

European Finance House Limited

**Directors' Report and Consolidated Financial
Statements**

Registered number 4656003

For the year ended 31 December 2008

WEDNESDAY



A3Q6T91C

A55

15/04/2009

COMPANIES HOUSE

265

18

Contents

Directors' report	3
Statement of directors' responsibilities in respect of the directors' report and the financial statements	7
Shari'a Supervisory Committee report	8
Independent auditors' report to the members of European Finance House Limited	9
Consolidated income statement	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated and company statement of changes in equity	14
Consolidated statement of cash flows	15
Company statement of cash flows	16
Notes to the consolidated financial statements	17

Directors' report

The directors present their report and financial statements for the year ended 31 December 2008.

Principal activities

European Finance House Limited (the 'Company') was incorporated on 4 February 2003 with the intention of developing and offering Shari'a compliant financial products and solutions within the UK and European marketplace and to attract investment into the UK and Europe from the Gulf and Middle East.

In April 2007 the Company applied to the Financial Services Authority ('FSA') for authorisation under Part IV of the Financial Services and Markets Act 2000 to allow it to act as an authorised person under the regulation of the FSA. On 28 January 2008, the Company issued 25,000,000 fully paid Ordinary shares at £1 each. On 29 January 2008 regulatory authorisation was received, after which date the Company commenced operations as a Shari'a compliant investment bank in line with the objectives stated above.

Financial results and business review

The financial statements for the year ended 31 December 2008 are shown on pages 11 to 39. The Company and its subsidiaries are together referred to as the 'Group'. The Group and Company loss for the year amounts to £2,351,025 (2007: £2,800,905).

The current year was the first period of banking operations for the Company following receipt of regulatory authorisation. The subsequent focus was on delivering the core elements of the Company's product offering and on developing counterparty relationships.

The loss for the year reflects the development stage of the Company and costs incurred were in line with plan as focus was given to developing the three main business lines:

Asset Management

The aim of the Asset Management division is to offer a wide range of Shari'a compliant investment solutions. The current year was a year of development and the main activity was the establishment of a mutual funds platform based in Luxembourg.

Corporate and Institutional Finance

The activities of the Corporate and Institutional Finance division include the provision of Shari'a compliant financing, participation in capital markets, treasury services, international trade finance and the arrangement of, and advice relating to, private equity and mergers and acquisitions.

Real Estate

The Real Estate division provides a range of services including property related advice and consultancy, Shari'a compliant financing and asset management of property investments. During the year the division completed its first Musharaka based property financing transaction and earned a project advisory mandate relating to a significant UK property redevelopment. Plans are underway for the development of a Shari'a compliant real estate fund.

On 3 April 2008, the Company acquired the entire issued share capital of Pall Mall Property Development (Holdings) Limited (PMH) for a total consideration of £1. PMH is the sole shareholder of Pall Mall Property Development Limited (PMD), a company incorporated with the intention of acquiring commercial property for development and investment purposes. During the year, PMD exchanged contracts relating to the acquisition of a commercial property in London and paid a deposit totalling £3,300,000 funded through a loan issued by the Company.

A detailed explanation of the Group's approach to financial and operational risk management is set out in the notes to the financial statements.

Directors' report (continued)

Proposed dividend

The directors do not propose the payment of a dividend.

Directors and directors' interests

The directors who held office during the year, and unless indicated who served as directors throughout the year, were as follows:

Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al-Thani (Chairman)

Professor Abdul Latif Al Meer ¹

Mr. Roderick Chamberlain ²

Appointed 25 February 2008

Mr. Michael Clark ³

Mr. Salah Jaidah ¹

Mr. Emmanuel Limido

Mr. David Potter ³

Mr. Jean-Marc Riegel ²

Mr. David Sambar ¹

Appointed 25 February 2008

1. Member of the Remuneration Committee

2. Member of the Audit and Risk Committee

3. Member of the Executive Committee

The directors who held office at the end of the year had the following interests in the Ordinary shares of the Company according to the register of directors' interests:

	Interest at end of period	Interest at start of period
Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al-Thani	250,000	-
Professor Abdul Latif Al Meer	250,000	-
Mr. Salah Jaidah	250,000	-
Mr. Jean-Marc Riegel	250,000	-
Mr. Michael Clark	1	1

None of the other directors who held office at the end of the year had any other disclosable interest in the shares of the Company. According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the year.

Directors' report (continued)

Shari'a Supervisory Committee members

As a Shari'a compliant bank, the Company's governance structure includes a Shari'a Supervisory Committee (SSC) which is responsible for overseeing that all products and activities of the Company are Shari'a compliant. The SSC has no Executive responsibilities. The SSC members throughout the year were as follows:

Sheikh Walid Ben Hadi (Chairman)

Sheikh Nizam Yacouby

Dr Abdul Sattar Abu Ghuddeh

The annual report of the SSC is shown on page 8.

Creditor payment policy

The Company's policy is to agree terms and payment conditions before business is transacted and to pay creditors in line with those terms. As a Shari'a compliant bank, the Company is not permitted to pay any interest charges and therefore all invoices are paid in line with agreed terms to ensure that late payment charges are not incurred.

Political and charitable contributions

During the year a rental deposit relating to the Company's leased head office premises was repaid to the Company. At the time of the repayment, interest of £21,811 was also received reflecting the amount that had accrued whilst the money was not under the control of the Company. The interest amount received was paid in full to charity as it is not permissible for the Company to receive interest income. In the prior year the Company made a charitable donation of £2,000.

The company made no political contributions during the year (2007: £nil).

Events since balance sheet date

In February 2009 PMD completed the acquisition of a commercial property in London for a total consideration of £20,000,000. On 3 April 2008, PMD had exchanged contracts on the acquisition and had paid a deposit of £3,300,000 which had been funded through a loan from the Company. The remaining balance due on the completion of the acquisition was funded through a related party loan. It is intended that these loans will be converted to equity in 2009 and no returns are payable.

Going concern

The directors have reviewed the business activities and financial position of the Company and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. For this reason the financial statements have been prepared on a going concern basis.

Directors' report (continued)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



Azhar Khan
Company Secretary

31 March 2009

4th Floor
Berkeley Square House
Berkeley Square
London
W1J 6BY

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and parent company and the performance of the group for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to the financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shari'a Supervisory Committee report

In the name of Allah, the Most Gracious, the Most Merciful

To the shareholders of European Finance House Limited (the 'Company')

For the year ended 31 December 2008

In compliance with the Terms of Reference of the Company's Shari'a Supervisory Committee, we submit the following report:

We have reviewed the accounts relating to the transactions entered into by the Company during the year ended 31 December 2008.

According to the Company's management, and based on the Shari'a audit completed by an independent Shari'a audit and advisory firm approved by us, all transactions during the period were on the basis of agreements approved by us.

Therefore, based on representations received from the Company's management and the Shari'a auditors, in our opinion the transactions entered into by the Company during the year ended 31 December 2008 are in compliance with the Islamic Shari'a rules and principles and fulfil the specific directives, rulings and guidelines issued by us.

We beg Allah the Almighty to grant us all success.



Sheikh Walid Ben Hadi
Chairman of the Shari'a Supervisory Committee

31 March 2009

Independent auditors' report to the members of European Finance House Limited

We have audited the group and parent company financial statements (the 'financial statements') of European Finance House Limited ('the Company') for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the statement of directors' responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the director's report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group and Company's affairs as at 31 December 2008 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square, London, EC4Y 8BB

31 March 2009

Consolidated income statement

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Income			
Income from financing and investing activities	4	1,797,773	2,791
Returns to financial institutions and customers	5	(568,423)	-
Net income from financing and investing activities		1,229,350	2,791
Fees and commissions income	6	1,322,169	-
Fees and commissions expense		(138,132)	-
Net fees and commissions income		1,184,037	-
Total operating income		2,413,387	2,791
Expenses			
Personnel expenses	7	(2,396,552)	(1,192,805)
Depreciation and amortisation	13, 14	(515,189)	(145,889)
Other expenses		(1,852,671)	(1,465,002)
Total operating expenses		(4,764,412)	(2,803,696)
Loss before tax	8	(2,351,025)	(2,800,905)
Tax	9	-	-
Loss for the year		(2,351,025)	(2,800,905)

All activities are derived from continuing operations and there are no recognised gains or losses other than the result for the current year. There is no difference between the loss on ordinary activities before taxation and the result for the year stated above, and their historical cost equivalents.

The notes on pages 17 to 39 are an integral part of these financial statements.

Consolidated balance sheet
As at 31 December 2008

	Note	31 December 2008 £	31 December 2007 £
Assets			
Cash and balances with banks	10	1,009,334	157,024
Due from financial institutions	11	26,835,239	-
Financing arrangements	12	14,011,401	-
Property and equipment	13	1,071,906	1,213,226
Intangible assets	14	685,527	744,374
Other assets	15	1,318,566	1,046,430
Deposit paid on property purchase		3,300,000	-
Total assets		48,231,973	3,161,054
Liabilities			
Due to financial institutions	17	7,740,975	-
Due to customers	18	15,157,073	-
Loan from related party	22	4,757,834	4,757,834
Other liabilities	19	728,020	1,204,124
Total liabilities		28,383,902	5,961,958
Equity			
Share capital	21	25,000,001	1
Retained deficit		(5,151,930)	(2,800,905)
Total equity		19,848,071	(2,800,904)
Total liabilities and equity		48,231,973	3,161,054

The notes on pages 17 to 39 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2009 and were signed on its behalf by



Michael Clark
 Chief Executive Officer

Company balance sheet

As at 31 December 2008

	Note	31 December 2008 £	31 December 2007 £
Assets			
Cash and balances with banks	10	1,009,334	157,024
Due from financial institutions	11	26,835,239	-
Financing arrangements	12	14,011,401	-
Property and equipment	13	1,071,906	1,213,226
Intangible assets	14	685,527	744,374
Other assets	15	1,318,566	1,046,430
Loan to subsidiary company	16	3,299,999	-
Investment in subsidiary company	16	1	-
Total assets		48,231,973	3,161,054
Liabilities			
Due to financial institutions	17	7,740,975	-
Due to customers	18	15,157,073	-
Loan from related party	22	4,757,834	4,757,834
Other liabilities	19	728,020	1,204,124
Total liabilities		28,383,902	5,961,958
Equity			
Share capital	21	25,000,001	1
Retained deficit		(5,151,930)	(2,800,905)
Total equity		19,848,071	(2,800,904)
Total liabilities and equity		48,231,973	3,161,054

The notes on pages 17 to 39 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2009 and were signed on its behalf by



Michael Clark
Chief Executive Officer

Consolidated and company statement of changes in equity

For the year ended 31 December 2008

	Share Capital	Profit and loss	Total
	£	£	£
Balance at 1 January 2007	1	-	1
Loss for the year	-	(2,800,905)	(2,800,905)
Balance at 31 December 2007	<u>1</u>	<u>(2,800,905)</u>	<u>(2,800,904)</u>
Balance at 1 January 2008	1	(2,800,905)	(2,800,904)
Shares Issued	25,000,000	-	25,000,000
Loss for the year	-	(2,351,025)	(2,351,025)
Balance at 31 December 2008	<u>25,000,001</u>	<u>(5,151,930)</u>	<u>(19,848,071)</u>

The notes on pages 17 to 39 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Cash flows from operating activities			
Loss for the year		(2,351,025)	(2,800,905)
Adjustments for:			
Depreciation	13	220,038	71,735
Amortisation	14	295,151	74,154
Net change in operating assets and liabilities			
Increase in amounts due from financial institutions		(26,835,239)	-
Increase in financing arrangements		(14,011,401)	-
Increase in deposit paid		(3,300,000)	-
Increase in other assets		(272,136)	(1,046,430)
Increase in amounts due to financial institutions		7,740,975	-
Increase in amounts due to customers		15,157,073	-
(Decrease) / increase in other liabilities		(476,104)	1,204,124
Net cash outflow from operating activities		(23,832,668)	(2,497,322)
Cash flows from investing activities			
Purchase of property and equipment	13	(78,718)	(1,284,961)
Purchase of intangible assets	14	(236,304)	(818,528)
Net cash used in investing activities		(315,022)	(2,103,489)
Cash flows from financing activities			
Net proceeds from issue of share capital		25,000,000	-
Increase in related party funding received		-	4,757,834
Net cash from financing activities		25,000,000	4,757,834
Net increase in cash and cash equivalents		852,310	157,023
Cash and cash equivalents at start of year		157,024	1
Cash and cash equivalents at end of year	10	1,009,334	157,024

The notes on pages 17 to 39 are an integral part of these financial statements.

Company statement of cash flows

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Cash flows from operating activities			
Loss for the year		(2,351,025)	(2,800,905)
Adjustments for:			
Depreciation	13	220,038	71,735
Amortisation	14	295,151	74,154
Net change in operating assets and liabilities			
Increase in amounts due from financial institutions		(26,835,239)	-
Increase in financing arrangements		(14,011,401)	-
Increase in other assets		(272,136)	(1,046,430)
Increase in amounts due to financial institutions		7,740,975	-
Increase in amounts due to customers		15,157,073	-
(Decrease) / increase in other liabilities		(476,104)	1,204,124
Net cash outflow from operating activities		(20,532,668)	(2,497,322)
Cash flows from investing activities			
Purchase of property and equipment	13	(78,718)	(1,284,961)
Purchase of intangible assets	14	(236,304)	(818,528)
Investment in subsidiary company		(1)	-
Increase in loan to subsidiary company		(3,299,999)	-
Net cash used in investing activities		(3,615,022)	(2,103,489)
Cash flows from financing activities			
Net proceeds from issue of share capital		25,000,000	-
Increase in related party funding received		-	4,757,834
Net cash from financing activities		25,000,000	4,757,834
Net increase in cash and cash equivalents		852,310	157,023
Cash and cash equivalents at start of year		157,024	1
Cash and cash equivalents at end of year	10	1,009,334	157,024

The notes on pages 17 to 39 are an integral part of these financial statements.

Notes to the consolidated financial statements

1 Reporting entity

European Finance House Limited (the 'Company') is incorporated and domiciled in the UK. The address of the Company's registered office is 4th Floor, Berkeley Square House, Berkeley Square, London W1J 6BY. The consolidated financial statements are presented as at and for the year ended 31 December 2008 and include the Company and its subsidiaries (the 'Group'). The Company operates as a Shari'a compliant investment bank.

2 Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial statements were approved by the Board of Directors on 31 March 2009.

The accounting policies set out below have, unless otherwise stated, been applied consistently to the entire period presented in these financial statements.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

c. Income statement of parent company

As permitted by section 230 of the Companies Act 1985 the income statement of the parent company is not presented as part of the financial statements. The parent company's loss for the year ended 31 December 2008 amounts to £2,351,025.

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the entities that the Company controls. Control exists where the Company has the power to govern the financial and operating policies of the entity. Controlled entities are consolidated from the date on which control is transferred to the Company and they are deconsolidated from the date the control ceases. The effects of transactions between entities within the group are eliminated in full upon consolidation. There were no entities to consolidate in the prior reporting period and therefore prior year comparative figures represent those of the Company alone.

e. Functional and presentation currency

The consolidated financial statements are presented in Sterling, which is the Group's functional currency.

f. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes to the consolidated financial statements

3 Significant accounting policies

a. Murabaha, Wakala and Istisna'a

(i) A Murabaha contract is a sale of goods at cost plus an agreed profit mark-up. The delivery of the goods from the seller to the purchaser is immediate but payment may be deferred. Such contracts may be used to provide financing. Commodity Murabaha is a specific example of such a contract where the item being sold is a metal commodity. Commodity Murabaha contracts are commonly used within the Islamic inter-bank short term liquidity market.

(ii) Wakala is an Islamic investing transaction, which represents an agreement whereby a party provides a certain sum of money to an agent, who invests it according to specific conditions in order to achieve a certain specified return. The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(iii) Istisna'a is a contract for the acquisition of a product or property which is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client and delivered at the agreed date and price. Istisna'a contracts are used within financing activities.

The above contracts form the basis of financial instruments shown within due from financial institutions, financing arrangements, and due to financial institutions and customers.

These financial instruments are recognised on the trade date, that is, the date on which there is a commitment to buy or sell the financial instrument. The resulting assets and liabilities are initially recorded at fair value and are subsequently measured at amortised cost.

Income and costs on the above financial instruments are recognised on an effective yield basis. The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the receivable or payable. The effective yield is established on initial recognition of the asset or liability and is not revised subsequently. Accrued income receivable and returns payable are included within other assets and other liabilities.

The calculation of the effective yield rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

b. Musharaka

Property finance is provided using the Musharaka (partnership) principal of Islamic financing. The Company will enter into an agreement to jointly purchase a property with another party and rental income will be received relating to that proportion of the property owned by the Company at any point in time. The other party to the agreement may make separate payments to purchase additional proportions of the property from the Company, thereby reducing the Company's effective share.

The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction. Where initial direct costs are incurred by the Company such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging the transaction, these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced. Rental income is recognised at a constant periodic rate of return on the Company's net investment.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

c. Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any remaining interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

d. Impairment of financial assets

At each balance sheet date it is assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated readily.

Evidence of impairment is considered at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired include default or delinquency by the counterparty, extending or changing repayment terms, indications that a counterparty may go into bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payments status of counterparties, or economic conditions that correlate with defaults in the group. In assessing collective impairment an analysis of historical trends is used to identify the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions are such that the actual losses are likely to be greater or less than suggested by historical analysis. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted at the assets' original effective yield rate. Losses are recognised in the income statement and reflected against the asset carrying value.

When a subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through the income statement.

e. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to resell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

f. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of cost of funds and, where appropriate, the risks specific to the liability.

g. Fees and commissions

Fees and commissions which are not recognised on an effective yield basis over the life of the financial instrument to which they relate, such as fees and commissions for specific actions or events, are recognised when it is probable that the economic benefit will flow to the Group. This will normally be at the point at which the act to which the fees and commissions relate has been completed.

h. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation is recognised in the income statement on a straight line basis over the estimated useful life of each part of an item of property and equipment. Depreciation methods, useful lives and residual values are reassessed at the reporting date. The current estimated useful lives are as follows:

Computer equipment	3 Years
Office equipment	5 Years
Fixtures and fittings	5 Years
Leasehold improvements	10 Years

i. Intangible assets

Acquired software and computer licenses are stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

i. Intangible assets (continued)

Amortisation is recognised in the income statement on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The current estimated useful lives are as follows:

Software	3 Years
Computer licenses	3 Years

j. Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k. Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due. Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period for which employees have provided services. Bonuses are recognised to the extent that there is a present obligation to employees that can be measured reliably.

l. Cash and cash equivalents

Cash and cash equivalents comprises demand deposits with banks, held in non-profit earning accounts and are stated at amortised cost.

m. Other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

n. Lease payments made

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

o. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in the income statement. Non-monetary assets and liabilities are translated into the functional currency at the effective historical rate used on the date of initial recognition.

p. Investment in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less impairment.

q. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations relevant to the Group have been issued, but are not yet effective within the EU and have not been applied in preparing these financial statements.

- IAS 1 Presentation of financial statements (Amendment). This becomes effective for accounting periods beginning on or after 1 January 2009. The adoption of this standard will result in changes in the presentation of the financial statements and is not expected to have any impact on the financial position of the Group.
- IAS 23 Borrowing costs (Amendment). The amendment to this standard deals with the accounting treatment of borrowing costs for certain qualifying assets. The amendment is effective for accounting periods beginning on or after 1 January 2009 and will have no impact on the Group.
- IAS 27* Consolidated and separate financial statements (Amendment). This becomes effective for accounting periods beginning on or after 1 July 2009. The adoption of this standard will result in no material changes in the presentation of the financial statements and is not expected to have any impact on the financial position of the Group.
- IFRS 2 Share based payments (Amendment). In October 2007 the International Accounting Standards Board proposed an amendment to IFRS 2, dealing with the recognition of certain cash settled share based payments. This amendment becomes effective for accounting periods beginning on or after 1 January 2009. The adoption of this amendment will not have any impact on the Group.
- IFRS 3* Business combinations (Amendment). In January 2008 the International Accounting Standards Board proposed an amendment to IFRS, dealing with the treatment of transactions resulting in a loss of control, the disposal of equity interests and revising the definition of a business combination. This amendment becomes effective for accounting periods beginning on or after 1 July 2009. The adoption of this amendment is not expected to have any impact on the Group.

* These standards have not yet been endorsed by the EU.

Notes to the consolidated financial statements

4. Income from financing and investing activities

	2008 £	2007 £
Income from		
Financial Institutions		
Murabaha income	1,274,853	2,791
Financing arrangements		
Murabaha income	261,169	-
Istisna'a income	37,359	-
Musharaka income	224,392	-
Total Income from financing and investing activities	<u>1,797,773</u>	<u>2,791</u>

5. Returns to financial institutions and customers

	2008 £	2007 £
Murabaha	568,423	-
Total returns to financial institutions and customers	<u>568,423</u>	<u>-</u>

6. Fees and commissions income

	2008 £	2007 £
Advisory and consultancy fees	864,041	-
Corporate and institutional finance fees	201,119	-
Asset management fees	245,864	-
Other fee income	11,145	-
Total fees and commissions income	<u>1,322,169</u>	<u>-</u>

Notes to the consolidated financial statements

7. Personnel expenses

	2008 £	2007 £
Directors' emoluments and fees	499,500	280,171
Wages and salaries	1,478,480	726,537
Social security costs	242,143	117,177
Pension contributions	116,112	24,180
Other staff costs	60,317	44,740
Total personnel expenses	2,396,552	1,192,805

The aggregate of emoluments in 2008 of the highest paid director was £216,000 and Company pension contributions of £24,000 were made on his behalf.

The number of employees at the end of the year was 20 and the average number throughout the year was 18.

8. Loss before tax

	2008 £	2007 £
Loss before tax is stated after charging		
Auditor's remuneration:		
Statutory audit fees – Company	50,000	20,000
Statutory audit fees – subsidiaries	8,000	-
Other services	14,000	-
	72,000	20,000

Notes to the consolidated financial statements

9. Income tax expense

There were no taxable profits or recoverable losses for the year ended 31 December 2008 and, accordingly, the Group has not provided for a tax charge or created a tax debtor.

	2008 £	2007 £
Reconciliation of effective tax rate		
Loss before tax:	(2,351,025)	(2,800,905)
Income tax at UK corporation tax rate: (28.5% / 30%)	(670,042)	(840,272)
Non deductible expenses	24,053	144,597
Depreciation in excess of capital allowances on which deferred tax not recognised	62,711	21,521
Tax losses	583,278	674,154
	<u>-</u>	<u>-</u>

Deferred tax assets have not been recognised in respect of the following items at 28%:

Capital allowances	61,065	20,086
Unutilised losses	1,203,894	629,210
	<u>1,264,959</u>	<u>649,296</u>

In respect of the recognition of deferred tax assets, for the purposes of applying the requirements of IAS 12 ('Income Taxes'), the directors have taken the view that the Company is not currently at a sufficiently advanced stage in its development to recognise this asset.

The corporation tax rate applicable to the Company changed from 30% to 28% from 1 April 2008. The unrecognised deferred tax assets have been calculated at 28%.

Notes to the consolidated financial statements

10. Cash and balances with banks

Group and Company

	2008 £	2007 £
Cash	671	133
On demand bank deposits	1,008,663	156,891
Total cash and balances with banks	1,009,334	157,024

11. Due from financial institutions

Group and Company

	Three months or less but not repayable on demand £	One year or less but over three months £	Greater than one year £	Total £
Murabaha	26,319,909	515,330	-	26,835,239
Total as at 31 December 2008	26,319,909	515,330	-	26,835,239
Total as at 31 December 2007	-	-	-	-

12. Financing arrangements

Group and Company

	Three months or less but not repayable on demand £	One year or less but over three months £	Five years or less but over one year £	Greater than five years £	Total £
Murabaha	288,999	2,356,343	4,440,000	-	7,085,342
Musharaka	-	-	4,557,645	-	4,557,645
Istisna'a	-	-	-	2,368,414	2,368,414
Total as at 31 December 2008	288,999	2,356,343	8,997,645	2,368,414	14,011,401
Total as at 31 December 2007	-	-	-	-	-

Notes to the consolidated financial statements

13. Property and equipment

Group and Company

	Computer Equipment	Leasehold Improvements	Fixtures & Fittings / Office Equipment	Total
	£	£	£	£
Cost:				
Balance at 1 January 2008	227,090	781,297	276,574	1,284,961
Additions	31,371	7,530	39,817	78,718
Balance at 31 December 2008	<u>258,461</u>	<u>788,827</u>	<u>316,391</u>	<u>1,363,679</u>
Depreciation:				
Balance at 1 January 2008	(35,226)	(24,659)	(11,850)	(71,735)
Depreciation charge for the year	(79,761)	(79,810)	(60,467)	(220,038)
Balance at 31 December 2008	<u>(114,987)</u>	<u>(104,469)</u>	<u>(72,317)</u>	<u>(291,773)</u>
Net book value at 31 December 2008	<u>143,474</u>	<u>684,358</u>	<u>244,074</u>	<u>1,071,906</u>
Cost:				
Balance at 1 January 2007	-	-	-	-
Additions	227,090	781,297	276,574	1,284,961
Balance at 31 December 2007	<u>227,090</u>	<u>781,297</u>	<u>276,574</u>	<u>1,284,961</u>
Depreciation:				
Balance at 1 January 2007	-	-	-	-
Depreciation charge for the year	(35,226)	(24,659)	(11,850)	(71,735)
Balance at 31 December 2007	<u>(35,226)</u>	<u>(24,659)</u>	<u>(11,850)</u>	<u>(71,735)</u>
Net book value at 31 December 2007	<u>191,864</u>	<u>756,638</u>	<u>264,724</u>	<u>1,213,226</u>

Notes to the consolidated financial statements

14. Intangible assets

Group and Company

	Computer Software £	Computer Licenses £	Total £
Cost:			
Balance at 1 January 2008	438,384	380,144	818,528
Additions	232,927	3,377	236,304
Balance at 31 December 2008	<u>671,311</u>	<u>383,521</u>	<u>1,054,832</u>
Amortisation:			
Balance at 1 January 2008	(47,866)	(26,288)	(74,154)
Amortisation charge for the year	(171,983)	(123,168)	(295,151)
Balance at 31 December 2008	<u>(219,849)</u>	<u>(149,456)</u>	<u>(369,305)</u>
Net book value at 31 December 2008	<u>451,462</u>	<u>234,065</u>	<u>685,527</u>
Cost:			
Balance at 1 January 2007	-	-	-
Additions	438,384	380,144	818,528
Balance at 31 December 2007	<u>438,384</u>	<u>380,144</u>	<u>818,528</u>
Amortisation:			
Balance at 1 January 2007	-	-	-
Amortisation charge for the year	(47,866)	(26,288)	(74,154)
Balance at 31 December 2007	<u>(47,866)</u>	<u>(26,288)</u>	<u>(74,154)</u>
Net book value at 31 December 2007	<u>390,518</u>	<u>353,856</u>	<u>744,374</u>

Notes to the consolidated financial statements

15. Other Assets

Group and company

	2008 £	2007 £
Fees receivable	877,587	-
Rental deposit	-	509,742
VAT recoverable	73,969	362,200
Prepayments	343,234	173,606
Other receivables	23,776	882
Total other assets	<u>1,318,566</u>	<u>1,046,430</u>

16. Investment in subsidiaries

On 3 April 2008, the Company acquired the entire issued share capital of Pall Mall Property Development (Holdings) Limited (PMH) for a total consideration of £1. PMH is the sole shareholder of Pall Mall Property Development Limited (PMD), a company incorporated with the intention of acquiring commercial property for development and investment purposes. Both PMH and PMD had been incorporated on 28 March 2008 in the UK.

On 3 April 2008 PMD exchanged contracts relating to the purchase of a UK property. A deposit of £3,300,000 was paid upon exchange of contracts. The payment of the deposit by PMD was funded through a loan from the Company. It is intended that this loan will be converted to equity in 2009 and therefore no return is payable on the loan.

On 10 October 2008, the Company acquired the entire issued share capital of EFH S.a.r.l, for a total consideration of €12,500. EFH S.a.r.l is a company incorporated in Luxembourg with the intention of providing management services to Luxembourg-based funds. This subsidiary has not been consolidated on the grounds that it is not material to the Group's financial statements.

Notes to the consolidated financial statements

17. Due to financial institutions

Group and Company

	On demand	Three months or less but not repayable on demand	One year or less but over three months	Total
	£	£	£	£
Demand	843,791	-	-	843,791
Murabaha	-	4,397,184	2,500,000	6,897,184
Total as at 31 December 2008	<u>843,791</u>	<u>4,397,184</u>	<u>2,500,000</u>	<u>7,740,975</u>
Total as at 31 December 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

18. Due to customers

Group and Company

	On demand	Three months or less but not repayable on demand	One year or less but over three months	Total
	£	£	£	£
Demand	130,596	-	-	130,596
Murabaha	-	13,512,313	1,514,164	15,026,477
Total as at 31 December 2008	<u>130,596</u>	<u>13,512,313</u>	<u>1,514,164</u>	<u>15,157,073</u>
Total as at 31 December 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the consolidated financial statements

19. Other liabilities

Group and Company

	2008 £	2007 £
Accruals	273,312	761,250
Trade payables	182,860	394,650
Social security and income tax	69,855	48,224
Other payables	201,993	-
Total other liabilities	<u>728,020</u>	<u>1,204,124</u>

20. Operating leases

Group and Company

Non-cancellable operating lease rentals are payable as follows:

	2008 £	2007 £
Less than one year	427,840	421,840
Between one and five years	1,711,360	1,687,360
Greater than five years	3,422,720	3,866,867
	<u>5,561,920</u>	<u>5,976,067</u>

During the year £431,432 (2007: £130,889) was recognised as an expense in the income statement in respect of operating leases.

21. Share capital and reserves

Authorised

	2008 £	2007 £
50,000,000 Ordinary shares of £1.00 each	<u>50,000,000</u>	<u>50,000,000</u>

Allotted, called up and fully paid

	Number of shares	Share Capital £
As at 31 December 2007	1	1
Share issue 28 January 2008	25,000,000	25,000,000
As at 31 December 2008	<u>25,000,001</u>	<u>25,000,001</u>

Notes to the consolidated financial statements

22. Related party transactions

Qatar Islamic Bank (QIB) is a related party by virtue of the fact that it holds 66% of the issued share capital in the Company.

As at 31 December 2008 there was an outstanding loan balance payable to QIB of £4,757,834 (2007: £4,757,834). No return is payable on this balance and the total is to be repaid to QIB over 2 equal instalments to be made before 31 December 2009 and 31 December 2010.

Additionally, during the year transactions were entered into by the Company with QIB on an arms length basis. The following balances were outstanding as at 31 December 2008 (2007: £nil):

	2008 £
Cash and balances with banks	843,791
Due from financial institutions	2,240,000
Due to financial institutions	4,864,796

The balances as at 31 December 2008 were the maximum outstanding balances during the year. The total returns payable to QIB in the year relating to deposits were £141,218 (2007: £nil). Total profit returns received during the year on placements made with QIB were £5,413 (2007: £nil).

Due to customers includes £1,000,000 deposited by the Chairman of the Company on an arms length basis. A total return of £34,965 was payable relating to this deposit during the year (2007: £nil)

During the year the Company advanced a total of £3,299,999 to Pall Mall Property Development Limited (PMD). PMD is wholly owned by Pall Mall Property Development (Holdings) Limited (PMH) which in turn is wholly owned by the Company. This loan is currently made at no cost and it is intended to convert the advance into equity in 2009.

Key management of the Company are the Executive Directors. The compensation of key management personnel is as follows:

	2008 £	2007 £
Emoluments including social security costs	461,916	211,840
Company contributions to pension plans	45,375	29,500
	<u>507,291</u>	<u>251,340</u>

23. Subsequent Event

In February 2009 PMD completed the acquisition of a commercial property in London for a total consideration of £20,000,000. During the year, PMD had exchanged contracts on the acquisition and had paid a deposit of £3,300,000 which had been funded through a loan from the Company. The remaining balance due on the completion of the acquisition was funded through a related party loan.

Notes to the consolidated financial statements

24. Financial risk management

The Group and Company monitors and manages exposures to the following risks arising from its use of Islamic financial instruments:

- Capital management
- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Profit rate risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for identifying, controlling, measuring, managing and reporting these risks.

Risk management framework

The Board of Directors is ultimately responsible for the management of all risk within the Company. This includes the establishment and oversight of the Company's risk management framework and ensuring that an appropriate risk management culture is established throughout the Company.

The risk management framework is implemented through the Board's committees, including the Investment Committee and the Audit and Risk Committee. The day-to-day management of risk is undertaken by the Company's Executive Committee which has established two sub-committees; the Risk Management Committee ('RMC') with responsibility for assessing all credit, market and operational risks, and the Asset and Liability Committee ('ALCO') which is responsible for balance sheet management, and the review and monitoring of profit rate and liquidity risks.

These two sub-committees are responsible for developing suitable policies, approving risks and limits within delegated authorities and regularly reviewing the Company's exposures to all risk classes. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Capital management

The Company's capital requirements are set and monitored by the FSA. Regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital and retained earnings.
- Tier 2 capital, which includes collective impairment allowances, restricted to a maximum amount.

The Company's regulatory capital position as at 31 December 2008 was as follows:

	£
Tier 1 capital	
Share capital	25,000,001
Retained reserves	(5,151,930)
	<u>19,848,071</u>
Tier 2 capital	
Collective allowances for impairment	-
Total regulatory capital	<u>19,848,071</u>

Notes to the consolidated financial statements

24. Financial risk management (continued)

The level of total regulatory capital is monitored against the Individual Capital Guidance. The Company has complied with all capital requirements throughout the period:

	£
Individual capital guidance	3,947,000

Individual capital guidance comprises of Pillar 1 capital using the Standardised Approach and Pillar 2 as required by the FSA.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty is not able to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements.

The Company has a thorough quantitative and qualitative vetting process in place covering all of its customers and counterparties whereby it assigns an internal risk rating and maximum tenor over and above any external rating. These ratings, which are subject to regular review, control the amount of credit that can be made available to any obligor.

Management of credit risk

The Company manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, countries or sectors and continually assessing the creditworthiness of all counterparties. It also ensures that credit capacities are properly diversified across the Company's business lines in order to ensure an appropriate allocation of risk capital and to avoid undue concentrations of risk by customer, country, sector or internal ratings.

An independent Risk Management Department is responsible for the oversight of the Company's credit risk, including:

- Establishing and maintaining a robust risk management framework
- Establishing and reviewing all risk-related policies, procedures and limits
- Establishing an effective system of internal control to ensure compliance with risk-related policies, procedures and limits
- Reviewing and actioning, as appropriate, any exceptions and excesses to established risk-related policies, procedures and limits
- Reviewing and approving credit and underwriting proposals, within delegated limits
- Reviewing and recommending exceptions to delegated limits, where appropriate
- Reviewing, monitoring and actioning, as appropriate, any non-performing credits.

Adherence to country and counterparty limits is mandatory and is monitored on an ongoing basis by the Risk Management Department. Senior management and the RMC receive regular reports on all of the Company's risk exposures and limits.

Notes to the consolidated financial statements

24. Financial risk management (continued)

Exposure

The tables below show the components of the Group's balance sheet that are exposed to credit risk:

	2007	2008
	£	£
Balances with banks	156,891	1,008,663
Due from financial institutions	-	26,835,239
Murabaha financing	-	7,085,342
Musharaka financing	-	4,557,645
Istisna'a financing	-	2,368,414
Deposit paid	-	3,300,000
Total Credit Risk	156,891	45,155,303

Exposure by geography

The assets above were dispersed across the following geographies:

	2007	2008
	£	£
Qatar	-	17,183,845
UK	156,891	13,595,306
Bahrain	-	8,402,319
France	-	3,620,075
Saudi Arabia	-	2,056,344
USA	-	297,414
Total	156,891	45,155,303

Notes to the consolidated financial statements

24. Financial risk management (continued)

Exposure by economic sector

Assets were dispersed across the following economic sectors:

	2007 £	2008 £
Banks	156,891	27,843,903
Individuals	-	300,000
Property	-	7,857,645
Manufacturing	-	6,567,588
Utilities	-	2,368,414
Retail	-	217,753
Total	156,891	45,155,303

Credit risk quality

The Company's credit quality is reviewed and managed by the RMC and the Executive Committee. Credit quality is assessed using techniques which include information from the major External Credit Assessment Institutions ('ECAI') as well as specific financial data in order to determine internal risk ratings. The latter are mapped to the ratings of the ECAI and Regulators' credit risk ratings.

The Company has policies and procedures in place to monitor impairment events that could lead to losses in its asset portfolio. These policies and procedures cover specific loss events for individual significant exposures as well as events that relate to collective losses on groups of homogenous assets that have yet to be identified and assessed individually for impairment.

The Company writes off a balance (and any related allowances for impairment) when the RMC determines that the balance is uncollectible. This determination would be reached after considering information such as the occurrence of significant changes in the obligor's financial position and an assessment of collateral levels. For the year ended 31 December 2008 no past due exposures were evident and no credit risk write-offs or impairment charges were noted, recommended or incurred (2007: £nil).

Collateral

In the Company's initial credit assessment and periodical reviews covering working capital, term and real estate finance, the Risk Management Department, where appropriate, assesses all exposures against the collateral coverage. The Company, where appropriate, monitors the fair value of its collateral on an ongoing basis which, dependent upon the collateral type, can vary from monthly, annually or based on changes in circumstances or the market.

Collateral is shown at the lower of the total exposure or the management estimation of the value of the collateral based on prevailing valuations. An analysis of collateral is shown in the following table.

Notes to the consolidated financial statements

24. Financial risk management (continued)

	2007	2007	2008	2008
	Exposure	Collateral	Exposure	Collateral
	£	£	£	£
Balances with banks	156,891	-	1,008,663	-
Due from financial institutions	-	-	26,835,239	-
Murabaha financing	-	-	7,085,342	217,753
Musharaka financing	-	-	4,557,645	4,500,000
Istisna'a financing	-	-	2,368,414	-
Deposit paid	-	-	3,300,000	-
Total Credit Risk	156,891	-	45,155,303	4,717,753

Market risk

The Company has no trading book positions as at 31 December 2008. Market risk encompasses an adverse movement in the value of assets as a consequence of market movements such as rates, equity prices and commodity prices which are not matched by a corresponding movement in the value of liabilities.

The market risk within the Company is managed in accordance with FSA Capital Requirement Directive BIPRU 7 and includes:

- All trading book positions
- All foreign exchange positions, whether or not in the trading book; and
- All commodity positions, whether or not in the trading book.

The market risk definition can be further broken down into the following sub-risk types:

Exchange rate risk

The sensitivity of financial positions to adverse movements in foreign exchange rates. Exchange rate risk does not only arise as a result of direct foreign exchange dealings, but can also result from foreign currency based transactions such as financing, deposits, Islamic derivative trades or through foreign currency commission payments and receipts. As at 31 December 2008, the Company's exposure to exchange rate risk was £88,357 (2007: £nil).

Commodity risk

The sensitivity of financial positions to adverse movements in commodity market dynamics. Movements may typically include changes in commodity prices, commodity price volatility and the price relationship between different commodities or commodity indices (correlation). As at 31 December 2008, the Company had no exposure to commodity risk (2007: £nil).

Notes to the consolidated financial statements

24. Financial risk management (continued)

Equity risk (trading book only)

The sensitivity of financial positions to adverse movements in stock market dynamics. Movements may typically include changes in equity prices, equity price volatility, price relationship between different equities or indices (correlation) and dividend payments. As at 31 December 2008, the Company had no exposure to equity risk in the trading book (2007: £nil).

Profit rate risk (trading book only)

The sensitivity of financial positions to adverse movements in profit rates. The risk is largely the result of the mismatching of assets and liabilities with respect to the maturity and re-pricing profiles; as well as the differing amounts by which rates may move across various tenors of the yield curve. As at 31 December 2008, the Company had no exposure to profit rate risk in the trading book (2007: £nil).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

The Company's objective in managing operational risk is to implement an integrated internal control and operating infrastructure that supports process efficiency and customer needs, whilst effectively reducing the risk of error and financial loss in a cost effective manner. The overall operational risk framework is set by the Board of Directors and is documented within the Company's Operational Risk Policy under the guidance of the RMC.

Operational risk management is considered to be the responsibility of all staff. The following outlines the governance structure for the Company's operational risk framework:

- the Board of Directors approves the strategy and policy documents
- the following operational risk factors will be monitored by the Risk Management Committee
 - High risk areas as defined by departmental risk self assessments
 - Organisational deficiencies
 - Inadequate policies and procedures
 - Key risk indicators
 - Loss information
- a detailed monthly report of all operational activities is made available to senior management and the RMC.

The Company has a Head of Internal Audit who manages the services of a professional internal audit outsource service provider. Reports from Internal Audit are reviewed by the Audit and Risk Committee which is also responsible for reviewing and approving the annual internal audit plan.

The Company needs to manage the specific risk associated with Shari'a compliance. Failure to ensure that all activities are in line with Shari'a could lead to reputational damage or forfeit of income at the request of the Shari'a Supervisory Committee (SSC). Procedures are in place to ensure that all new products are pre-approved by the SSC to mitigate such risks. Additionally, the Company has engaged an independent Shari'a audit and advisory firm, which has been approved by the SSC, to complete formal Shari'a audits and report findings to management and the SSC.

Notes to the consolidated financial statements

24. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations due from its financial liabilities. The risk is managed by ensuring that the Company always has sufficient liquidity to meet its liabilities when due. The Treasury Department is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business.

This function ensures that the portfolio has short-term liquid assets which are sufficient to maintain suitable liquidity at all times. The liquidity position is monitored on a daily basis by Treasury and reported by the Risk Management Department to members of ALCO.

The Treasury Department is responsible for formulating an overall market strategy which is approved by ALCO.

Residual contractual maturities of the Company's portfolio is managed using Gap analysis methodology and measures exposures out to 6 months. A daily report reflecting sight to 8 days is distributed to the Treasury and Operations departments and to the Executive Committee.

Profit rate risk

This risk arises from the effects of changes in profit rates on the re-pricing of assets and liabilities, and covers both fixed and variable profit rates. The Company manages such risks through the use of Gap analysis and an economic value methodology using the profit rate sensitivity to changes in 1 month LIBOR rates.

The profit rate sensitivity is measured and monitored against revenue and capital on a daily basis in the daily Risk Management Department report which is distributed to Treasury and ALCO. A detailed report is distributed monthly to the Executive Committee and Board of Directors.

25. Fair value of financial assets and liabilities

In the opinion of the directors, the fair value of financial assets and financial liabilities are not significantly different from their carrying value since they are either short term in nature or in the case of financing arrangements are frequently repriced. Under IAS 39 – Financial instruments: recognition and measurement, all financial assets are categorised as loans and receivables and are carried at amortised cost and all financial liabilities are categorised as measured at amortised cost.

26. Assets and liabilities denominated in foreign currency

As at 31 December 2008, assets equivalent to £4,460,066 were denominated in US Dollars and are included within financing arrangements (2007: £nil). Assets equivalent to £9,266,797 were denominated in Euro and are included within amounts due from financial institutions (2007: £nil).

Due to financial institutions includes £4,387,643 denominated in US Dollars (2007: £nil) and £148,922 denominated in Euro (2007: £nil). Due to customers includes £9,266,797 denominated in Euro (2007: £nil).