of financing and investment. The Bank has set up Committees to oversee this: the Management Investment Committee; the Private Equity Investment Committee; the Credit Committee (Corporate); the Credit Committee (Commercial) and the Credit Committee (Retail). Large counterparty risk is restricted at each customer level in accordance to BNM's GP5 and monitored continuously.

In 2006, the Bank has instituted a Line Risk Management Department consisting of independent full time personnel to analyse, review and monitor transactional credits pertaining to Corporate, Commercial and Retail financing activities. Compliance is monitored using the limit monitoring system. Counterparty risk is restricted to the customer level (also in accordance to BNM's GP5 definition) and shall be monitored. Numerous broad limits have also been approved for Credit Portfolio Management.

In addition, the bank has been monitoring the credit portfolio profile on a monthly basis and is in the process of implementing IFSB initiatives which will see the bank be in compliance with IFSB Capital Adequacy Standard by end of 2007.

At the time of reporting, there were no financing classified as non-performing. The Bank has adopted BNM's GP3 in the classification of non-performing financing.

Market Risk and Asset & Liability Management

The Bank defines market risk as the risk that could incur losses because of changes in the value of assets and liabilities (including off-balance sheet items) caused by fluctuations in market risk factors such as profit rates, foreign exchange rates, inventory, commodity and sukuk and equity prices.

The definition includes the risk of losses incurred when it becomes impossible to execute transactions in the market because of market confusion, or loss arising from transactions at prices that are significantly less favourable than usual (market and liquidity risks). The Bank also defines liquidity risk as the risk of losses arising when funding difficulties to raise the necessary funds, or when it is forced to obtain funds at much higher rates than usual.

The Bank manages market and liquidity risks (in accordance to BNM's New Liquidity Framework) as a whole. More specifically, the Bank formulates the Asset and Liability Management ("ALM") policy for market and liquidity risk management in managing risk. This also allows the Bank to monitor and manage the overall market and liquidity risk profiles.

Specifically, the Asset and Liability Committee ("ALCO"), chaired by the Managing Director, discusses and coordinates matters relating to basic ALM policies, risk planning, fund procurement, asset management and

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

market risk management which also includes proposing responses to emergencies such as sudden market changes. In 2006, ALCO approved the "Contingency Funding Plan" for guidance to Management in the event of liquidity crisis that can be caused by market changes or event specific to the Bank.

Risk Management Division is responsible for monitoring market risk, reports & analyses, proposing & setting limits & guidelines and for formulating & implementing plans relating to market risk management. Risk Management Division also receives necessary data from an independent source and reports on the status of market risk including compliance with risk limits. This information enables it to obtain a solid grasp of the market risk management situation.

Controlling and Monitoring

Day-to-day liquidity management intended to assure the Bank's ability to make payments at all times will be made by the Bank. The Bank has sufficient access to short term liquidity in the money markets with a number of banks and institutional customers with strong credit ratings.

Day-to-day management is supported by the provision of various controlling relevant information including a constantly updated liquidity flow plan and the monitoring of risks arising from committed credit lines.

Operational Risk Management

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequacy or failure of processes, procedures, systems or controls and external events. Operational risk, in some form, exists in each of the Bank's business and support activities and can result in direct and indirect financial loss, regulatory sanctions, customer dissatisfaction and damage to the Bank's reputation.

In the past, financial institutions have experienced spectacular losses attributed to what is known as operational risk. The increasingly dynamic pace of operations banking and the rising complexity of products and processes have the potential to cause significant losses. Against this backdrop, banking supervisory authorities are paying closer attention to this type of risk, generating a broad debate on the subject of operational risk in general and the allocation of regulatory capital to back it in particular.

The management of operational risk is an important priority for the Bank. To mitigate such operational risks, the Bank has developed a comprehensive operational risk program and essential methodologies that enables the identification, measurement, monitoring and reporting of inherent and emerging operational risks.

The governing principles and fundamental components of the Bank's operational risk management approaches include:

- Accountability in the individual business and support lines for management and control of the significant operational risks to which they are exposed;
- A robust internal control environment;
- A risk control and assessment review; and
- An operational risk management framework, consisting of processes and controls to identify, assess, monitor and manage operational risk.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

The Bank's risk control and assessment program entails formal reviews of significant operations to identify and assess operational risks. This program provides a basis for management to ensure that appropriate and effective controls and processes are in place on an ongoing basis to mitigate operational risk and, if not, that appropriate corrective action is being taken. Where appropriate, business and support line management develops action plans to mitigate identified risks.

Specifically, clearly defined operational policies and procedures for handling various types of activities have been established, and these processes are checked periodically. Ongoing progress is being made in strengthening the operational guidance in order to improve the operational expertise and capabilities of the employees involved within the Bank.

In August 2006, the Bank has also established an Internal Control Unit, which has been tasked to monitor and test control effectiveness at a transactional level in the Bank.

As with most other banks, the Bank relies heavily on communications and information systems to conduct its business activities. Any failure or interruption or breach in security of these systems could have a material adverse effect or interruptions in the Bank's customer relationship management, general ledger, deposit, servicing and/or financing systems. The Bank is aware that a great responsibility is owed towards the customers where IT risk is concerned because such failures may threaten the basic infrastructure or its services to customers. The Bank therefore makes every effort to ensure the stability of the IT operations and the protection and safety of informational assets relating to systems.

External threats to systems security are constantly evolving, while internal threats such as error or attempted fraud are as real as ever. The response is to strengthen the management of risk (including security risk) through the work of the IT risk management function, our operational risk approach and greater emphasis on permanent control.

Reputational risk is the risk of incurring tangible or intangible losses as a result of damage caused to the Bank's credibility when market players learn about or the media report various risk events that actually arise in connection with the Bank's operating activities or false rumours or vicious slanders. The Bank also works to quickly identify rumours and minimise possible losses by devising appropriate responses depending on the urgency and possible impact of the situation.

Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices, policies, procedures and training. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Bank's Guidelines in a manner that minimises reputational risk. The Bank has a Public Relations and Communications Department to handle this.

Based on a clear critical response rationale and associated decision-making criteria, the Bank has developed the Business Continuity Management ("BCM") to ensure operations are not interrupted so that business processes continue with minimal adverse impact on customers, staff and products and services. BCM constitutes an essential component of the Bank's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Bank's critical processes and revenue streams.

The Bank's business continuity plan is to maintain continuous operational viability in the event of natural disasters, system failures and other types of emergencies. BCM, within the Bank involves the development, maintenance and testing of advance action plans to respond to these situations.

2. STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

A comprehensive BCM program including plan development, testing and education will be implemented across all business and support units.

Approach to quantification

The quantification of operational risk is still in the early stages of development. The reason for the uncertainty lies mainly in the absence of generally accepted measurement methods and specific loss database. The Bank is aware of the fact that the risk figures calculated for operational risk are less certain than for more established risk types and are hardly comparable from one financial institution to another. Nonetheless, the Bank believes it should incorporate these risks into the overall risk evaluation system internally at this early stage, in order to ensure adequate risk-adjusted management.

Summary

As the impetus for risk management moves from conformance to performance, the Bank has established the Integrated Risk Management framework with a view to creating and protecting shareholders' value.

The Bank achieves the necessary transparency and management capability by applying an extensive system to identify, measure, monitor and manage risk. Throughout the Bank, the risk is classified in clearly defined risk types and measured by applications of comparable methods in accordance with uniform parameters. This approach enables the Bank to accurately assess the overall risk positions and enhances the ability to carry risk. Also, it provides the basis for allocating risk capital to cover unexpected losses and is therefore vitally important aspect of the overall Bank management system.

(iv) Management Reports

At every Board meeting, a progress report on on-going projects of the Bank pertaining to recruitment, human resource, information technology, policies and procedures, regulatory requirements, products and services and expenses are submitted to the Board.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in Islamic banking business and the provision of related financial services.

The principal activity of the subsidiary is disclosed in Note 13 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Net profit for the year	7,769	4,830

In the opinion of the directors, the results of the operations of the Group and the Bank during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statement of changes in equity.

DIVIDENDS

No dividends has been paid or declared by the Bank since the end of the previous financial period. The directors do not recommend the payment of any dividend for the current financial year.

DIRECTORS

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

- i) Jassar Dakheel Jassar Abdulaziz Al Jassar (Chairman)
- ii) Khawaja Mohammad Salman Younis
- iii) Khairil Anuar Abdullah
- iv) Dr. Radzuan A. Rahman
- v) Mohamed Ismail Mohamed Shariff
- vi) Yusuf Abdulla Mohamed Taqi (resigned on 17 February 2006)

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, none of the Directors held shares in the Bank and its related corporations during the financial year ended 31 December 2006.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debenture of the Bank or any other body corporate.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than Directors' remuneration as disclosed in Note 29 of the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 32 to the financial statements.

ISSUE OF SHARES

There is no changes to the issued and paid-up capital of the Bank during the financing year.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper actions had been taken in relation to the writing off of bad financing and the making of provisions for doubtful financing and have satisfied themselves that there were no known bad financing and that adequate provision had been made for doubtful financing; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad financing or the amount of provision for bad and doubtful financing in the financial statements of the Group and the Bank inadequate to any substantial extend; and
 - (ii) the values attributed to current assets in the financial statements of the Group and the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuations of assets or liabilities of the Group and the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group and the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and the Bank.

OTHER STATUTORY INFORMATION (Cont'd.)

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Bank to meet its obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Bank and the Group for the financial year in which this report is made.

BUSINESS PLAN FOR 2007

The Bank will continue to build its success and leverage on its corporate investment banking, commercial banking and retail business in Malaysia and overseas. The Bank had also established an international business department as part of the corporate investment banking to assist in the development and implementation of the Bank's Asia Pacific growth in non-ringgit deals. It is envisaged that the Bank will be able to promote investment funds by channeling funds from the GCC and other countries into the region. Capitalising on Malaysia banking and financial infrastructure, the Bank will also promote foreign issuance of sukuk in Malaysia and attract more foreign interest to participate in capital and money market locally.

The Bank has set up an economics research center to provide in-depth global economic analysis, knowledge sharing and value added investment research which is crucial in enhancing the Islamic markets. Research coverage includes Malaysia, emerging Asia, Middle East and countries from Organisations for Economic Cooperations and Development (OECD). Intensive economic and financial strategies integrate the Bank's business to include global thinking and customised client services. Comprehensive research methods and analytical tools are incorporated to provide economic and investment research to assist Bank's investors and clients as well as building on research intelligence to create more investment banking opportunities. With the establishment of the economics research center, the Bank is currently the only Islamic bank worldwide which effectively capitalises on economic analysis, capital market & Islamic research to enhance business and clients network.

In 2007, the Bank will be rolling out the retail banking business strategies by offering diversified range of Shariah based products which will be structured differently from those currently offered in the industry. The Bank plans to have a sizeable network of branches to provide efficient services and solutions to customers and investors.

OUTLOOK FOR 2007

The Malaysian economy continues to demonstrate depth and resilience, expanding by an expected 5.8% - 6.0% in 2006 on the back of robust global trade and higher prices for primary commodities. Stronger domestic demand as well as private sector consumption underpinned economic expansion whilst maintaining fiscal discipline.

Economic growth in 2006 was broad-based, with the private sector being the key growth driver. Private consumption growth is estimated at 7.1%, while private investment growth is anticipated to increase by 10.1%. On the sector front, the manufacturing factor is expected to expand by 7.3%, supported by recovery in demand for electrical & electronic (E&E) products and commodity-based products. Meanwhile, the services sector is projected to grow by 5.7%, on the back of positive private consumption, higher tourism arrivals and transport & telecommunication services and banking & financial activities. The agriculture sector growth is expected at 5.3%, mainly supported by higher output of palm oil and rubber. On the external front, export growth is projected to grow by 10.0%, underpinned by positive exports of E&E products, crude oil and palm oil.

For 2007, Gross Domestic Product growth is expected to come in at a balanced 5.7%, reflecting the thrusts of the 9th Malaysian Plan, growth in retail and private consumption and sustained investments. Continued expansion of private sector activities and higher public expenditure to implement infrastructure projects will continue to see broad based positive growth contribution from all economic sectors. Private consumption growth is projected to remain resilient at 6.4% year-on-year, while private investment growth is anticipated to increase by 10.5% year-on-year. For 2007, the private sector will continue to be the key driver of economic growth, given an expected slowdown in Malaysia's external sector. This year will also see higher Government development expenditure providing further impetus to domestic growth, underpinned by the implementation of the 9th Malaysia Plan projects.

RATING BY EXTERNAL RATING AGENCIES

Rating Agency	Date	Classification	Received
Rating Agency Malaysia Berhad	20 September 2006	Long term Short term	AA2 P1

SIGNIFICANT EVENTS

There is no significant event during the financial year ended 31 December 2006.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Six members of the Shariah Committee who are appointed by the Board for the two year term are as follows:

- i) Sheikh Ahmad Bazie Al-Yaseen
- ii) Sheikh Dr. Khalid Mathkour Al-Mathkour
- iii) Sheikh Dr. Mohammed Fawzi Faidullah
- iv) Sheikh Dr. Ajeel Jasem Al-Nashmi
- v) Sheikh Dr. Mohammed Abdul Razaq al-Tabtabae
- vi) Sheikh Dr. Anwar Shuaib Abdulsalam

The duties and responsibilities of the Shariah Committee among others are as follows:

- (i) To advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;
- (ii) To evaluate and endorse sample of contracts, agreements, activities for the whole transactions of the Bank;
- (iii) To clarify the Shariah rulings in relation to the Bank's transactions as observed by the Committee based on what was referred to it by the Board of Directors, the Chairman or the Shariah Division;
- (iv) To present to the Board of Directors the Shariah view relevant to any matter raised in relation to the transactions of the Company;
- (v) To confirm that the Bank's transactions and contracts are in compliance with Shariah and that is done through reports submitted by the Shariah Advisor/Shariah Division to the Shariah Committee on a periodic basis, explaining the activities and the implementation of the fatwa and rulings issued by the Shariah Committee. Should there be any shortcomings, the Shariah Committee shall rectify and amend the activities duly signed accordingly, to ensure its conformity to Shariah;
- (vi) To provide written Shariah opinion. The Shariah Committee is required to record any opinion given. In particular, the Shariah Committee shall prepare written Shariah opinions in the following circumstances:
 - a) where the Bank make reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia for advice; and
 - b) where the Bank submits applications to Bank Negara Malaysia for new products approval in accordance with guidelines on product approval issued by Bank Negara Malaysia.

The roles of the Shariah Committee in respect of zakat are as follows:

- (i) Review computation of zakat and approve the amount to be paid according to Shariah rules and principles.
- (ii) Advise on the distribution of zakat to the appropriate 'asnaf'.

Company No. 672174-T

ZAKAT OBLIGATIONS

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of the shareholders or depositors.

AUDITORS

The auditors, Messrs. Ernst & Young, have indicated their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors on 18 April 2007.

KHAWAJA MOHAMMAD SALMAN YOUNIS

Director

DR. RADZUAN A. RAHMAN

Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No. 672174 - T)
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
Pursuant To Section 169 (15) of the Companies Act, 1965

We, Khawaja Mohammad Salman Younis and Dr. Radzuan A. Rahman, being two of the Directors of Kuwait Finance House (Malaysia) Berhad do hereby state that, in the opinion of the Directors, the financial statements set out on pages 25 to 76 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities as modified by Bank Negara Malaysia guidelines and Shariah requirements so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2006 and of the results and the cash flows of the Group and the Bank for the year then ended.

Signed in accordance with a resolution of the Directors on 18 April 2007

KHAWAJA MOHAMMAD SALMAN YOUNIS
Director

DR. RADZUAN A. RAHMAN
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No. 672174-T)
(Incorporated in Malaysia)

STATUTORY DECLARATION
Pursuant To Section 169 (16) of the Companies Act, 1965

I, Khawaja Mohammad Salman Younis, being the director primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad do solemnly and sincerely declare that the financial statements set out on pages 25 to 76, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Khawaja Mohammad Salman Younis
at Kuala Lumpur, in the Federal Territory on 18 April 2007

BEFORE ME:

Commissioner for Oaths

REPORT OF SHARIAH COMMITTEE

In the name of Allah, the most Beneficent, the most Merciful.

Praise to Allah, the Lord of the Worlds and peace and blessings be upon our Prophet Muhammad, and on his scion and companions.

Assalamualaikum Warahmatullahi Wabarakatuh.

In compliance with the Guidelines on the Shariah Committee of Kuwait Finance House (Malaysia) Berhad we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad and its subsidiaries ("Group") during the year ended 31 December 2006. We have also conducted our review to form an opinion as to whether Kuwait Finance House (Malaysia) Berhad has complied with Shariah rules and principles and also with the specific fatwa, rulings, guidelines issued by us.

Kuwait Finance House (Malaysia) Berhad's Management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form our independent opinion, based on our review of the operations of Kuwait Finance House (Malaysia) Berhad, and to report to you.

We conducted our review which included examining, on a test basis, each type of transaction, the relevant documents and procedures adopted by Kuwait Finance House (Malaysia) Berhad.

We planned and performed our view so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that Kuwait Finance House (Malaysia) Berhad has not violated the Shariah rules and principles.

In our opinion:

- a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2006 that we have reviewed are in compliance with Shariah rules and principles;
- b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles.
- c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been disposed to charitable causes; and
- d) the calculation of zakat is in compliance with Shariah rules and principles.

This opinion is rendered based on what has been presented to us by the Management of Kuwait Finance House (Malaysia) Berhad and its Shariah Advisor.

We pray to Allah the Almighty to grant us success and the path of straight-forwardness.

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

Company No. 672174-T

Sheikh Ahmad Bazie Al-Yaseen
Chairman

Sheikh Dr. Khalid Mathkour Al-Mathkour
Member

Sheikh Dr. Mohammed Fawzi Faidullah
Member

Sheikh Dr. Ajeel Jasem Al-Nashmi
Member

Sheikh Dr. Mohammed Abdul Razaq al-Tabtabae
Member

Sheikh Dr. Anwar Shuaib Abdulsalam
Member

State of Kuwait

30 January 2007

REPORT OF THE AUDITORS TO THE MEMBERS OF KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

We have audited the financial statements set out on pages 25 to 76. These financial statements are the responsibility of the Bank's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities as modified by Bank Negara Malaysia guidelines and the principles of Shariah so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Bank as at 31 December 2006 and of the results and the cash flows of the Group and of the Bank for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and its subsidiary have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiary that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment made under Section 174(3) of the Act.

Ernst & Young
AF 0039
Chartered Accountants

Abdul Rauf bin Rashid
No. 2305/05/08(J)
Partner

Kuala Lumpur, Malaysia

18 April 2007

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)
BALANCE SHEETS AS AT 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ASSETS					
Cash and short-term funds	4	1,184,853	448,437	1,283,099	448,396
Deposits and placements with banks and other financial institutions	5	155,998	-	155,998	-
Securities held-for-trading	6	64,548	-	64,548	-
Securities available-for-sale	7	688,424	34,290	588,898	34,290
Financing, advances and other receivables	8	803,695	-	803,695	-
Murabaha trading automobile		9,398	-	9,398	-
Other assets	10	50,585	7,588	50,987	7,550
Statutory deposits with Bank Negara Malaysia	11	23,942	13	23,942	13
Musarakah capital investment	12	5,880	-	5,880	-
Investment in a subsidiary	13	-	-	10,200	10,200
Property and equipment	14	20,768	14,726	20,692	14,726
Deferred tax assets	15	3,831	56	3,831	56
TOTAL ASSETS		3,011,922	505,110	3,021,168	515,231
LIABILITIES					
Deposits from customers	16	1,581,164	118,663	1,592,722	128,792
Deposits and placements of banks and other financial institutions	17	995,790	-	995,790	-
Other liabilities	18	42,463	4,635	42,361	4,635
Provision for zakat and taxation	19	30	-	10	-
Deferred tax liabilities	15	3,390	1,410	3,390	1,410
TOTAL LIABILITIES		2,622,837	124,708	2,634,273	134,837
SHAREHOLDERS' EQUITY					
Share capital	20	380,000	380,000	380,000	380,000
Reserves	21	9,085	402	6,895	394
TOTAL SHAREHOLDERS' EQUITY		389,085	380,402	386,895	380,394
TOTAL LIABILITIES AND AND SHAREHOLDERS' EQUITY		3,011,922	505,110	3,021,168	515,231
COMMITMENTS AND CONTINGENCIES	33	1,233,062	154,631	1,233,062	154,631
CAPITAL ADEQUACY					
Core capital ratio	37	16.92%	143.06%	17.56%	139.74%
Risk-weighted capital ratio	37	17.54%	143.56%	17.74%	139.74%
NET TANGIBLE ASSETS PER SHARE (RM)		1.02	1.00	1.02	1.00

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)
INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Operating revenue	22	102,294	18,296	97,052	18,294
Income derived from investment of depositors' funds and others	23	54,610	2,955	44,323	2,955
Income derived from investment of shareholders' equity	24	47,684	15,341	52,729	15,339
Total distributable income		102,294	18,296	97,052	18,294
Allowance for losses on financing	25	(14,291)	-	(14,291)	-
Income attributable to the depositors	26	(36,502)	(226)	(34,485)	(226)
Total net income		51,501	18,070	48,276	18,068
Personnel expenses	27	(25,930)	(9,271)	(25,858)	(9,271)
Other overheads and expenditures	28	(16,093)	(6,962)	(15,899)	(6,961)
Profit before zakat and taxation		9,478	1,837	6,519	1,836
Zakat		(10)	-	(10)	-
Taxation	30	(1,699)	(1,456)	(1,679)	(1,456)
Net profit for the financial year		7,769	381	4,830	380
Earnings per share (sen)					
- Basic	31	2.04	0.10	1.27	0.10

The accompanying notes form an integral part of the financial statements.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

Group	Non-distributable				Distributable	Total RM'000
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Unrealised Gain On Securities Available-for-sale RM'000	Retained Profits RM'000	
At 1 January 2006	380,000	191	7	14	190	380,402
Currency translation differences	-	-	(757)	-	-	(757)
Unrealised gain on revaluation of securities available-for-sale	-	-	-	1,671	-	1,671
Net (loss)/gain not recognised in income statement	-	-	(757)	1,671	-	914
Net profit for the year	-	-	-	-	7,769	7,769
Transfer to statutory reserve	-	2,415	-	-	(2,415)	-
At 31 December 2006	380,000	2,606	(750)	1,685	5,544	389,085

At 10 November 2004	*	-	-	-	-	*
Issue of share capital	380,000	-	-	-	-	380,000
Currency translation differences, representing net gain not recognised in income statement	-	-	7	-	-	7
Unrealised gain on revaluation of securities available-for-sale	-	-	-	14	-	14
Net profit for the period	-	-	-	-	381	381
Transfer to statutory reserve	-	191	-	-	(191)	-
At 31 December 2005	380,000	191	7	14	190	380,402

Bank	Non-distributable				Distributable	Total RM'000
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Unrealised Gain On Securities Available-for-sale RM'000	Retained Profits RM'000	
At 1 January 2006	380,000	191	-	14	189	380,394
Unrealised gain on revaluation of securities available-for-sale, representing net gain not recognised in income statement	-	-	-	1,671	-	1,671
Net profit for the year	-	-	-	-	4,830	4,830
Transfer to statutory reserve	-	2,415	-	-	(2,415)	-
At 31 December 2006	380,000	2,606	-	1,685	2,604	386,895

At 10 November 2004	*	-	-	-	-	*
Issue of share capital	380,000	-	-	-	-	380,000
Unrealised gain on revaluation of securities available-for-sale, representing net gain not recognised in income statement	-	-	-	14	-	14
Net profit for the period	-	-	-	-	380	380
Transfer to statutory reserve	-	191	-	-	(191)	-
At 31 December 2005	380,000	191	-	14	189	380,394

* Issued and paid-up share capital at the date of incorporation of RM2.

The accompanying notes form an integral part of the financial statements.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before zakat and taxation	9,478	1,837	6,519	1,836
Adjustments for:				
Allowance for losses on financing	14,291	-	14,291	-
Amortisation of premium less accretion of discount	143	19	143	19
Depreciation of property and equipment	4,419	1,138	4,412	1,138
Dividends from securities available-for-sale	(4,282)	-	-	-
Dividends from a subsidiary	-	-	(5,114)	-
Net gain on sale of securities available-for-sale	(7,513)	-	(437)	-
Net gain on sale of securities held-for-trading	(378)	-	(378)	-
Net loss on ijarah rental swap obligation	350	-	350	-
Short-term accumulated compensated absences	3	200	3	200
Allowance for doubtful debts	10	-	10	-
Allowance for equipment	3	-	3	-
Unrealised loss on revaluation of foreign exchange transaction	-	9	-	9
Unrealised loss on securities held-for-trading and Ijarah rental swap	1,906	-	1,906	-
Operating profit before working capital changes	18,430	3,203	21,708	3,202
Increase in operating assets				
Deposits and placements with banks and other financial institutions	(155,998)	-	(155,998)	-
Financing, advances and other receivables	(817,986)	-	(817,986)	-
Murabaha trading automobile	(9,398)	-	(9,398)	-
Other assets	(34,980)	(7,302)	(35,420)	(7,264)
Statutory deposits with Bank Negara Malaysia	(23,929)	(13)	(23,929)	(13)
Increase/(Decrease) in operating liabilities				
Deposits from customers	1,462,501	118,663	1,463,930	128,792
Deposits and placements of banks and other financial institutions	995,790	-	995,790	-
Other liabilities	32,049	4,242	31,947	4,235
Cash used in operations	1,466,479	118,793	1,470,644	128,952
Taxes paid	(8,581)	(402)	(8,581)	(402)
Net cash generated from operating activities	1,457,898	118,391	1,462,063	128,550
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of securities	(708,716)	(34,290)	(616,266)	(34,290)
Purchase of Musyarakah capital investment	(5,880)	-	(5,880)	-
Investment in subsidiary	-	-	-	(10,200)
Dividend from securities available for sale	4,282	-	-	-
Dividend from subsidiary company	-	-	5,114	-
Purchase of property and equipment	(10,411)	(15,664)	(10,328)	(15,664)
Net cash used in investing activities	(720,725)	(49,954)	(627,360)	(60,154)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	-	380,000	-	380,000
Net cash generated from financing activities	-	380,000	-	380,000
Net increase in cash and cash equivalents	737,173	448,437	834,703	448,396
Cash and cash equivalents at beginning of year	448,437	*	448,396	*
Exchange differences on translation of opening balances	(757)	-	-	-
Cash and cash equivalents at end of year	1,184,853	448,437	1,283,099	448,396

* Issued and paid-up share capital at the date of incorporation of RM2.

The accompanying notes form an integral part of the financial statements.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in Islamic Banking business which refers generally to the acceptance of deposits and granting of financing under the principles of Shariah as well as the provision of related financial services.

The principal activities of the subsidiary is set out in Note 13. There have been no significant changes in the nature of the principal activities during the financial year.

The comparative financial period covered is from 10 November 2004 (date of incorporation) to 31 December 2005.

The Bank is a licensed Islamic Bank under the Islamic Banking Act 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 18, Tower 2, MNI Twins, 11 Jalan Pinang, 50450 Kuala Lumpur.

The holding company of the Bank is Kuwait Finance House K.S.C., a public limited liability company, incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Bank with the Central Bank of Kuwait. The registered office of Kuwait Finance House K.S.C. is located at 13110, Abdulla Al-Mubarak Street, Murqab, Kuwait.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 April 2007.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared in accordance with the provisions of the Companies Act 1965, applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities as modified by Bank Negara Malaysia guidelines and Shariah requirements.

At the beginning of the current financial year, the Group and the Bank had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 3.2.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000 or '000) except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Group and the Bank have been prepared under the historical cost basis unless otherwise indicated in the accounting policies below.

(b) Subsidiary and Basis of Consolidation

(i) Subsidiary

Subsidiary is an entity over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Bank's separate financial statements, investment in subsidiary is stated at cost less impairment losses. On disposal of such investment, the difference between the net disposal proceed and their carrying amount is included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at the balance sheet date. The financial statements of the subsidiary is prepared for the same reporting date as the Bank.

Subsidiary is consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisition of subsidiary is accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiary not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(c) Financing, advances and other receivables

(i) Financing, advances and other receivables

Financing, advances and other receivables are recognised when cash is disbursed to customers. They are initially stated at cost including any transaction cost and are subsequently measured at amortised cost using the effective profit rate method.

(ii) Allowances for losses on financing

A general allowance based on a percentage of the financing, advances and other receivables is also made. The percentage is reviewed annually in light of past experiences and prevailing circumstances and an adjustment is made to the overall general allowance, if necessary.

Specific allowance provided for impaired financing, advances and other receivables had been made in full compliance with the BNM/GP3. Additional allowances for impaired financing, advances and other receivables are provided when the recoverable amount is lower than the net book value of the financing, advances and other receivables (outstanding amount, net of specific allowances). Any allowance made during the year is charged to the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(c) Financing, advances and other receivables (Cont'd.)

(ii) Allowances for losses on financing (Cont'd.)

An uncollectible financing or portion of a financing classified as bad is written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the directors, there is no prospect of recovery.

(d) Securities

(i) Held-for-trading

Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term or they are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities classified as held-for-trading are stated at fair value and any gain or loss arising from a change in the fair value are recognised in the income statement.

Profit from held-for-trading securities calculated using the effective profit method, is recognised in the income statement.

(ii) Held-to-maturity investments

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These investments will be measured at amortised cost using the effective profit rate method. A gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process.

The impairment loss, for investments held at amortised cost, is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at its original effective profit rate on initial recognition. The carrying amount of the securities shall be reduced either directly or through use of an allowance account.

If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss will be reversed either directly or by adjusting the allowance account. The reversal will not result in the carrying amount of securities exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal will be recognised in the income statement.

(iii) Available-for-sale securities

Available-for-sale securities are securities that are not classified as held-for-trading or held-to-maturity investments and are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost. Any gain or loss arising from a change in the fair value are recognised directly in equity, except for impairment losses and foreign exchange gains and losses.

Profit from available-for-sale securities, calculated using the effective profit method, is recognised in the income statement while dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(iii) Available-for-sale securities (Cont'd.)

In the event of any objective evidence that the securities are impaired, the cumulative loss that had been recognised directly in equity will be removed from equity and recognised in the income statement even though the securities has not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that securities previously recognised in the income statement.

If, in subsequent periods, the fair value of a security instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss will be reversed from the income statement.

For securities stated at cost, the amount of impairment loss is measured as the difference between the carrying amount of securities and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment loss shall not be reversed.

For financing converted into security or equity instruments, the Bank will measure the security or equity instruments received at its fair value. The difference between the net book value of the restructured financing (outstanding amount of financing net of specific allowances) and the fair value of the security or equity instruments will be the gain or loss from the conversion scheme.

iii.i) where the net book value of the restructured financing is higher than the fair value of the security or equity instruments, the loss shall be recognised in the income statement during the financial year.

iii.ii) where the fair value of the security or equity instruments is higher than the net book value of the restructured financing, the gain from the conversion scheme is transferred to the "impairment loss" account, which would be netted off from the "Securities" account in the balance sheet.

The estimated fair values for securities held-for-trading and securities available-for-sale are based on quoted and observable market prices at the balance sheet date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instruments at the balance sheet date.

(e) Property and Equipment, and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced parts is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property and equipment except for work-in-progress are stated at cost less accumulated depreciation and any accumulated impairment losses.

Work-in-progress are not depreciated as these assets are not available for use. Depreciation of other property and equipment is provided for on a straight-line-basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:-

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**3.1 Summary of Significant Accounting Policies (Cont'd.)****(e) Property and Equipment, and Depreciation (Cont'd.)**

Renovation	20%
Furniture and fittings	20%
Office equipment	20%
Computer equipment and software	20%
Motor vehicles	20%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(f) Murabaha Trading Automobile

Murabaha trading automobile is carried at the lower of cost and market value determined on an individual basis.

(g) Other Assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(h) Musyarakah Capital Investment and Musyarakah Financing

As part of the Bank's activities, the Bank grants Musyarakah Financing in accordance with the principles of Shariah. Part of the financing structure is in the form of equity participation, called Musyarakah Capital Investment. Musyarakah Capital Investment is carried at cost less any impairment loss. Under the principle of Musyarakah, the Bank will share in profit or loss of the project less financing. In view of the Bank acting as a financier to the project, Musyarakah financing is carried as financing receivable in the financial statements of the Bank. Profit on Musyarakah financing is recognised over the term of the contract based on estimated Internal Rate of Return of the project.

(i) Provision for Liabilities

Provision for liabilities are recognised when the Group and the Bank have a present obligation as a result of a past event and it is probable than an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

(j) Liabilities

Deposits from customers, deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in future for the goods and services received.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(k) Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(l) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

(i) Finance Income Recognition

Finance income is recognised on an accrual basis. Income on cash line, house and term financing are accounted for on a straight line basis by reference to the rest periods as stipulated in the financing agreement, which are either monthly or daily.

Where an account is classified as non-performing, income is suspended until it is realised on a cash. Financing income recognised prior to the non-performing classification is not clawed back to the first day of default in conformity with Bank Negara Malaysia Guidelines. Customers' accounts are classified as non-performing where repayments are in arrears for more than six months from the first day of default for financing, cash line and advances; and three months from first day of default for trade bills and other instruments of similar nature.

(ii) Fee and Other Income Recognition

Financing arrangement, management and participation fees, underwriting commissions and brokerage fees are recognised as income based on contractual arrangements. Guarantee fee (administrative fee) is recognised as income upon issuance of the guarantee. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment. Other fees and commissions on services and facilities extended to customers are recognised on inception of such transactions.

Dividend income from subsidiary and other investments are recognised when the Bank's right to receive payment is established.

(m) Financing Expense Recognition

Attributable profit on deposits and borrowings of the Group and the Bank are recognised on an accrual basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(n) Foreign Currencies

(i) Functional and Presentational Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the year except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) Foreign Operations

The results and financial position of a subsidiary that has a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at month-end exchange rates, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

(o) Foreign Exchange Contract and Profit Rate & Foreign Currency Swaps

(i) Foreign Exchange Contract

Foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at balance sheet date and the resultant gains and losses are recognised in the income statement.

(ii) Profit Rate and Foreign Currency Swaps

These financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of these financial instruments is recognised in the income statement unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:-

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(o) Foreign Exchange Contract and Profit Rate & Foreign Currency Swaps (Cont'd.)

(ii) Profit Rate and Foreign Currency Swaps (Cont'd.)

Fair value hedge

Where a financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are deferred in a separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are released to the income statement in the periods when the hedged item affects the income statement.

(p) Employee Benefits

(i) Short-Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group and the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

Defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss when incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(q) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5775% of the opening reserves of the Bank.

(r) Profit Equalisation Reserves ("PER")

PER is the amount provided in order to maintain a certain level of return for deposits in conformity with Bank Negara Malaysia's "The Framework of the Rate of Return". The PER is deducted at a rate which does not exceed the maximum amount of 15% of the total gross income of each financial year and is maintained up to the maximum of 30% of total Islamic banking capital fund.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Summary of Significant Accounting Policies (Cont'd.)

(s) Impairment of Non-Financial Assets

The carrying amounts of assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

(t) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group and the Bank has become a party to the contractual provisions of the instrument. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Profit, dividends and gains or losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(u) Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances and short-term deposits with remaining maturities of less than one month.

(v) Financial Risk Management Objective and Policies

The Group's financial risk management policy seek to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate risks (both fair value and cash flow), liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are disclosed in Note 2 (iii) - Risk Management to the Statement of Corporate Governance on pages 6 to 13.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2006, the Group and the Bank adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

FRS 2	Share Based Payment
FRS 3	Business Combinations
FRS 5	Non Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The Group has not adopted FRS 117 - Leases and FRS 124 - Related Party Transactions that have been issued but effective for the Group on 1 January 2007. The Group has also not adopted FRS 139 - Financial Instruments: Recognition and Measurement as the effective date has been deferred.

The adoption of the new and revised FRSs did not result in significant changes in accounting policies of the Group.

3.3 Significant Accounting Estimates and Judgements

Preparation of the financial statements involved making certain estimates and assumptions concerning the future judgements. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in these estimates and assumptions by management may have an effect on the balances as reported in financial statements.

(a) Fair value estimation of securities

As disclosed in Note 3.1(d), where the quoted and observable market prices of certain securities are not available, fair value is estimated using pricing models or discounted cash flow techniques. The usage of these models and techniques require the Group to make certain estimates and assumptions, including but not limited to estimated future cash flows and discount rates.

(b) Income taxes

Deferred tax assets are measured and recognised based on the tax rates that are expected to apply in the period when the asset is realised. Estimates are made as to the amount of taxable profits in these periods which will enable the deferred tax assets to be realised.

4. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and and other financial institutions	25,138	1,545	25,100	1,504
Money at call and interbank placements with remaining maturity less than one month	1,159,715	446,892	1,257,999	446,892
	1,184,853	448,437	1,283,099	448,396

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Licensed banks	30,998	-	30,998	-
Bank Negara Malaysia	125,000	-	125,000	-
	155,998	-	155,998	-

6. SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
<u>At fair value</u>				
Bank Negara Malaysia Sukuk Ijarah	30,346	-	30,346	-
Unquoted Islamic Private Debt Securities/ Sukuk	34,202	-	34,202	-
	64,548	-	64,548	-

7. SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
<u>At fair value</u>				
Bank Negara Malaysia Sukuk Ijarah	91,061	-	91,061	-
Unquoted securities:				
Islamic Private Debt Securities/ Sukuk	497,837	34,290	497,837	34,290
Property funds	99,526	-	-	-
	688,424	34,290	588,898	34,290

8 FINANCING, ADVANCES AND OTHER RECEIVABLES**(i) By type**

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Term Financing				
Murabahah financing	512,096	-	512,096	-
Musyarakah financing	77,683	-	77,683	-
Ijarah asset financing	107,171	-	107,171	-
Mudharabah asset financing	138,668	-	138,668	-
Musyarakah Mutanaqisiah	9,073	-	9,073	-
Staff financing	1,670	-	1,670	-
	<u>846,361</u>	<u>-</u>	<u>846,361</u>	<u>-</u>
Less: Unearned income	(28,375)	-	(28,375)	-
	<u>817,986</u>	<u>-</u>	<u>817,986</u>	<u>-</u>
Less: General allowance for bad and doubtful financing:	(14,291)	-	(14,291)	-
Total net financing, advances and other receivables	<u>803,695</u>	<u>-</u>	<u>803,695</u>	<u>-</u>

(ii) By contract

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ijarah (lease)	84,202	-	84,202	-
Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	19,340	-	19,340	-
Murabahah (cost-plus)	488,859	-	488,859	-
Mudharabah (profit sharing)	138,668	-	138,668	-
Musyarakah (profit and loss sharing)	86,874	-	86,874	-
Qard (benevolent loan)	43	-	43	-
	<u>817,986</u>	<u>-</u>	<u>817,986</u>	<u>-</u>

(iii) By type of customer

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Domestic business enterprises				
Small medium enterprises	238,308	-	238,308	-
Others	513,851	-	513,851	-
Individuals	9,453	-	9,453	-
Foreign entities	56,374	-	56,374	-
	<u>817,986</u>	<u>-</u>	<u>817,986</u>	<u>-</u>

8 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont'd.)**(iv) By profit rate sensitivity**

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Fixed rate				
House financing	548	-	548	-
Hire purchase receivables	1,510	-	1,510	-
Others	616,598	-	616,598	-
Variable				
Others	199,330	-	199,330	-
	<u>817,986</u>	<u>-</u>	<u>817,986</u>	<u>-</u>

(v) By sector

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Agriculture, hunting, forestry & fishing	65,527	-	65,527	-
Mining & quarrying	32,696	-	32,696	-
Electricity, gas and water	76,484	-	76,484	-
Construction	40,097	-	40,097	-
Real estate	127,284	-	127,284	-
Purchase of landed property:				
Residential	430	-	430	-
Wholesale, retail trade, restaurants and hotels	201,565	-	201,565	-
Transports, storage and communication	121,878	-	121,878	-
Finance, insurance and business services	63,654	-	63,654	-
Purchase of securities	16,871	-	16,871	-
Purchase of transport vehicles	1,510	-	1,510	-
Consumption credit	7,783	-	7,783	-
Others	62,207	-	62,207	-
	<u>817,986</u>	<u>-</u>	<u>817,986</u>	<u>-</u>

9 NON-PERFORMING FINANCING**(i) Movements in the non-performing financing, advances and other receivables**

The Group and the Bank do not have any non-performing financing, advances and other receivables as at 31 December 2006.

9 NON-PERFORMING FINANCING (Cont'd.)**(ii) Movements in the allowance for bad and doubtful financing**

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
General allowance				
At beginning of year	-	-	-	-
Allowance made	14,291	-	14,291	-
At end of year	<u>14,291</u>	<u>-</u>	<u>14,291</u>	<u>-</u>
As % of total gross financing, advances and other receivables less specific allowance				
	<u>1.75%</u>	<u>-</u>	<u>1.75%</u>	<u>-</u>

Specific allowance

No specific allowances were required by the Group and the Bank as at 31 December 2006.

10 OTHER ASSETS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Deposits and prepayments	1,466	1,645	1,453	1,565
Amount due from holding company	425	-	425	-
Amount due from a subsidiary	-	-	416	80
Amount due from related parties	359	5,600	359	5,600
Tax recoverable	4,814	295	4,814	295
Income receivable	2,874	-	2,908	-
Fee receivable	6,583	-	6,583	-
Sundry debtors	7,129	48	7,094	10
Underwriting releases	26,871	-	26,871	-
Revaluation gain on forward foreign exchange	64	-	64	-
	<u>50,585</u>	<u>7,588</u>	<u>50,987</u>	<u>7,550</u>

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The amount due from related parties are in respect of companies as disclosed in Note 32.

The Group and the Bank have no significant concentration of credit risk that may arise from exposure to a single debtor or a group of debtors.

11 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37 (1)(c) of the Central Bank of Malaysia Act, 1958 (Revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

12 MUSYARAKAH CAPITAL INVESTMENT

Pursuant to a Musyarakah Financing granted by the Bank in accordance with the principles of Shariah, part of the Musyarakah Financing structure is in the form of an equity participation and this equity portion of the Musyarakah Financing is separately classified as Musyarakah Capital Investment.

13 INVESTMENT IN A SUBSIDIARY

	Bank	
	2006	2005
	RM'000	RM'000
In Malaysia;		
- Unquoted shares, at cost	10,200	10,200

Details of the subsidiary are as follows:

Name	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2006	2005
Kuwait Finance House (Labuan) Berhad	Offshore Banking	Malaysia	100	100

14 PROPERTY AND EQUIPMENT

Group 2006	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January 2006	4,734	136	2,251	8,011	631	101	15,864
Additions	4,025	64	964	4,641	155	612	10,461
Reclassification	(2,589)	2,323	143	566		(443)	-
At 31 December 2006	<u>6,170</u>	<u>2,523</u>	<u>3,358</u>	<u>13,218</u>	<u>786</u>	<u>270</u>	<u>26,325</u>
<u>Accumulated depreciation</u>							
At 1 January 2006	417	7	79	511	124	-	1,138
Charge for the year	1,434	189	549	2,097	150		4,419
Reclassification	(654)	506	44	104			-
At 31 December 2006	<u>1,197</u>	<u>702</u>	<u>672</u>	<u>2,712</u>	<u>274</u>	<u>-</u>	<u>5,557</u>
<u>Net book value</u>							
At 31 December 2006	<u>4,973</u>	<u>1,821</u>	<u>2,686</u>	<u>10,506</u>	<u>512</u>	<u>270</u>	<u>20,768</u>

Bank 2006	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January 2006	4,734	136	2,251	8,011	631	101	15,864
Additions	3,953	61	956	4,641	155	612	10,378
Reclassification	(2,589)	2,323	143	566		(443)	-
At 31 December 2006	<u>6,098</u>	<u>2,520</u>	<u>3,350</u>	<u>13,218</u>	<u>786</u>	<u>270</u>	<u>26,242</u>
<u>Accumulated depreciation</u>							
At 1 January 2006	417	7	79	511	124	-	1,138
Charge for the year	1,428	189	548	2,097	150		4,412
Reclassification	(654)	506	44	104			-
At 31 December 2006	<u>1,191</u>	<u>702</u>	<u>671</u>	<u>2,712</u>	<u>274</u>	<u>-</u>	<u>5,550</u>
<u>Net book value</u>							
At 31 December 2006	<u>4,907</u>	<u>1,818</u>	<u>2,679</u>	<u>10,506</u>	<u>512</u>	<u>270</u>	<u>20,692</u>

Included in the additions for office equipment is an allowance for write-off of RM2,899 (2005 : Nil)

The additions for the period in respect of renovations include accrued restoration cost for the Group and the Bank of RM250,000 (2005 : RM200,000)

14 PROPERTY AND EQUIPMENT (Cont'd.)

Group and Bank 2005	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 10 November 2004	-	-	-	-	-	-	-
Additions	4,734	136	2,251	8,011	631	101	15,864
At 31 December 2005	4,734	136	2,251	8,011	631	101	15,864
<u>Accumulated depreciation</u>							
At 10 November 2004	-	-	-	-	-	-	-
Charge for the period	417	7	79	511	124	-	1,138
At 31 December 2005	417	7	79	511	124	-	1,138
<u>Net book value</u>							
At 31 December 2005	4,317	129	2,172	7,500	507	101	14,726

15 DEFERRED TAXATION

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
At 1 January	1,354	-	1,354	-
Recognised in equity	587	5	587	5
Recognised in income statement (Note 30)	(2,382)	1,349	(2,382)	1,349
At 31 December	<u>441</u>	<u>1,354</u>	<u>441</u>	<u>1,354</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	3,831	-	3,831	-
Deferred tax liabilities	(3,390)	1,354	(3,390)	1,354
	<u>441</u>	<u>1,354</u>	<u>441</u>	<u>1,354</u>

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group and Bank:

	Allowance for financing losses RM'000	Other temporary differences RM'000	Total RM'000
2006			
At 1 January 2006	-	56	56
Recognised in income statement	3,716	59	3,775
At 31 December 2006	<u>3,716</u>	<u>115</u>	<u>3,831</u>
	Allowance for financing losses RM'000	Other temporary differences RM'000	Total RM'000
2005			
At 10 November 2004	-	-	-
Recognised in income statement	-	56	56
At 31 December 2005	<u>-</u>	<u>56</u>	<u>56</u>

15 DEFERRED TAXATION (Cont'd.)**Deferred tax liabilities of the Group and Bank:**

2006	Accelerated capital allowances RM'000	Unrealised gain on securities available-for-sale RM'000	Total RM'000
At 1 January 2006	1,405	5	1,410
Recognised in income statement	1,393	-	1,393
Recognised in equity	-	587	587
At 31 December 2006	<u>2,798</u>	<u>592</u>	<u>3,390</u>

2005	Accelerated capital allowances RM'000	Unrealised gain on securities available-for-sale RM'000	Total RM'000
At 10 November 2004	-	-	-
Recognised in income statement	1,405	-	1,405
Recognised in equity	-	5	5
At 31 December 2005	<u>1,405</u>	<u>5</u>	<u>1,410</u>

16 DEPOSITS FROM CUSTOMERS**(i) By type of deposit**

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<u>Qard</u>				
Demand deposits	103,890	17,234	115,448	27,363
<u>Mudharabah</u>				
Savings deposits	772	498	772	498
General investment deposits	34,903	100,931	34,903	100,931
<u>Murabaha</u>				
Others	1,441,599	-	1,441,599	-
	<u>1,581,164</u>	<u>118,663</u>	<u>1,592,722</u>	<u>128,792</u>

(ii) By type of customer

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Business enterprises	861,964	116,272	861,964	100,106
Individuals	13,637	1,627	13,637	1,627
Subsidiary	-	-	11,906	26,295
Others	705,563	764	705,215	764
	<u>1,581,164</u>	<u>118,663</u>	<u>1,592,722</u>	<u>128,792</u>

17 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
<u>Murabaha</u>				
Licensed Islamic banks	188,000	-	188,000	-
Licensed banks	17,610	-	17,610	-
Other financial institutions	790,180	-	790,180	-
	995,790	-	995,790	-

18 OTHER LIABILITIES

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Income payables	12,744	223	12,647	223
Sundry creditors	8,842	1,100	8,842	1,100
Amount due to holding company	1,140	1,140	1,140	1,140
Project clearing account	11,841	-	11,841	-
Revaluation loss on Ijarah rental swap	1,860	-	1,860	-
Accrued restoration cost	250	200	250	200
Other provisions and accruals	5,786	1,972	5,781	1,972
	42,463	4,635	42,361	4,635

The amount due to holding company is unsecured, interest-free and has no fixed terms of repayment.

19 PROVISION FOR ZAKAT AND TAXATION

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Zakat	10	-	10	-
Taxation	20	-	-	-
	30	-	10	-

20 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Authorised:				
At 1 January/ 31 December	800,000	800,000	800,000	800,000
Issued and fully paid:				
At 1 January	380,000	*	380,000	*
Issued during the period	-	380,000	-	380,000
At 31 December	380,000	380,000	380,000	380,000

*RM2 at incorporation date

21 RESERVES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-distributable				
Statutory reserve	2,620	191	2,620	191
Exchange fluctuation reserve	(750)	7	-	-
Unrealised gain on securities available-for-sale	1,685	14	1,685	14
	3,555	212	4,305	205
Distributable				
Retained profits	5,530	190	2,590	189
	9,085	402	6,895	394

The nature and purpose of each category of reserve are as follows:

i) Statutory reserve

The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act 1983 and are not distributable as cash dividends.

ii) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of a subsidiary.

iii) Unrealised gain on securities available-for-sale

This reserve represents the fair value of the securities determined as at the balance sheet date.

21 RESERVES (Cont'd.)

(i) Movements of the unrealised gain on securities available-for-sale

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
At 1 January	14	-	14	-
Unrealised on securities available for sale	1,671	14	1,671	14
At 31 December	<u>1,685</u>	<u>14</u>	<u>1,685</u>	<u>14</u>

22 OPERATING REVENUE

Operating revenue of the Group comprises of all types revenue derived from the business of banking but excluding all transactions between related companies.

Operating revenue of the Bank comprises financing income, fee and commission income, investment income, gross dividends and other income derived from banking operations.

23 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Income derived from investment of :				
(i) General investment deposits	545	1,478	545	1,478
(ii) Other deposits	54,065	1,477	43,778	1,477
	<u>54,610</u>	<u>2,955</u>	<u>44,323</u>	<u>2,955</u>

(i) Income derived from investment of general investment deposits

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Financing, advances and other receivables	-	137	-	137
Securities available-for-sale				
- Available-for-sale	-	13	-	13
Money at call and deposits with financial institutions	<u>545</u>	<u>135</u>	<u>545</u>	<u>135</u>
	545	285	545	285
Amortisation of premium less accretion of discounts	-	(3)	-	(3)
Total financing income and hibah	<u>545</u>	<u>282</u>	<u>545</u>	<u>282</u>
Fee income				
- Commissions	-	340	-	340
- Other fee income	-	611	-	611
Gain arising from sale of securities held-for-trading	-	23	-	23
Foreign exchange profit/(loss)				
- Realised	-	224	-	224
- Unrealised	-	(2)	-	(2)
	<u>545</u>	<u>1,478</u>	<u>545</u>	<u>1,478</u>

23 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (Cont' d.)**(ii) Income derived from investment of other deposits**

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Financing, advances and other receivables	17,416	143	17,416	143
Securities				
- Held-for-trading	419	-	419	-
- Available-for-sale	4,910	13	4,910	13
Money at call and deposits with financial institutions	20,487	143	21,558	143
	<u>43,232</u>	<u>299</u>	<u>44,303</u>	<u>299</u>
Amortisation of premium less accretion of discounts	(66)	(3)	(66)	(3)
	<u>43,166</u>	<u>296</u>	<u>44,237</u>	<u>296</u>
Total financing income and hibah				
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap	(1,101)	-	(1,101)	-
Profit from Murabaha trading on automobile	399	-	399	-
Fee income				
- Commissions	-	335	-	335
- Other fee income	-	604	-	604
Gain arising from sale of securities				
- Held-for-trading	137	23	137	23
- Available-for-sale	7,165		89	
Foreign exchange profit/(loss)				
- Realised	299	221	299	221
- Unrealised	12	(2)	12	(2)
Loss on Ijarah rental swap obligation	(294)	-	(294)	-
Gross dividend				
- Available-for-sale	4,282	-	-	-
- Subsidiary	-	-	-	-
	<u>54,065</u>	<u>1,477</u>	<u>43,778</u>	<u>1,477</u>

24 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' EQUITY

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Financing, advances and other receivables	15,779	1,595	15,779	1,595
Securities				
- Held-for-trading	480	-	480	-
- Available-for-sale	3,771	101	3,771	101
Money at call and deposits with financial institutions	5,391	8,987	5,391	8,987
	<u>25,421</u>	<u>10,683</u>	<u>25,421</u>	<u>10,683</u>
Amortisation of premium less accretion of discounts	(77)	(13)	(77)	(13)
Total financing income and hibah	<u>25,344</u>	<u>10,670</u>	<u>25,344</u>	<u>10,670</u>
Fee income				
- Commissions	9,634	1,325	9,634	1,325
- Other fee income	12,326	2,387	12,214	2,385
Gain arising from sale of securities				
- Held-for-trading	241	92	241	92
- Available-for-sale	348	-	348	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap	(805)	-	(805)	-
Profit from Murabaha trading on automobile	324	-	324	-
Foreign exchange profit/(loss)				
- Realised	264	872	264	872
- Unrealised	64	(5)	37	(5)
Loss on Ijarah rental swap obligation	(56)	-	(56)	-
Gross dividend				
- Subsidiary	-	-	5,114	-
Management fee	-	-	70	-
	<u>47,684</u>	<u>15,341</u>	<u>52,729</u>	<u>15,339</u>

25 ALLOWANCES FOR LOSSES ON FINANCING

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Allowance for bad and doubtful financing				
- General allowance	14,291	-	14,291	-
	<u>14,291</u>	<u>-</u>	<u>14,291</u>	<u>-</u>

26 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits from customers				
- Mudharabah	679	226	679	226
- Murabaha	15,160	-	15,160	-
Deposits and placements of banks and other financial institutions				
- Murabaha	20,663	-	18,646	-
	<u>36,502</u>	<u>226</u>	<u>34,485</u>	<u>226</u>

27 PERSONNEL EXPENSES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Salaries and wages	15,268	5,311	15,208	5,311
Social security costs	65	22	64	22
Short-term accumulating compensated absences	3	200	3	200
Pension costs - defined contribution plan	3,118	1,107	3,109	1,107
Other staff related costs	7,476	2,631	7,474	2,631
	<u>25,930</u>	<u>9,271</u>	<u>25,858</u>	<u>9,271</u>

Included in personnel expenses of the Group and the Bank are Executive Director's remuneration amounting to RM558,000 (2005: RM418,000) as disclosed in Note 29.

28 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Promotion				
Advertisement and publicity	1,138	235	1,138	235
Establishment				
Rental	2,094	1,350	2,048	1,350
Depreciation	4,419	1,138	4,412	1,138
EDP expenses	1,944	386	1,944	386
Hire of equipment	47	8	47	8
Allowance for equipment	3	-	3	-
General expenses				
Auditors remuneration				
- Statutory audit	105	40	100	40
- Others	66	68	66	68
Professional fees	267	721	255	721
Non executive director's remuneration	579	678	579	678
Allowance for doubtful debts	10	-	10	-
Others	5,421	2,338	5,297	2,337
	<u>16,093</u>	<u>6,962</u>	<u>15,899</u>	<u>6,961</u>

29 DIRECTORS' REMUNERATION

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Executive Director				
Salary and other remuneration, including meeting allowances	498	342	498	342
Fees	60	76	60	76
	<u>558</u>	<u>418</u>	<u>558</u>	<u>418</u>
Benefits-in-kind	204	113	204	113
	<u>762</u>	<u>531</u>	<u>762</u>	<u>531</u>
Non-Executive Directors:				
Fees	330	459	330	459
Other remuneration	249	219	249	219
Benefits-in-kind	-	58	-	58
	<u>579</u>	<u>736</u>	<u>579</u>	<u>736</u>
	<u>1,341</u>	<u>1,267</u>	<u>1,341</u>	<u>1,267</u>

The number of Directors of the Bank whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of directors	
	Bank 2006	2005
Executive Director		
RM500,000 - RM550,000	-	1
RM750,000 - RM800,000	1	-
	<u>1</u>	<u>1</u>

29 CEO AND DIRECTORS REMUNERATION (Cont'd.)

	Number of directors	
	Bank 2006	2005
Non-Executive Directors		
Less than RM50,000	1	-
RM50,001 - RM100,000	-	4
RM100,001 - RM150,000	3	-
RM150,001 - RM200,000	1	-
RM350,000 - RM400,000	-	1
	<u>5</u>	<u>5</u>
	<u>6</u>	<u>6</u>

30 TAXATION

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Malaysian income tax				
- Current year	3,596	107	3,576	107
- Under provision of Malaysian income tax in prior year	485	-	485	-
Deferred tax (Note 15):				
- Relating to origination and reversal of temporary differences	(2,899)	1,349	(2,899)	1,349
- Relating to changes in tax rates	517	-	517	-
	<u>1,699</u>	<u>1,456</u>	<u>1,679</u>	<u>1,456</u>

Domestic current income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 have reflected these changes.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank are as follows:

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Profit before taxation	<u>9,478</u>	<u>1,837</u>	<u>6,519</u>	<u>1,836</u>
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	2,654	514	1,825	514
Effect of different tax rate in a subsidiary	20	-	20	-
Effect of changes in tax rates on opening balance of deferred tax	(100)	-	(100)	-
Deferred tax recognised at different tax rates	617	-	617	-
Income not subject to tax	(2,261)	-	(1,452)	-
Expenses not deductible for tax purposes	284	942	284	942
Underprovision of tax expense in prior years	485	-	485	-
Taxation for the year/ period	<u>1,698</u>	<u>1,456</u>	<u>1,679</u>	<u>1,456</u>

31 EARNINGS PER SHARE

Basic earnings per share of the Group and the Bank is calculated by dividing the net profit for the financial year/ period by the weighted average number of ordinary shares in issue during the financial period.

	Group		Bank	
	2006	2005	2006	2005
Net profit for the year/ period (RM'000)	7,769	381	4,830	380
Weighted average number of ordinary shares in issues ('000)	380,000	380,000	380,000	380,000
Basic earnings per share (sen)	<u>2.04</u>	<u>0.10</u>	<u>1.27</u>	<u>0.10</u>

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Directors are of the opinion that all transactions below have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtained in transactions with unrelated parties.

(a) Related parties and relationship

The related parties and their relationship with the Bank are as follows:

Related parties	Relationship
KFH (Kuwait) K.S.C.	Holding company
KFH (Labuan) Berhad	Subsidiary
KFH (Bahrain) B.S.C.	Subsidiary of holding company
KFH Ijarah House (M) Berhad	Subsidiary of holding company
International Turnkey System, Kuwait	Subsidiary of holding company
Baitak Asian Real Estate Fund 1 (Labuan) Ltd	Company with common directors

The significant transactions and outstanding balances of the Bank with its holding company are as follows:

	Bank	
	2006	2005
	RM'000	RM'000
(i) Income		
- Profit income on placements	204	-
(ii) Expenditure		
- Profit expense on deposits	2,597	-
(iii) Amount due to holding company		
- Other liabilities	1,140	-
(iv) Amount due from holding company		
- Other assets	425	-

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd.)

(b) The significant transactions and outstanding balances of the Bank with its subsidiary are as follows:

	Bank	
	2006	2005
	RM'000	RM'000
(i) Income		
- Dividend income	5,114	-
- Management fees	70	-
- Profit income on placements	1,071	-
(ii) Expenditure		
- Profit expense on deposits	19	-
(iii) Amount due to subsidiary		
- Demand deposits	11,906	26,295
(iv) Amount due from subsidiary		
- Interbank placement	98,284	-
- Profit income receivable	131	-
- Others	416	-

(c) The significant transactions and outstanding balances of the Bank with the subsidiary of the holding company are as follows:

	Bank	
	2006	2005
	RM'000	RM'000
(i) Income		
- Profit income on placements	616	-
(ii) Expenditure		
- Profit expense on deposits	17	-
- Purchase of computer hardware, software and maintenance	4,610	4,474
(iii) Amount due to subsidiary of holding company		
- Interbank deposits	500	-
(iv) Amount due from subsidiary of holding company		
- Interbank placement	49,308	-
- Profit income receivable	162	-

(d) The significant transactions and outstanding balances of the Bank with company with common directors are as follows:

	Bank	
	2006	2005
	RM'000	RM'000
(i) Income		
- Agency fees (administrative fees) receivable	-	2,000
- Arranger fees	-	3,600
(ii) Amount due from company with common director		
- Agency fees (administrative fees) receivable	-	2,000
- Arranger fees receivable	-	3,600
- Others	359	-

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd.)

	Bank	
	2006	2005
	RM'000	RM'000
(iii) Amount due to company with common director		
- Interbank placements	46,409	-

(e) The significant transactions of the Bank with the directors of the Bank are as follows:

	Bank	
	2006	2005
	RM'000	RM'000
(i) Expenditure		
Profit paid on deposits		
- Directors	179	1

33 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank and its subsidiary make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

Group and Bank	2006			2005		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount * RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	631,559	631,559	477,309	85,000	85,000	85,000
Trade related contingencies	37,727	7,545	7,545	-	-	-
Irrevocable commitments to extend credit						
- maturity not exceeding one year	153,222	-	-	-	-	-
- maturity exceeding one year	149,862	74,931	74,931	69,631	34,816	34,816
Foreign exchange related contracts						
- forward contracts	7,108	498	249	-	-	-
Profit rate related contracts (ljarah rental swap obligation)						
- five years and above	253,584	30,430	-	-	-	-
	1,233,062	744,963	560,034	154,631	119,816	119,816

* The foreign exchange related contracts and profit rate related contracts are subject to market risk and credit risk.

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2006, the amount of contracts which were not hedged in the Group and the Bank and, hence, exposed to market risk was RM260,692,000 (2005 : Nil).

Credit risk

Credit risk is the risk that a counterpart will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2006, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM64,200 (2005 - Nil). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

34 RATE OF RETURN RISK

The Group and the Bank is exposed to risk associated with the effects of fluctuations in the prevailing levels of yield/profit rate on the financial position. The rate of return risk is the potential impacts of market factors affecting rates on returns in comparison with the expected rates of return for investment account holders. Yield/profit rate is monitored and managed by the Asset and Liability Management Committee ("ALCO") to protect the income of its operations. The following table summarises the exposure to rate of return risk. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates.

Group 2006	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short-term funds	1,159,715	-	-	-	-	25,138	-	1,184,853	3.84
Deposits and placements with banks and other financial institutions	-	128,240	27,758	-	-	-	-	155,998	3.46
Securities held-for-trading	-	-	-	-	-	-	64,548	64,548	-
Securities available-for-sale	-	91,061	-	368,843	128,993	99,527	-	688,424	3.77
Financing, advances and receivables	-	-	-	-	-	-	-	-	-
- performing	88,668	4,059	297,120	111,810	169,681	132,357	-	803,695	6.07
Murabaha trading automobile	-	-	-	-	-	-	9,398	9,398	-
Musyarakah capital investment	-	-	-	-	-	5,880	-	5,880	-
Other assets	-	-	-	-	-	99,126	-	99,126	-
TOTAL ASSETS	1,248,383	223,360	324,878	480,653	298,674	362,028	73,946	3,011,922	
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits from customers	883,886	288,204	305,184	-	-	103,890	-	1,581,164	3.68
Deposits and placements of banks and other financial institutions	329,683	575,986	90,121	-	-	-	-	995,790	4.25
Other liabilities	-	-	-	-	-	45,883	-	45,883	-
Total Liabilities	1,213,569	864,190	395,305	-	-	149,773	-	2,622,837	
Shareholders' equity	-	-	-	-	-	389,085	-	389,085	-
Total Liabilities and Shareholders' equity	1,213,569	864,190	395,305	-	-	538,858	-	3,011,922	
On-balance sheet profit sensitivity gap	34,814	(640,830)	(70,427)	480,653	298,674	(176,830)	73,946	-	-
Off-balance sheet profit sensitivity gap	-	(253,584)	-	-	253,584	-	-	-	-
Total profit sensitivity gap	34,814	(894,414)	(70,427)	480,653	552,258	(176,830)	73,946	-	-

34 RATE OF RETURN RISK (Cont'd.)

Group 2005	Non-trading book						Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000					
ASSETS										
Cash and short-term funds	446,892	-	-	-	-	1,545	-	448,437	3.02	
Securities available-for-sale	-	-	-	10,088	24,202	-	-	34,290	4.49	
Other assets	-	-	-	-	-	22,383	-	22,383		
TOTAL ASSETS	446,892	-	-	10,088	24,202	23,928	-	505,110		
LIABILITIES AND SHAREHOLDERS' EQUITY										
Deposits from customers	101,429	-	-	-	-	17,234	-	118,663	2.45	
Other liabilities	-	-	-	-	-	6,045	-	6,045		
Total Liabilities	101,429	-	-	-	-	23,279	-	124,708		
Shareholders' equity	-	-	-	-	-	380,402	-	380,402		
Total Liabilities and Shareholders' equity	101,429	-	-	-	-	403,681	-	505,110		
On-balance sheet profit sensitivity gap	345,463	-	-	10,088	24,202	(379,753)	-	-		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-		
Total profit sensitivity gap	345,463	-	-	10,088	24,202	(379,753)	-	-		

34 RATE OF RETURN RISK (Cont'd.)

Bank 2006	← Non-trading book →					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short-term funds	1,257,999	-	-	-	-	25,100	-	1,283,099	3.84
Deposits and placements with banks and other financial institutions	-	128,240	27,758	-	-	-	-	155,998	3.46
Securities held-for-trading	-	-	-	-	-	-	64,548	64,548	-
Securities available-for-sale	-	91,061	-	368,844	128,993	-	-	588,898	4.40
Financing, advances and receivables - performing	88,668	4,059	297,120	111,810	169,681	132,357	-	803,695	6.07
Musarakah capital investment	-	-	-	-	-	5,880	-	5,880	-
Murabaha trading automobile	-	-	-	-	-	-	9,398	9,398	-
Other assets	-	-	-	-	-	109,652	-	109,652	-
TOTAL ASSETS	1,346,667	223,360	324,878	480,654	298,674	272,989	73,946	3,021,168	
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits from customers	883,886	288,204	305,184	-	-	115,448	-	1,592,722	3.68
Deposits and placements of banks and other financial institutions	329,683	575,986	90,121	-	-	-	-	995,790	4.25
Other liabilities	-	-	-	-	-	45,761	-	45,761	-
Total Liabilities	1,213,569	864,190	395,305	-	-	161,209	-	2,634,273	
Shareholders' equity	-	-	-	-	-	386,895	-	386,895	-
Total Liabilities and Shareholders' equity	1,213,569	864,190	395,305	-	-	548,104	-	3,021,168	
On-balance sheet profit sensitivity gap	133,098	(640,830)	(70,427)	480,654	298,674	(275,115)	73,946	-	-
Off-balance sheet profit sensitivity gap	-	(253,584)	-	-	253,584	-	-	-	-
Total profit sensitivity gap	133,098	(894,414)	(70,427)	480,654	552,258	(275,115)	73,946	-	-

34 RATE OF RETURN RISK (Cont'd.)

Bank	← Non-trading book →						Trading book	Total	Effective profit rate %
	Up to 1 month	> 1 - 3 months	> 3 - 12 months	> 1 - 5 years	Over 5 years	Non-profit sensitive			
2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	446,892	-	-	-	-	1,504	-	448,396	3.02
Securities available-for-sale	-	-	-	10,088	24,202	-	-	34,290	4.49
Other assets	-	-	-	-	-	32,545	-	32,545	
TOTAL ASSETS	446,892	-	-	10,088	24,202	34,049	-	515,231	
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits from customers	101,429	-	-	-	-	27,363	-	128,792	2.45
Other liabilities	-	-	-	-	-	6,045	-	6,045	
Total Liabilities	101,429	-	-	-	-	33,408	-	134,837	
Shareholders' equity	-	-	-	-	-	380,394	-	380,394	
Total Liabilities and Shareholders' equity	101,429	-	-	-	-	413,802	-	515,231	
On-balance sheet profit sensitivity gap	345,463	-	-	10,088	24,202	(379,753)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	345,463	-	-	10,088	24,202	(379,753)	-	-	

35 LIQUIDITY RISK

The maturities of on-balance sheet assets and liabilities as well as other off balance sheets assets and liabilities, commitments and counter-guarantees are important factors in assessing liquidity of the reporting institution. The table below provides analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile:

Group	Up to	>6 - 12	>1 - 5	Over 5	Total
2006	6 month	months	years	years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	1,184,853	-	-	-	1,184,853
Deposits and placements with banks and other financial institutions	155,998	-	-	-	155,998
Securities held-for-trading	30,346	-	-	34,202	64,548
Securities available-for-sale	91,061	-	368,899	228,464	688,424
Financing, advances and receivables	234,962	153,545	182,263	232,925	803,695
Other assets	3,087	22,506	55,599	33,212	114,404
TOTAL ASSETS	1,700,307	176,051	606,761	528,803	3,011,922
LIABILITIES AND					
SHAREHOLDERS' EQUITY					
Deposits from customers	290,950	35,431	1,254,783	-	1,581,164
Deposits and placements of banks and other financial institutions	565,669	430,121	-	-	995,790
Other liabilities	42,243	-	3,390	250	45,883
Total Liabilities	898,862	465,552	1,258,173	250	2,622,837
Shareholders' equity	-	-	-	389,085	389,085
Total Liabilities and					
Shareholders' equity	898,862	465,552	1,258,173	389,335	3,011,922
OFF BALANCE SHEET LIABILITIES					
Commitments & contingencies	67,725	63,286	848,467	253,584	1,233,062
Net maturity mismatch	733,720	(352,787)	(1,499,879)	(114,116)	(1,233,062)

35 LIQUIDITY RISK (Cont'd.)

Group 2005	Up to 6 month RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
ASSETS					
Cash and short-term funds	448,437	-	-	-	448,437
Securities available-for-sale	-	-	10,088	24,202	34,290
Other assets	13	7,588	14,782	-	22,383
TOTAL ASSETS	448,450	7,588	24,870	24,202	505,110
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	117,804	859	-	-	118,663
Other liabilities	4,435	-	1,410	200	6,045
Total Liabilities	122,239	859	1,410	200	124,708
Shareholders' equity	-	-	-	380,402	380,402
Total Liabilities and Shareholders' equity	122,239	859	1,410	380,602	505,110
OFF BALANCE SHEET LIABILITIES					
Commitments & contingencies	86,631	-	68,000	-	154,631
Net maturity mismatch	239,580	6,729	(44,540)	(356,400)	(154,631)

35 LIQUIDITY RISK (Cont'd.)

Bank 2006	Up to 6 month RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
ASSETS					
Cash and short-term funds	1,283,099	-	-	-	1,283,099
Deposits and placements with banks and other financial institutions	155,998	-	-	-	155,998
Securities held-for-trading	30,346	-	-	34,202	64,548
Securities available-for-sale	91,061	-	368,899	128,938	588,898
Financing, advances and receivables	234,962	153,545	182,263	232,925	803,695
Other assets	3,087	22,506	55,599	43,738	124,930
TOTAL ASSETS	1,798,553	176,051	606,761	439,803	3,021,168
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	302,508	35,431	1,254,783	-	1,592,722
Deposits and placements of banks and other financial institutions	565,669	430,121	-	-	995,790
Other liabilities	42,121	-	3,390	250	45,761
Total Liabilities	910,298	465,552	1,258,173	250	2,634,273
Shareholders' equity	-	-	-	386,895	386,895
Total Liabilities and Shareholders' equity	910,298	465,552	1,258,173	387,145	3,021,168
OFF BALANCE SHEET LIABILITIES					
Commitments & contingencies	67,725	63,286	848,467	253,584	1,233,062
Net maturity mismatch	820,530	(352,787)	(1,499,879)	(200,926)	(1,233,062)

35 LIQUIDITY RISK (Cont'd.)

Bank 2005	Up to 6 month RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
ASSETS					
Cash and short-term funds	448,396	-	-	-	448,396
Securities available-for-sale	-	-	10,088	24,202	34,290
Other assets	13	7,550	14,782	10,200	32,545
TOTAL ASSETS	448,409	7,550	24,870	34,402	515,231
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	127,933	859	-	-	128,792
Other liabilities	4,435	-	1,410	200	6,045
Total Liabilities	132,368	859	1,410	200	134,837
Shareholders' equity	-	-	-	380,394	380,394
Total Liabilities and Shareholders' equity	132,368	859	1,410	380,594	515,231
OFF BALANCE SHEET LIABILITIES					
Commitments & contingencies	86,631	-	68,000	-	154,631
Net maturity mismatch	229,410	6,691	(44,540)	(346,192)	(154,631)

36 CAPITAL COMMITMENTS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Capital expenditure :				
Authorised and contracted for				
- purchase of equipment	-	2,925	-	2,925
- purchase of furniture & fittings	791	-	791	-
	<u>791</u>	<u>2,925</u>	<u>791</u>	<u>2,925</u>

37 CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and the Bank as at 31 December, are as follows:

	Group		Bank	
	2006	2005	2006	2005
Capital Ratio				
Core capital ratio				
Credit risk	20.08%	143.06%	21.01%	139.74%
Credit risk and market risk	16.92%	143.06%	17.56%	139.74%
Risk-weighted capital ratio				
Credit risk	20.81%	143.56%	21.23%	139.74%
Credit risk and market risk	17.54%	143.56%	17.74%	139.74%

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<u>Tier I capital</u>				
Paid-up share capital	380,000	380,000	380,000	380,000
Statutory reserve	2,606	191	2,606	191
Other reserves	5,544	197	2,604	189
	<u>388,150</u>	<u>380,388</u>	<u>385,210</u>	<u>380,380</u>
(Less)/add: Deferred tax (assets)/ liabilities, net	(441)	1,349	(441)	1,349
Total Tier-1 capital	<u>387,709</u>	<u>381,737</u>	<u>384,769</u>	<u>381,729</u>
<u>Tier II capital</u>				
General allowance for bad and doubtful financing	14,291	-	14,291	-
Total capital	<u>402,000</u>	<u>381,737</u>	<u>399,060</u>	<u>381,729</u>
Less: Investment in a subsidiary	-	-	(10,200)	(10,200)
Capital base	<u>402,000</u>	<u>381,737</u>	<u>388,860</u>	<u>371,529</u>

37 CAPITAL ADEQUACY (Cont' d.)

- (b) The breakdown of risk-weighted assets for credit risk (excluding deferred tax assets) in the various categories of risk-weights are as follows:

	Group 2006		Bank 2006	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	1,257,486	-	1,257,486	-
20%	482,679	96,536	482,641	96,528
50%	521,056	260,528	521,056	260,528
100%	1,573,981	1,573,981	1,474,330	1,474,330
Risk-weighted assets for credit risk	<u>3,835,202</u>	<u>1,931,045</u>	<u>3,735,513</u>	<u>1,831,386</u>
Risk-weighted assets for market risk		359,752		359,752
Total risk-weighted assets		<u>2,290,797</u>		<u>2,191,138</u>

	Group 2005		Bank 2005	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	1,047	-	1,047	-
20%	447,404	89,481	447,363	89,473
100%	176,420	176,420	176,381	176,381
Risk-weighted assets for credit risk	<u>624,871</u>	<u>265,901</u>	<u>624,791</u>	<u>265,854</u>
Risk-weighted assets for market risk		-		-
Total risk-weighted assets		<u>265,901</u>		<u>265,854</u>

38 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments.

The primary format, the business segment information, is prepared based on internal management reports, which are used by senior management for decision making and performance management. The amounts for each business segment are shown after the allocation of certain centralised cost, funding income and the applicable transfer pricing where appropriate. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation. All inter-segment transactions are conducted at arm's length basis on normal commercial terms that are not more favourable than those generally available to public.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure comprises additions to property and equipment.

(a) Primary Segment - By Business Segments:

The Group comprises the following main business segments:

(i) Treasury and Capital Market Operations

The treasury and capital market operations is involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading.

(ii) Corporate and Investment Banking

The investment banking operations focuses on business needs to large corporate customers, primarily public listed companies as well as financial institutions. The products and services offered to customers include direct financing, advisory banking service, equity financing, islamic securities/sukuk issuance, syndicated financing, mergers and acquisition advisory services and debt restructuring advisory services.

(iii) Commercial Banking

Commercial Banking operations provides a full range of financial services to customers, primarily non-public listed companies as well as small and medium sized enterprises. The products and services offered include long and short term financing such as working capital financing, asset financing, project financing as well as trade financing.

38 SEGMENT INFORMATION (Cont' d.)

(a) Primary Segment - By Business Segment

Group 2006	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	50,790	39,101	10,924	1,479	-	102,294
Revenue from other segments	-	-	-	2,273	(2,273)	-
Total Revenue	50,790	39,101	10,924	3,752	(2,273)	102,294
Segment results	10,436	15,200	1,146	(2,061)		24,721
Unallocated expenses						(15,243)
Profit from operations						9,478
Zakat						(10)
Taxation						(1,699)
Net profit for the year						7,769
Other information						
Segment assets	2,114,329	500,005	332,761	33,545	-	2,980,640
Unallocated corporate assets						31,282
Total assets						3,011,922
Segment liabilities	2,457,682	11,841	1,077	141,053	-	2,611,653
Unallocated corporate liabilities						11,184
Total liabilities						2,622,837
Other segment items						
Capital expenditure	-	-	-	10,411		10,411
Depreciation	-	-	-	4,419		4,419
Amortisation	143	-	-	-		143
Other non-cash (income)/expense other than depreciation	-	8,049	5,894	364	-	14,307

(b) Secondary Segment - By Geographical Locations

The Group has operations only in Malaysia.

38 SEGMENT INFORMATION (Cont' d.)

(a) Primary Segment - By Business Segment

Group 2005	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	9,373	7,475	-	1,448	-	18,296
Revenue from other segments	-	-	-	-	-	-
Total Revenue	9,373	7,475	-	1,448	-	18,296
Segment results	9,182	7,440	-	1,448	-	18,070
Unallocated expenses						(16,233)
Profit from operations						1,837
Zakat						-
Taxation						(1,456)
Net profit for the period						381
Other information						
Segment assets	482,727	-	-	-	-	482,727
Unallocated corporate assets						22,383
Total assets						505,110
Segment liabilities	-	-	-	118,663	-	118,663
Unallocated corporate liabilities						6,045
Total liabilities						124,708
Other segment items						
Capital expenditure	-	-	-	15,664		15,664
Depreciation	-	-	-	1,138		1,138
Amortisation	19	-	-	-		19
Other non-cash (income)/expense other than depreciation	-	-	-	209		209

(b) Secondary Segment - By Geographical Locations

The Group has operations only in Malaysia.

39 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

The estimated fair values of those on-balance sheets financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets.

The following methods and assumptions used to estimate the fair values of the following classes of financial instruments:

(a) **Cash and Short-Term Funds**

The carrying amount approximates fair value due to the relatively short maturity of the financial instruments.

(b) **Deposits and Placements with Banks and Other Financial Institutions**

The fair values of those financial instruments with remaining maturities of less than one year approximate their carrying values due to their relatively short maturities. For those financial instruments with maturities of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates of similar remaining maturities at the balance sheet date.

(c) **Securities held-for-trading, held-to-maturity and available-for-sale**

The fair values of securities actively traded are estimated based on quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity are estimated discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at balance sheet date.

(d) **Financing, advances and other receivables**

The fair values of financing are estimated based on future cash flows of contractual instalments payments, discounted at applicable prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing financing, the fair values are deemed to approximate the carrying values which are net of specific allowance for bad and doubtful financing.

(e) **Deposits from Customers, Deposits and Placement of Banks and Other Financial Institutions**

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of general investment deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable prevailing rates currently offered for deposits and placements with similar remaining maturities. For negotiable instruments of deposits, the estimated fair values are estimated based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using discounted cash flow technique.

40 OPERATING LEASES

The Group and the Bank leases a number of premises under operating leases. The leases typically run for an initial period of 3 years, with an option to renew the leases. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Within one year	2,353	1,625	2,285	1,625
Between one and five years	3,073	3,251	2,935	3,251
	<u>5,426</u>	<u>4,876</u>	<u>5,220</u>	<u>4,876</u>

41 SIGNIFICANT EVENT

There is no significant event during the financial year ended 31 December 2006.

42 SIGNIFICANT POST BALANCE SHEET EVENTS

There were no material events subsequent to the balance sheet date that requires disclosure or adjustments to the financial statements.

43 HOLDING COMPANY

The holding company for the Bank is Kuwait Finance House K.S.C, a licensed Islamic Bank incorporated in Kuwait.

44 RATING STATEMENT

<u>Agency</u>	<u>Date accorded</u>	<u>Ratings</u>
Rating Agency Malaysia	20 September 2006	Long Term Rating : AA2 Short Term Rating : P1