

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



**CONDENSED INTERIM FINANCIAL STATEMENTS
AND INDEPENDENT REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2006 TO 30 JUNE 2006
(UNAUDITED)**

For the period from 1 January 2006 to 30 June 2006

INDEX	Page
Independent review report	1
Condensed interim statement of income (Unaudited)	2
Condensed interim balance sheet (Unaudited)	3
Condensed interim statement of changes in equity (Unaudited)	4
Condensed interim statement of cash flows (Unaudited)	5
Notes to the condensed interim financial statements (Unaudited)	6 to 11



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Independent review report to the Board of Directors of
Boubyan Bank K.S.C.
State of Kuwait

We have reviewed the accompanying balance sheet of Boubyan Bank K.S.C. ("the Bank") as at 30 June 2006 and the related condensed statements of income, changes in equity and cash flows for the six-month period then ended ("the condensed interim financial statements"). These condensed interim financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these condensed interim financial statements based on our review. The financial statements for the period from date of incorporation on 21 September 2004 to 30 June 2005 were neither audited nor reviewed, and accordingly, we do not express an opinion on these financial statements.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed interim financial statements are free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not presented fairly, in all material respects, in accordance with the basis of presentation set out in Note 2.

Furthermore, based on our review, the condensed 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 six month period ended 30 June 2006, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Bank's 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 Bank's activities or its financial position.

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Kuwait
6 July 2006

CONDENSED INTERIM STATEMENT OF INCOME (UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

		Three months ended 30 June 2006	Three months ended 30 June 2005	Six months ended 30 June 2006	From date of incorporation on 21 September 2004 to 30 June 2005
	Notes	KD'000	KD'000	KD'000	KD'000
Income					
Murabaha and other Islamic financing income, net		4,214	2,038	8,046	4,176
Investment income	3	1,355	177	2,015	235
Fees and commissions income, net		944	114	1,797	114
Other income		251	-	285	
		<u>6,764</u>	<u>2,329</u>	<u>12,143</u>	<u>4,525</u>
Expenses					
Staff costs		1,980	416	3,239	745
General and administrative expenses		676	228	1,294	708
Depreciation		66	20	90	26
Provision for impairment – general		738	30	1,532	30
		<u>3,460</u>	<u>694</u>	<u>6,155</u>	<u>1,509</u>
Profit before distribution to depositors		3,304	1,635	5,988	3,016
Distribution to depositors	4	(1,464)	-	(2,476)	-
Profit for the period before provision for Kuwait Foundation for the Advancement of Sciences (“KFAS”) and National Labor Support Tax (“NLST”)		1,840	1,635	3,512	3,016
Provision for contribution to KFAS		(17)	(16)	(32)	(30)
Provision for NLST		(41)	-	(78)	-
Profit for the period		1,782	1,619	3,402	2,986
Earnings per share (fils)	5	1.8	1.6	3.4	3.0

The notes set out on pages 6 to 11 form an integral part of these condensed interim financial statements.

BOUBYAN BANK K.S.C.
STATE OF KUWAIT

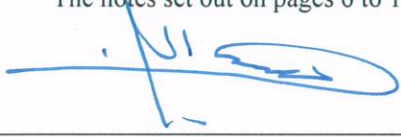
CONDENSED INTERIM BALANCE SHEET (UNAUDITED)

As at 30 June 2006



		(Audited)	
	30 June 2006	31 December 2005	30 June 2005
	Notes	KD'000	KD'000
Assets			
Cash and short term funds		19,697	27,974
Short term Murabaha	6	163,869	168,212
Receivables, net	7	177,559	58,192
Leased assets		1,752	1,794
Available for sale investments	8	28,006	26,237
Investment in associates		8,476	8,263
Investment in unconsolidated subsidiary	9	2,820	-
Trading properties		2,917	3,206
Investment properties		15,388	-
Other assets		28,612	32,356
Property and equipment, net		3,291	2,236
Total assets		<u>452,387</u>	<u>328,470</u>
Liabilities and equity			
Liabilities			
Due to banks and financial institutions		80,293	108,139
Depositors' accounts		247,483	91,233
Other liabilities		13,478	22,181
Total liabilities		<u>341,254</u>	<u>221,553</u>
Equity			
Share capital		99,941	99,941
Share premium		280	280
Statutory reserve		701	701
Voluntary reserve		701	701
Fair value reserve		773	-
Foreign currency adjustments		(117)	(158)
Retained earnings		8,854	5,452
Total equity		<u>111,133</u>	<u>106,917</u>
Total liabilities and equity		<u>452,387</u>	<u>328,470</u>

The notes set out on pages 6 to 11 form an integral part of these condensed interim financial statements.


Yacob Y. Al-Muzaini
Chairman and Managing Director

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

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2006 to 30 June 2006



	Share capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency adjustments	Retained earnings	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 December 2005	99,941	280	701	701	-	(158)	5,452	106,917
Unrealized gain on available for sale investments	-	-	-	-	773	-	-	773
Foreign currency translation adjustments	-	-	-	-	-	41	-	41
Net gain recognized directly in equity	-	-	-	-	773	41	-	814
Profit for the period	-	-	-	-	-	-	3,402	3,402
Total recognized income for the period	-	-	-	-	773	41	3,402	4,216
Balance at 30 June 2006	99,941	280	701	701	773	(117)	8,854	111,133
Issue of share capital	100,000	280	-	-	-	-	-	100,280
Fraction shares not issued	(59)	-	-	-	-	-	-	(59)
Total share capital	99,941	280	-	-	-	-	-	100,221
Profit for the period	-	-	-	-	-	-	2,986	2,986
Balance at 30 June 2005	99,941	280	-	-	-	-	2,986	103,207

The notes set out on pages 6 to 11 form an integral part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

	Six months ended 30 June 2006	From date of incorporation on 21 September 2004 to 30 June 2005
	KD'000	KD'000
OPERATING ACTIVITIES		
Profit for the period before provision for contribution to KFAS and NLST	3,512	3,016
Adjustments for:		
Provision for impairment	1,532	30
Depreciation	90	26
Gain from sale of available for sale investments	(222)	-
Share of result of associates	(501)	-
	<u>4,411</u>	<u>3,072</u>
Decrease / (increase) in short term Murabaha	3,698	(95,278)
Increase in receivables	(120,035)	(76,943)
Decrease in leased assets	42	-
Decrease / (increase) in other assets	3,744	(611)
(Decrease) / increase in due to banks and financial institutions	(27,846)	94,136
Increase in depositors' accounts	156,250	15,711
(Decrease) / increase in other liabilities	(9,030)	161
Net cash from / (used in) operating activities	<u>11,234</u>	<u>(59,752)</u>
INVESTING ACTIVITIES		
Purchase of available for sale investments	(5,345)	(28,404)
Proceed from sale of available for sale investment	4,683	-
Purchase of investment in associates	-	(4,326)
Dividend from associate	504	-
Purchase of investment property	(15,388)	-
Purchase of property and equipment	(1,145)	(294)
Purchase of investment in unconsolidated subsidiary	(2,820)	-
Net cash used in investing activities	<u>(19,511)</u>	<u>(33,024)</u>
FINANCING ACTIVITIES		
Issue of share capital	-	100,221
Net cash from financing activities	<u>-</u>	<u>100,221</u>
Net (decrease) / increase in cash and short term funds	<u>(8,277)</u>	<u>7,445</u>
Cash and short term funds at the beginning of the period	<u>27,974</u>	<u>-</u>
Cash and short term funds at the end of the period	<u><u>19,697</u></u>	<u><u>7,445</u></u>

The notes set out on pages 6 to 11 form an integral part of these condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

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

These interim condensed financial statements were authorised for issue by the Board of Directors on 6 July 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed 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 interim condensed financial statements do not include all the information and notes required for complete financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) 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 2% on all finance 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 financial statements and notes thereto included in the Bank's financial statements for the period from date of incorporation on 21 September 2004 to 31 December 2005.

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

The preparation of the condensed interim financial statements requires management to make judgments, 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.

The operating results for the six months period ended 30 June 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006.

The condensed interim financial statements have been prepared using the same accounting policies and methods of computation as compared with the Bank's most recent financial statements.

Trading properties

Trading properties are held for short term purposes and stated at the lower of cost and net realizable value, determined on an individual basis. Cost comprises of the purchase cost and other expenses incurred to complete the underlying transaction. Net realizable value is based on the estimated selling price less any future costs to be incurred on sale. Losses arising from valuation are stated in the condensed interim statement of income.

Investment properties

Investment properties, which are held to earn rentals and / or for capital appreciation, are stated at their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of the investment properties are included in the condensed interim statement of income for the period in which they arise.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

3. INVESTMENT INCOME

	Three months ended 30 June 2006	Three months ended 30 June 2005	Six months ended 30 June 2006	From date of incorporation on 21 September 2004 to 30 June 2005
	KD'000	KD'000	KD'000	KD'000
Unrealized gain on money market funds	136	87	511	141
Share of results of associates	501	-	501	-
Sukuk Coupon income	230	63	468	64
Income from investment properties	227	-	227	-
Gain from sale of available for sale investments	222	-	222	-
Dividend income	39	27	86	30
	<u>1,355</u>	<u>177</u>	<u>2,015</u>	<u>235</u>

4. DISTRIBUTION TO DEPOSITORS

The Bank generally invests all of its investment deposits and saving accounts, adjusted for reserve requirements and the Bank's liquidity requirements.

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures approved by the Bank's Shariah Supervisory Board based on the result of the financial period as follows:

	Three months ended 30 June 2006	Three months ended 30 June 2005	Six months ended 30 June 2006	From date of incorporation on 21 September 2004 to 30 June 2005
	KD'000	KD'000	KD'000	KD'000
Investment deposits	1,400	-	2,410	-
Saving accounts	64	-	66	-
	<u>1,464</u>	<u>-</u>	<u>2,476</u>	<u>-</u>

The balance payable is included under other liabilities.

5. EARNINGS PER SHARE

Earnings per share are based on the profit for the period of KD 3,402 thousand (30 June 2005: KD 2,986 thousand) and the weighted average number of ordinary shares outstanding during the period of 999,410,330 shares (30 June 2005: 999,410,330 shares).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

6. SHORT TERM MURABAHA

	30 June 2006	(Audited) 31 December 2005	30 June 2005
	KD'000	KD'000	KD'000
Banks	104,702	141,271	49,794
Financial institutions	61,326	27,715	28,722
Others	-	489	17,410
Less: deferred profit	(952)	(701)	(648)
Less: provision for impairment	(1,207)	(562)	-
	<u>163,869</u>	<u>168,212</u>	<u>95,278</u>

7. RECEIVABLES, NET

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

	30 June 2006	(Audited) 31 December 2005	30 June 2005
	KD'000	KD'000	KD'000
Banks	9,026	-	26,801
Financial institutions	50,025	45,309	51,245
Others	125,956	16,853	1,616
Less: deferred profit	(5,636)	(2,826)	(2,719)
Less: provision for impairment	(1,812)	(1,144)	(30)
	<u>177,559</u>	<u>58,192</u>	<u>76,913</u>

8. AVAILABLE FOR SALE INVESTMENTS

	30 June 2006	(Audited) 31 December 2005	30 June 2005
	KD'000	KD'000	KD'000
Investment in Sukuk	12,780	14,308	18,703
Investment in unquoted securities	7,998	9,838	7,723
Investment in unquoted funds	7,228	2,091	1,978
	<u>28,006</u>	<u>26,237</u>	<u>28,404</u>

It was not possible to reliably measure the fair value of certain available for sale investments of KD 9,063 thousand (31 December 2005: KD 26,237 thousand, 30 June 2005: KD 28,404 thousand) due to lack of reliable measure to determine the fair value of such investments. Accordingly, they are stated at cost less impairment losses, if any.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

9. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

During the period, the Bank has acquired a 77.17% interest in Boubyan Takaful Insurance Company KSC (Closed), a Kuwaiti Shareholding Company engaged in insurance activities in accordance with Noble Islamic Sharia principles. The investment in the unconsolidated subsidiary represents 56.41% of the subsidiary's paid up share capital. The remaining shares of 20.76% amounting to KD 1,038 thousand are classified under other assets as these shares have been committed to be subscribed by a strategic investor.

The Bank has obtained a prior consent from the Central Bank of Kuwait ("CBK") for investing in Boubyan Takaful Insurance Company up to 60% of its share capital in accordance with CBK instructions regulating the investment policy for local banks.

The investment is stated at cost as the subsidiary did not start its operations yet.

As at the condensed interim balance sheet date, the Bank has paid 50% of its share in the subsidiary's share capital (Note 11).

10. RELATED PARTY TRANSACTIONS

Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and comprised the following:

	30 June 2006	(Audited) 31 December 2005	30 June 2005
	KD'000	KD'000	KD'000
Due from related parties:			
Receivables and leased assets	-	31,184	-
Due to related parties:			
Depositors' accounts	8,702	-	-

Compensation of key management personnel

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

	Three months ended 30 June 2006	Three months ended 30 June 2005	Six months ended 30 June 2006	From date of incorporation on 21 September 2004 to 30 June 2005
	KD'000	KD'000	KD'000	KD'000
Short-term benefits	124	117	263	225
Post-employment benefits	55	50	118	92
	<u>179</u>	<u>167</u>	<u>381</u>	<u>317</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

11. 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:

	30 June 2006	(Audited) 31 December 2005	30 June 2005
	KD'000	KD'000	KD'000
Guarantees	10,735	-	-
Acceptance and letters of credit	3,971	-	-
Investment commitments	8,080	5,259	2,203
Capital commitments (projects under construction)	1,247	1,839	-
	<u>24,033</u>	<u>7,098</u>	<u>2,203</u>

12. SEGMENT REPORTING

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, Ijara and Islamic covered cards facilities.

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

Investment: Principally handling direct investments, Sukuk, and 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.

Six months ended 30 June 2006

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Segment revenues	11	1,088	1,484	9,322	238	12,143
Segment expenses	(1,271)	(531)	(302)	(3,902)	(2,735)	(8,741)
Segment results	<u>(1,260)</u>	<u>557</u>	<u>1,182</u>	<u>5,420</u>	<u>(2,497)</u>	<u>3,402</u>
Segment assets	<u>593</u>	<u>31,459</u>	<u>65,294</u>	<u>350,479</u>	<u>4,562</u>	<u>452,387</u>
Segment liabilities	<u>91,713</u>	<u>-</u>	<u>10,568</u>	<u>236,062</u>	<u>2,911</u>	<u>341,254</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

For the period from 1 January 2006 to 30 June 2006

12. SEGMENT REPORTING (CONTINUED)

From date of incorporation on 21 September 2004 to 30 June 2005

	<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	-	5	27	4,493	-	4,525
Segment expenses	(27)	(117)	(114)	(228)	(1,053)	(1,539)
Segment results	(27)	(112)	(87)	4,265	(1,053)	2,986
Segment assets	-	1,586	32,731	178,050	878	213,245
Segment liabilities	-	-	-	109,847	191	110,038

Three months ended 30 June 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	3	644	981	4,960	176	6,764
Segment expenses	(795)	(404)	(170)	(1,899)	(1,714)	(4,982)
Segment results	(792)	240	811	3,061	(1,538)	1,782

Three months ended 30 June 2005

	<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	-	5	27	2,297	-	2,329
Segment expenses	(17)	(88)	(63)	(139)	(403)	(710)
Segment results	(17)	(83)	(36)	2,158	(403)	1,619

13. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank at 30 June 2006 amounted to KD 72,372,545 (31 December 2005: KD 26,867,682, 30 June 2005: NIL).

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.