

**BOUBYAN BANK K.S.C.
STATE OF KUWAIT**



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2007 TO 31 MARCH 2007
(UNAUDITED)**

**BOUBYAN BANK K.S.C.
STATE OF KUWAIT**



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

For the period from 1 January 2007 to 31 March 2007

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

The Board of Directors
Boubyan Bank KSC
State of Kuwait

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Boubyan Bank KSC ("the Bank") and its subsidiary (together referred to as "the Group") as of 31 March 2007, and the related condensed consolidated interim statements of income, changes in equity and cash flows for the three month period then ended (the condensed consolidated interim financial statements). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with the basis of preparation set out in Note 2. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 31 March 2007 are not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.

Furthermore, based on our review, the condensed consolidated interim financial statements are in agreement with the accounting records. We further report that nothing has come to our attention indicating any contravention during the three month period ended 31 March 2007, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Bank's memorandum and articles of association, or of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of Banking business and its related regulations, which might have materially affected the Group's activities or its financial position.



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Kuwait: 9 April 2007

BOUBYAN BANK K.S.C.
STATE OF KUWAIT

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
(UNAUDITED)



For the period from 1 January 2007 to 31 March 2007

	Note	Three months ended 31 March	
		2007	2006
		KD'000	KD'000
Income			
Murabaha and other Islamic financing income, net		6,239	3,832
Investment income	3	1,494	660
Fees and commissions income		1,563	854
Share in results of associates		432	-
Other income		-	33
		<u>9,728</u>	<u>5,379</u>
Expenses			
Staff costs		(1,530)	(1,259)
General and administrative expenses		(765)	(618)
Depreciation and amortization		(159)	(24)
Provision for impairment - general		(677)	(794)
		<u>(3,131)</u>	<u>(2,695)</u>
Profit before distribution to depositors		6,597	2,684
Distribution to depositors		(3,341)	(1,012)
Profit for the period before provision for Kuwait Foundation for the Advancement of Sciences ("KFAS") and National Labour Support Tax ("NLST")		3,256	1,672
Provision for KFAS		(29)	(15)
Provision for NLST		(81)	-
Profit for the period		<u>3,146</u>	<u>1,657</u>
Attributable to:			
Equity holders of the Bank		3,119	1,657
Minority interest		27	-
Profit for the period		<u>3,146</u>	<u>1,657</u>
Earnings per share (fils)	4	<u>2.9</u>	<u>1.6</u>

The notes set out on pages 7 to 13 form an integral part of these condensed consolidated interim financial statements.

BOUBYAN BANK K.S.C.
STATE OF KUWAIT

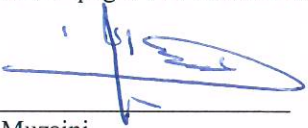
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED)



As at 31 March 2007

		(Audited)	
	31 March 2007	31 December 2006	31 March 2006
Note	KD'000	KD'000	KD'000
Assets			
Cash and cash equivalents	16,605	22,947	22,528
Short term murabaha	5 363,058	277,344	191,700
Receivables	6 140,310	115,698	56,703
Investment at fair value through profit or loss	1,020	1,020	-
Available-for-sale investments	7 32,566	30,710	32,103
Investment in unconsolidated subsidiary	-	1,133	-
Investment in associates	8 26,832	9,080	8,665
Trading properties	2,885	2,885	3,206
Investment properties	13,688	13,508	6,865
Leased assets	19,554	7,781	1,761
Other assets	11,194	18,624	25,277
Property and equipment	3,009	3,609	2,671
Total assets	630,721	504,339	351,479
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	154,215	207,165	183,527
Depositors' accounts	342,514	168,592	34,572
Other liabilities	10,252	8,172	23,665
Total liabilities	506,981	383,929	241,764
Capital and reserves			
Share capital	99,941	99,941	99,941
Share premium	280	280	280
Statutory reserve	1,727	1,727	701
Voluntary reserve	1,550	1,550	701
Fair value reserve	1,198	909	739
Foreign currency translation reserve	4	109	244
Retained earnings	16,778	13,659	7,109
Equity attributable to equity holders of the Bank	121,478	118,175	109,715
Minority interest	2,262	2,235	-
Total equity	123,740	120,410	109,715
Total liabilities and equity	630,721	504,339	351,479

The notes set out on pages 7 to 13 form an integral part of these condensed consolidated interim financial statements.


Yacob Y. Al-Muzaini
Chairman and Managing Director

**BOUBYAN BANK K.S.C.
STATE OF KUWAIT**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2007 to 31 March 2007



	Share capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the bank	Minority interest	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 December 2006	99,941	280	1,727	1,550	909	109	13,659	118,175	2,235	120,410
Unrealized gain on available-for-sale investments	-	-	-	-	289	-	-	289	-	289
Foreign currency translation adjustments	-	-	-	-	-	(105)	-	(105)	-	(105)
Net gain recognized directly in equity	-	-	-	-	289	(105)	-	184	-	184
Profit for the period	-	-	-	-	-	-	3,119	3,119	27	3,146
Total recognized income and expense for the period	-	-	-	-	289	(105)	3,119	3,303	27	3,330
Balance at 31 March 2007	99,941	280	1,727	1,550	1,198	4	16,778	121,478	2,262	123,740
Balance at 31 December 2005	99,941	280	701	701	-	(158)	5,452	106,917	-	106,917
Unrealized gain on available-for-sale investments	-	-	-	-	739	-	-	739	-	739
Foreign currency translation adjustments	-	-	-	-	-	402	-	402	-	402
Net gain recognized directly in equity	-	-	-	-	739	402	-	1,141	-	1,141
Profit for the period	-	-	-	-	-	-	1,657	1,657	-	1,657
Total recognized income and expense for the period	-	-	-	-	739	402	1,657	2,798	-	2,798
Balance at 31 March 2006	99,941	280	701	701	739	244	7,109	109,715	-	109,715

The notes set out on pages 7 to 13 form an integral part of these condensed consolidated interim financial statements.

BOUBYAN BANK K.S.C.
STATE OF KUWAIT

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(UNAUDITED)



For the period from 1 January 2007 to 31 March 2007

	Three months ended 31 March	
	2007	2006
	KD'000	KD'000
OPERATING ACTIVITIES		
Profit for the period	3,119	1,657
Adjustments for:		
Provision for impairment	677	794
Depreciation and amortization	159	24
Gain from sale of available for sale investments	(2)	-
Share in results of associates	(432)	-
Dividends income	(582)	(47)
Unrealized gain from changes in fair value of investment properties	(180)	-
Operating profit before changes in working capital	2,759	2,428
Increase in short term Murabaha	(85,753)	(24,448)
(Increase) / decrease in receivables	(25,208)	1,655
(Increase)/decrease in leased assets	(11,812)	33
Decrease in other assets	7,871	7,079
(Decrease) /increase in due to banks and financial institutions	(52,950)	75,388
Increase/(decrease) in depositors' accounts	173,763	(56,661)
Increase in other liabilities	2,077	1,484
Dividends received	582	47
Net cash from operating activities	11,329	7,005
INVESTING ACTIVITIES		
Purchase of available-for-sale investments	(6,077)	(5,127)
Proceeds from sale of available for sale investments	4,512	-
Purchase of investment in associates	(16,133)	-
Purchase of investment property	-	(6,865)
Purchase of property and equipment	-	(459)
Net cash used in investing activities	(17,698)	(12,451)
Net change in minority interest	27	-
Net decrease in cash and cash equivalents	(6,342)	(5,446)
Cash and cash equivalents at the beginning of the period	22,947	27,974
Cash and cash equivalents at the end of the period	16,605	22,528

The notes set out on pages 7 to 13 form an integral part of these condensed consolidated interim financial statements.

For the period from 1 January 2007 to 31 March 2007

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C. ("the Bank") is a public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 passed in 2003). The Bank's shares were listed in Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

The condensed consolidated interim financial statements as at and for the three months ended 31 March 2007 comprise of the Bank and its 56.41% owned subsidiary, Boubyan Takaful Insurance Company K.S.C (Closed) (together referred to as the "Group") and the Group's interests in associates.

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

These condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 9 April 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*, and the Kuwait Stock Exchange instruction No. 2 of 1998. The condensed consolidated interim financial statements do not include all the information and notes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as modified for use by the Government of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision as described below.

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the CBK and IFRS. In addition, in accordance with the CBK instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made. For further information, refer to the consolidated financial statements and notes thereto included in the Group's consolidated financial statements for the year ended 31 December 2006.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

The operating results for the three month period ended 31 March 2007 are not necessarily indicative of the results that may be expected for the year ending 31 December 2007.

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as compared with the Group's most recent financial statements, except for changes resulting from amendments to IFRSs and the method of computation of general provision as required by CBK and mentioned above. The changes to the Group's accounting policies and their effect on the condensed consolidated interim financial statements are described below:

The Group has adopted all applicable revisions to IFRSs and new IFRSs that came into effect from 1 January 2007.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 consolidated financial statements, will require extensive additional disclosures in the Group's full annual consolidated financial statements, with respect to Group's financial instruments and share capital.

Basis of consolidation

The condensed consolidated interim financial statements for the three month period ended 31 March 2007 include the Bank and its subsidiary referred to in note (1) above.

The financial statements of the subsidiary are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial statements.

The subsidiary's accounts were based on its management accounts for the three months period ended 31 March 2007. The total subsidiary's assets, liabilities and net income included in these condensed consolidated interim financial statements amounted KD 5,225 thousands, KD 36 thousands and KD 62 thousands respectively.

Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2006.

During the three months ended 31 March 2007, management reassessed its estimate in respect of the general provision on finance facilities, based on revised requirements of the CBK. At 31 December 2006, minimum general provision of 2% on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, was made. With effect from 1 January 2007, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

For the period from 1 January 2007 to 31 March 2007

3. INVESTMENT INCOME

	Three months ended 31 March	
	2007	2006
	KD'000	KD'000
Realized gain on money market funds	21	-
Unrealized gain on money market funds	246	375
Sukuk Coupon income	218	238
Income from investment properties	245	-
Gain on sale of available for-sale-investments	2	-
Dividend income	582	47
Unrealized gain from changes in fair value of investment properties	180	-
	<u>1,494</u>	<u>660</u>

4. EARNINGS PER SHARE

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the period is as follows:

	Three months ended 31 March	
	2007	2006
	KD'000	KD'000
Profit for the period attributable to equity holders of the Bank	<u>3,119</u>	<u>1,657</u>
Weighted average number of shares outstanding (shares)	<u>1,059,374,950</u>	<u>1,059,374,950</u>
Earnings per share (fils)	<u>2.9</u>	<u>1.6</u>

5. SHORT TERM MURABAHA

	31 March	(Audited)	31 March
	2007	31 December	2006
	KD'000	2006	KD'000
Banks	269,346	232,153	117,539
Financial institutions	95,753	46,630	76,853
Less: deferred profit	(1,080)	(517)	(1,170)
Less: provision for impairment	(961)	(922)	(1,522)
	<u>363,058</u>	<u>277,344</u>	<u>191,700</u>

For the period from 1 January 2007 to 31 March 2007

6. RECEIVABLES

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

	31 March 2007	(Audited) 31 December 2006	31 March 2006
	KD'000	KD'000	KD'000
Banks	9,604	11,096	11,505
Financial institutions	36,204	43,950	19,447
Individuals and companies	101,067	66,909	29,865
Less: deferred profit	(4,039)	(4,328)	(3,136)
Less: provision for impairment	(2,526)	(1,929)	(978)
	<u>140,310</u>	<u>115,698</u>	<u>56,703</u>

7. AVAILABLE-FOR-SALE INVESTMENTS

	31 March 2007	(Audited) 31 December 2006	31 March 2006
	KD'000	KD'000	KD'000
Investment in Sukuk	13,922	12,330	14,338
Investment in unquoted securities	10,018	10,018	10,489
Investment in unquoted funds	8,626	8,362	7,276
	<u>32,566</u>	<u>30,710</u>	<u>32,103</u>

It was not possible to reliably measure the fair value of certain available-for-sale investments of KD 15,054 thousands (31 December 2006: KD 14,463 thousands, 31 March 2006: KD 18,188 thousands) due to lack of reliable measure to determine the fair value of such investments. Accordingly, they are stated at cost (fair value as at 31st December 2006) less impairment losses, if any or the latest available fair values.

8. INVESTMENTS IN ASSOCIATES

	Country	Owner- ship %	31 March 2007	(Audited) 31 December 2006	31 March 2006
			KD'000	KD'000	KD'000
Bank Muamalat	Indonesia	21.28	5,784	5,526	5,495
Al Bilad Real Estate Co.	Kuwait	31.70	3,670	3,554	3,170
House of London and the Middle East plc	United Kingdom	20.00	16,250	-	-
Indonesia Leasing Co.	Indonesia	33.30	1,128	-	-
			<u>26,832</u>	<u>9,080</u>	<u>8,665</u>

8. INVESTMENTS IN ASSOCIATES (CONTINUED)

As at 31 December 2006, the investment in House of London and the Middle East plc (“HLME”) was classified as an investment in unconsolidated subsidiary as the Group had 100% stake in HLME. During the current period, HLME has increased its share capital from GBP 2 million (equivalent to KD 1,133 thousands) to GBP 175 million (equivalent to KD 99,292 thousands), however the Group did not fully subscribe to this increase. As a result, the Group’s interest in HLME was diluted to 20% and accordingly the Group’s control over HLME has ceased. The investment therefore is accounted as an investment in associate. The investment is stated at cost as the associate has not commenced operations as at the balance sheet date.

The Group’s share in the operating results of Bank Muamalat was recognised based on management accounts as at 28 February 2007, whereas the Group’s share in the operating results of Al Bilad Real Estate Company was recognised based on the audited financial statements for the period from incorporation on 13 November 2005 to 31 December 2006. The Group’s investment in Indonesia Leasing Company is stated at cost, as the associate has not commenced operations at the balance sheet date.

9. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members. Balances with related parties arise from commercial transactions in the normal course of business on an arm’s length basis and are included within the following financial statements captions:

	31 March 2007	(Audited) 31 December 2006	31 March 2006
	KD’000	KD’000	KD’000
Due from related parties:			
Receivables and leased assets	12,838	14,053	-
Due to related parties:			
Due to banks and financial institutions	138,754	28,414	27,775
Depositors’ accounts	516	-	-

Compensation of key management personnel

The remuneration to Directors and other members of key management during the period was as follows:

	Three months ended 31 March	
	2007	2006
	KD’000	KD’000
Short-term benefits	183	139
Post-employment benefits	18	63
	201	202

For the period from 1 January 2007 to 31 March 2007

10. CONTINGENCIES AND COMMITMENTS

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

	31 March 2007	(Audited) 31 December 2006	31 March 2006
	KD'000	KD'000	KD'000
Guarantees	27,017	27,453	-
Acceptance and letters of credit	11,748	13,030	-
Investment commitments	9,927	31,303	2,088
Capital commitments (projects under construction)	560	670	1,537
	<u>49,252</u>	<u>72,456</u>	<u>3,625</u>

11. SEGMENT REPORTING

Business segments:

For management purposes, the Bank is organized into the following four major business segments:

Retail banking: Principally handling the deposits of individual customers and small businesses, and providing consumer and commercial type Murabaha, Leasing and Islamic covered cards facilities.

Corporate banking: Principally handling Murabaha and Lease facilities for corporate and institutional customers.

Investment: Principally handling direct investments, Sukuk, local and international real estate investment.

Treasury: Principally handling local and international Murabaha and Wakala, primarily with financial institutions, as well as the management of the Bank's funding operations.

Three months ended 31 March 2007

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Segment revenues	99	1,297	2,601	5,640	91	9,728
Segment expenses	(1,052)	(424)	(131)	(3,687)	(1,288)	(6,582)
Segment results	<u>(953)</u>	<u>873</u>	<u>2,470</u>	<u>1,953</u>	<u>(1,197)</u>	<u>3,146</u>
Segment assets	<u>104,025</u>	<u>1,421</u>	<u>7,723</u>	<u>396,015</u>	<u>121,537</u>	<u>630,721</u>
Segment liabilities	<u>104,810</u>	<u>556</u>	<u>3,966</u>	<u>394,298</u>	<u>3,351</u>	<u>506,981</u>

Three months ended 31 March 2006

	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Investment</u>	<u>Treasury</u>	<u>Unallocated items</u>	<u>Total</u>
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Segment revenues	8	444	503	4,362	62	5,379
Segment expenses	(476)	(127)	(132)	(2,003)	(984)	(3,722)
Segment results	<u>(468)</u>	<u>317</u>	<u>371</u>	<u>2,359</u>	<u>(922)</u>	<u>1,657</u>
Segment assets	<u>301</u>	<u>9,426</u>	<u>59,416</u>	<u>277,304</u>	<u>5,032</u>	<u>351,479</u>
Segment liabilities	<u>79,565</u>	<u>-</u>	<u>35,710</u>	<u>124,483</u>	<u>2,006</u>	<u>241,764</u>

12. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements for the year ended 31 December 2006.

13. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank at 31 March 2007 amounted to KD 144,960 thousands (31 December 2006: KD 118,511 thousands, 31 March 2006: KD 37,634 thousands).

14. COMPARATIVE FIGURES

Where necessary, certain comparative figures have been reclassified to conform with the current period's presentation.

15. SUBSEQUENT EVENTS

Subsequent to the condensed consolidated interim balance sheet date, the General Assembly of the shareholders held on 7 April 2007 approved bonus shares dividends at 6% of share capital (2005: Nil) for the shareholders registered in the Bank's records at the General Assembly date.