



ISLAMIC BANK OF BRITAIN
البنك الإسلامي البريطاني

Customer Services Centre **0845 6060 786**
www.islamic-bank.com

Incorporated and Registered in England and Wales with Registration No. 4483430. Registered Office: Edgbaston House, 3 Duchess Place, Hagley Road, Birmingham B16 8NH.
Islamic Bank of Britain is authorised and regulated by the Financial Services Authority.



ISLAMIC BANK OF BRITAIN
البنك الإسلامي البريطاني

Interim Report

for the six months to
30 June 2006

البنك الإسلامي
البريطاني



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Chairman's Statement

I am pleased to present the Interim Report of the Islamic Bank of Britain (the 'Bank') for the six month period ended 30 June 2006. In the first half of 2006:

- customer numbers increased by 67% to 23,459
- customer deposits grew by 47% to £70.1 million
- gross customer financing rose by 58% to £7.1 million

In the 2005 Annual Report I advised that we were hopeful that the 2006 Finance Bill would contain legislative changes to remove the tax hurdles which have restricted the development of certain of our Islamic financing products. I am pleased to advise that these changes were included and became effective upon the Bill receiving Royal Assent at the end of July. This will now enable the Bank to promote a wider range of financing services to the personal and small business customer.

The operating loss for the first half of the year amounted to £4.2 million. Whilst costs were in line with budget, revenue has been constrained by the fact that customer asset growth has been dependant on tax legislative changes as outlined above. Net operating income of £1.2 million is £0.2 million higher than the comparative period in 2005. This is reflective of the growth in customer deposits and financing, but has been partly offset by lower income from reduced capital. This reduction results from the continued investment in building the operating infrastructure and distribution capability of the Bank.

Operating expenses at £5.4 million are £1.7 million higher than the 2005 comparative period. Of this amount, £0.6 million is attributable to increased staff costs as a result of the opening of four new branches and £0.9 attributable to marketing costs. The remainder of the cost increase is principally related to the further development of the Bank's operating infrastructure, including Internet Banking and branch related costs. On the positive side, legal and professional costs have continued to decrease from £100k to £65k during the comparative period.

Impairment charges and credit risk provisions amounted to £134k. This figure represents 1.9% of the total asset book. The figure for the comparative period in 2005 was £26k. This increase is associated with the significant growth in the business, but we remain alert to the current strains associated with consumer debt within the UK and our lending policy approach to this sector is to remain cautious.

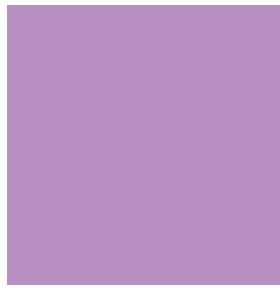
The opening of our Manchester branch in January this year increased the branch network distribution to seven units. We have successfully negotiated new premises at East Ham, London and expect to be in a position to open a further branch there before the end of the year. Additionally, our distribution capability will shortly be enhanced with the launch of our Internet Banking service. This has been operating in a test mode for some weeks now and we expect to be in a position to make it available to all customers during the third quarter of 2006.

Our Home Finance product was released towards the end of June and is now being actively promoted to customers. Restrictions still exist on the use of Islamic home finance for property purchase under the 'Right to Buy' scheme, and we shall be contributing to the debate which seeks to explore a solution to this particular hurdle.



Abdul Rahman Abdul Malik
Chairman





Income Statement

	6 month period ended 30 June 2006	6 month period ended 30 June 2005	6 month period ended 31 Dec 2005
	£	£	£
Income receivable from:			
Commodity Murabaha and Wakala transactions	1,725,063	1,178,740	1,604,864
Consumer finance accounts	281,825	17,351	184,188
Returns payable to customers	(734,605)	(183,794)	(631,184)
Net income from Islamic financing transactions	1,272,283	1,012,297	1,157,868
Fees and commissions receivable	54,994	7,948	33,015
Fees and commissions payable	(5,001)	(746)	(2,421)
Net fee income	49,993	7,202	30,594
Total operating income	1,322,276	1,019,499	1,188,462
Impairment charges and other credit risk provisions	(134,546)	(25,996)	(26,072)
Net operating income	1,187,730	993,503	1,162,390
Employee compensation and benefits	(1,955,807)	(1,334,967)	(1,915,609)
General and administrative expenses	(2,762,905)	(1,743,592)	(2,115,624)
Depreciation of property, plant and equipment	(696,812)	(647,357)	(848,251)
Total operating expenses	(5,415,524)	(3,725,916)	(4,879,484)
Operating loss	(4,227,794)	(2,732,413)	(3,717,094)
Tax on operating loss	-	-	-
Loss for the period	(4,227,794)	(2,732,413)	(3,717,094)
Earnings per ordinary share (basic and diluted) - pence	(1.0)	(0.6)	(0.9)

Balance Sheet

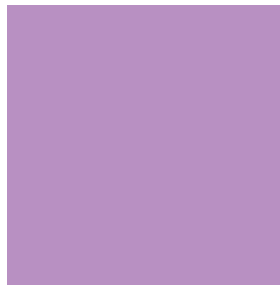
	30 June 2006	30 June 2005	31 Dec 2005
	£	£	£
Assets			
Cash	642,055	198,598	579,251
Commodity Murabaha and Wakala receivables and other advances due from banks	93,686,166	71,947,916	78,037,676
Consumer finance accounts	6,930,066	2,573,727	4,454,369
Other assets	1,017,848	567,224	910,248
Property, plant and equipment	5,459,955	4,477,835	5,307,956
Total assets	107,736,090	79,765,300	89,289,500
Liabilities and equity			
Liabilities			
Customer liability accounts	70,084,230	33,884,326	47,714,593
Other liabilities	1,315,114	1,599,340	1,010,367
Total liabilities	71,399,344	35,483,666	48,724,960
Equity			
Called up share capital	4,190,000	4,190,000	4,190,000
Share premium	48,747,255	48,747,255	48,747,255
Retained earnings	(16,600,509)	(8,655,621)	(12,372,715)
Total equity	36,336,746	44,281,634	40,564,540
Total equity and liabilities	107,736,090	79,765,300	89,289,500

These financial statements were approved by the board of directors on 1 September 2006 and were signed on its behalf by:

Ashraf Piranie

Ashraf Piranie FCCA MBA
Finance Director





Cash Flow Statement

	6 month period ended 30 June 2006	6 month period ended 30 June 2005	6 month period ended 31 Dec 2005
	£	£	£
Cash flows from operating activities			
Operating loss	(4,227,794)	(2,732,413)	(3,717,094)
<i>Adjustments for:</i>			
Non cash items included in net loss:			
Depreciation	696,812	647,357	848,251
Impairment charges and other credit risk provisions	134,546	25,996	26,072
Increase in other assets	(107,600)	(180,147)	(343,024)
Increase in Commodity Murabaha and Wakala receivables	(17,241,077)	(16,124,907)	(12,174,279)
Increase / (decrease) in other liabilities	304,747	(265,849)	(588,973)
Increase in customer liability accounts	22,369,637	31,759,536	13,830,267
Increase in consumer finance accounts	(2,610,243)	(2,599,723)	(1,906,714)
Net cash (used in)/ from operating activities	(680,972)	10,529,850	(4,025,494)
Cash flows from investing activities			
Purchase of property, plant and equipment	(848,811)	(1,578,119)	(1,678,372)
Net cash used in investing activities	(848,811)	(1,578,119)	(1,678,372)
Net (decrease) / increase in cash and cash equivalents	(1,529,783)	8,951,731	(5,703,866)
Cash and cash equivalents at beginning of period	4,939,877	1,692,012	10,643,743
Cash and cash equivalents at the end of the period	3,410,094	10,643,743	4,939,877

1 Accounting policies and basis of preparation

Islamic Bank of Britain PLC ('the Company') is a company incorporated in the UK.

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published financial statements for the year ended 31 December 2005.

The directors anticipate that these accounting policies will be used in the preparation of the Company's annual accounts for the year ended 31 December 2006.

2 Information in this shareholders summary

The information contained in this summary has been extracted from the interim report of Islamic Bank of Britain PLC for the 6 month period ended 30 June 2006, a full version of which is available upon request from our Birmingham Head Office, 3 Duchess Place, Hagley Road, Edgbaston, Birmingham, B16 8NH.

The information in this summary and in the interim report is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 ('the Act'). The interim report was approved by the Board of Directors on 1 September 2006. The statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies in England & Wales in accordance with section 242 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

