QIB
UK

QIB (UK) plc

Annual Report
For the year ended 31 December 2013

Registered number 4656003

Contents

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2013

Principal activities

QIB (UK) plc (the 'Company' or the 'Bank'), was incorporated with the intention of developing and offering Shari'a compliant financial products and solutions in the UK and Europe and to attract investment into these markets from the Gulf and Middle East The Company received authorisation from the Financial Services Authority (FSA) on 29 January 2008 after which date it commenced operations as a Shari'a compliant investment bank in line with the objectives stated above The Bank is now authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA

Financial results

The financial statements for the year ended 31 December 2013 are shown on pages 10 to 49 The loss for the year is £15,751,647 (2012 restated loss of £3,801,661)

The prior year total has been restated to reflect an additional loss in 2012 of £362,716 This relates to a financing exposure to a UK company where, subsequent to the date of approval of the prior year financial statements, it was discovered that the company had entered into administration prior to that date

Proposed dividend

The Directors do not propose the payment of a dividend (2012 £nil)

Directors

The Directors who held office during the year were as follows

Sheikh Jassim Bin Hamad J J Al Thani	Resigned on 15 January 2013
Mr Bassel Gamal (Chairman) [1]	Appointed on 26 July 2013
Mr Ahmad Meshari	Appointed on 15 January 2013, Resigned on 4 July 2013
Professor Abdul Latif Al Meer [2]	Resigned on 15 January 2013
Mr David Sambar [1]	Resigned on 15 January 2013
Mr Salah Jaidah [1]	Resigned on 15 January 2013
Mr Giles Cunningham [1,2]	Appointed on 15 January 2013
Mr Bert de Ruiter	Appointed on 15 January 2013
Mr David Thomas [1,2]	Appointed on 15 January 2013
Mr Michael Clark [3]	Resigned on 20 February 2013
Mr Geoffrey Calvert [3]	Appointed on 28 June 2013, Resigned on 6 November 2013
Mr Roderick Chamberlain [1,2]	
Mr Azhar Khan [3]	

1 Denotes member of the Remuneration Committee
2 Denotes member of the Audit and Risk Committee
3 Denotes member of the Executive Management Committee

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 Bank 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 Mohammed Yacoubi
Professor Abdul Sattar Abou Ghodda

The annual report of the SSC is shown on page 7

Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company, including an assessment of capital and liquidity requirements for the foreseeable future Qatar Islamic Bank, the Company's parent, has confirmed its ongoing financial support to the Company whenever needed Based on this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis

Change of auditors

Ernst & Young LLP (EY) was appointed as the Company's auditor commencing with the current reporting year Prior to this appointment, PricewaterhouseCoopers LLP was the Company's external auditor from 2009 to 2012 The change was made to facilitate group reporting to QIB, for whom EY already act as auditors

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, as far as each of them is 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
20 January 2014

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

Strategic Report

2013 was a year of significant restructuring for the Bank A substantially new Board of Directors was appointed and a strategic review completed to reset the future direction for the Bank During the year, the share capital of the Bank was increased by £19 million through the issue of new ordinary shares and in December 2013 the Bank's majority shareholder, Qatar Islamic Bank S A Q (QIB), completed the purchase of all minority shareholdings

The revised strategy has been developed to align the Bank more closely, as a wholly-owned subsidiary, with the core strengths of QIB and to focus on lower-risk asset backed financing and investments

Historically the Bank had built up financing exposures to a number of SME companies as part of its Corporate Finance business line A number of these companies were at a development stage and, due to a lack of income growth, these have either entered into administration or there is significant doubt about their ongoing viability This has resulted in significant impairment losses during the year of £7,652,242 (2012 £4,675,471, as restated for the additional adjustment of £362,716) Additional losses of £3,949,103 were also incurred during the year as equity interests which the Bank held in these companies were also written-down These impairment-related losses were the major contributory factor to the overall result for the year

As identified above, the major focus of the Bank during the year was on completing its strategic review and restructuring exercise As a result, operating income for the year was lower at £2,259,282 (2012 £8,634,619) Operating expenses of £6,570,681 (2012 £6,931,606) were in line with budget

Looking ahead

Prior to the strategic review, the Bank had four main business lines, Asset Management, Corporate Finance, Real Estate and Treasury As highlighted above, the objectives of the revised strategy and restructuring were to ensure that the Bank focussed its activities around core strengths aligned to those of QIB, and that effective governance structures and controls were in place at all levels to support future business growth

In future, there will be an increased focus on the Real Estate business line and there is an intention to expand the product offering to high net worth individuals within the scope of the Bank's regulatory permissions The focus of the Corporate Finance team has also been revised to concentrate on trade finance related products and services To this end the Bank will work closely with the QIB Trade Finance function, including through the referral of larger transactions to QIB Providing financing to SME businesses will no longer be part of the core strategy of the Bank The Treasury business line will continue to manage the liquidity of the Bank and will also manage its investments, mainly focussed in the Sukuk market The main fund offered by the Asset Management business is the Global Sukuk Plus Fund (GSPF) and this continues to be actively managed The future strategy of this business line is still in the process of being finalised

The new business focus and alignment to the core strengths of QIB are designed to ensure that the Bank develops a sustainable operating profit position by 2015

In addition to the amendments to future business development focus, the review in 2013 also focussed on governance and control structures within the Bank to ensure that these are appropriate The project to review these areas is substantially complete and good progress has been made in implementing revised structures and processes identified as appropriate by the review Further information on the Bank's approach to financial and operational risk management is set out in note 28 to the financial statements

Azhar Khan
Chief Financial Officer
20 January 2014

Statement of Directors' Responsibilities

The followmg statement, which should be read in conjunction with the statement on auditors' responsibilities on page 8, is made by the directors to explain their responsibilities in relation to the preparation of the financial statements, Strategic Report and Director's Report

The Directors are responsible for preparing the Strategic Report, the Directors' Report, and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, *Changes in Accounting Estimates and Errors* and then apply them consistently,

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understanding information,

- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and

- state that the Company had complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company, in accordance with the Companies Act 2006

The Directors have general responsibility for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future For this reason, the financial statements are prepared on a going concern basis

Shari'a Supervisory Committee Report

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

To the shareholders of QIB (UK) plc (the 'Company')

For the year ended 31 December 2013

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 2013

Based on our review, and representations received from the Company's management, all transactions during the period were on the basis of agreements approved by us

Therefore, in our opinion the transactions entered into by the Company during the year ended 31 December 2013 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
20th January 2014

Independent Auditors' Report to the Members of QIB (UK) plc

We have audited the financial statements of QIB (UK) plc (the 'Company') for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 30 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 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 opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we will read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any material misstatements or uncertainties we consider the implications in our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of the Company's loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Kenneth Eglinton (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London

Date 20 January 2014

Statement of Comprehensive Income
For the year ended 31 December 2013

	Note	2013 £	2012 as restated £
Income			
Income from financing and investing activities	4	5,139,758	5,540,799
Returns to banks and customers	5	(3,614,608)	(3,299,437)
Net income from financing and investing activities		1,525,150	2,241,362
Fees and commissions income	6	1,210,522	5,054,406
Fees and commissions expense		(228,882)	(316,825)
Net fees and commissions income		981,640	4,737,581
Net gains on financial assets classified as held for trading		-	1,472,227
Net loss on financial assets classified as available for sale		(195,062)	-
Gain / (loss) on foreign exchange		(52,714)	1,008,126
Fair value gain / (loss) on forward foreign exchange	16	267	(824,677)
Total operating income		2,259,281	8,634,619
Expenses			
Personnel expenses	7	(3,347,697)	(3,990,183)
Depreciation and amortisation	18,19	(142,958)	(199,111)
Other expenses		(3,080,026)	(2,742,312)
Total operating expenses		(6,570,681)	(6,931,606)
Profit / (loss) before impairment		(4,311,400)	1,703,013
Provisions for impairment	28	(7,652,242)	(4,675,471)
Fair value loss related to wa'ad assets	16,17	(3,949,103)	(1,500,000)
Loss before taxation		(15,912,745)	(4,472,458)
Taxation	9	161,098	670,797
Loss for the year		(15,751,647)	(3,801,661)
Other comprehensive income			
Net change in fair value of AFS financial assets	17	(413,458)	305,549
Total comprehensive loss for the year		(16,165,105)	(3,496,112)

All activities are derived from continuing operations The notes on pages 14 to 49 are an integral part of these financial statements

Statement of Financial Position
As at 31 December 2013

	Note	2013 £	2012 as restated £
Assets			
Cash and balances with banks	10	**2,829,356**	4,626,245
Due from banks	11	**78,108,642**	71,412,705
Financing arrangements	12	**36,678,167**	53,097,610
Less impairment on financing arrangements	28	**(2,406,587)**	(6,276,132)
Financial assets held for trading	14	**-**	25,827,202
Financial assets held to maturity	15	**7,344,709**	7,446,552
Financial assets available for sale	17	**22,073,787**	4,242,993
Derivative financial instruments	16	**(42)**	(309)
Property and equipment	18	**368,308**	467,184
Intangible assets	19	**38,214**	63,651
Other assets	20	**2,969,495**	4,279,507
Deferred tax asset	9	**3,198,193**	3,037,095
Total assets		**151,202,242**	168,224,303
Liabilities			
Due to banks	21	**53,732,703**	43,528,523
Due to customers	22	**67,906,240**	102,819,363
Other liabilities	23	**3,392,463**	3,540,475
Subordinated loan	27	**9,757,834**	4,757,834
Total liabilities		**134,789,240**	154,646,195
Equity			
Share capital	26	**44,000,000**	25,000,001
Fair value reserve on AFS financial assets	17	**(107,909)**	305,549
Retained deficit		**(27,479,089)**	(11,727,442)
Total equity		**16,413,002**	13,578,108
Total liabilities and equity		**151,202,242**	168,224,303

The notes on pages 14 to 49 are an integral part of these financial statements

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

Azhar Khan
Chief Financial Officer
20 January 2014

QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity
For the year ended 31 December 2013

	Share Capital	Fair Value Reserve on AFS Financial Assets	Retained Earnings	Total
	£	£	£	£
Balance at 1 January 2012	25,000,001	-	(7,925,781)	17,074,220
Net Change in fair value of AFS financial assets	-	305,549	-	305,549
Loss for the year after tax	-	-	(3,801,661)	(3,801,661)
Balance at 31 December 2012 as restated	25,000,001	305,549	(11,727,442)	13,578,108
Balance at 1 January 2013	25,000,001	305,549	(11,727,442)	13,578,108
Share Issuance	18,999,999			18,999,999
Net Change in fair value of AFS financial assets	-	(413,458)	-	(413,458)
Loss for the year after tax	-	-	(15,751,647)	(15,751,647)
Balance at 31 December 2013	**44,000,000**	**(107,909)**	**(27,479,089)**	**16,413,002**

The notes on pages 14 to 49 are an integral part of these financial statements

Statement of Cash Flows
For the year ended 31 December 2013

	Note	2013 £	2012 as restated £
Cash flows from operating activities			
Loss for the year		**(15,751,647)**	(3,801,661)
Adjustments for			
Depreciation	18	**111,359**	164,489
Amortisation	19	**31,599**	34,622
Taxation	9	**(161,098)**	(670,797)
Increase / (decrease) in impairments on financing arrangements	28	**(3,869,545)**	4,675,471
Increase / (decrease) in amounts due from banks		**(6,695,937)**	(19,050,791)
(Increase) / decrease in financing arrangements		**16,419,443**	(16,361,970)
(Increase) / decrease in other assets		**1,310,012**	(641,365)
Increase / (decrease) in amounts due to banks		**10,204,180**	17,626,974
Increase / (decrease) in amounts due to customers		**(34,913,123)**	21,699,477
Increase / (decrease) in other liabilities		**(148,012)**	1,346,015
(Increase) / decrease in financial assets held for trading		**25,827,202**	1,179,020
(Increase) / decrease in financial assets held to maturity		**101,843**	(3,235,665)
Increase / (decrease) in financial assets available for sale		**(18,244,252)**	(2,036,751)
(Increase) / decrease in derivative financial instruments		**(267)**	2,324,677
Net cash inflow / (outflow) from operating activities		**(25,778,243)**	3,251,745
Cash flows from investing activities			
Purchase of property and equipment	18	**(12,483)**	(31,515)
Purchase of intangible assets	19	**(6,162)**	(49,078)
Net cash outflow from investing activities		**(18,645)**	(80,593)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	26	**18,999,999**	-
Proceeds from issuance of subordinated loans	27	**5,000,000**	-
Net cash inflow from financing activities		**23,999,999**	-
Net increase / (decrease) in cash and cash equivalents		**(1,796,889)**	3,171,152
Cash and cash equivalents at start of year		**4,626,245**	1,455,093
Cash and cash equivalents at end of year	10	**2,829,356**	4,626,245

The notes on pages 14 to 49 are an integral part of these financial statements

Notes to the Financial Statements

1 Reporting entity

QIB (UK) plc (the 'Company' or the 'Bank') 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 6BX The Company operates as a Shari'a compliant investment bank

2 Basis of preparation

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The financial statements were approved by the Board of Directors on 13 January 2014

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

b Basis of measurement

The financial statements have been prepared under the historical cost convention, except financial assets held at fair value through profit or loss and available for sale financial assets which have been measured at fair value

c Functional and presentation currency

The financial statements are presented in Sterling, which is the Company's functional currency

d 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

The key sources of estimation uncertainty are

(i) Provisions for impairment of financial assets
A financial asset is considered to be impaired if there is objective evidence of events since initial recognition of the asset that will adversely affect the amount or timing of future cash flows from the asset The amount of the impairment loss will be the difference between the carrying value of the financial asset and the present value of the estimated future cash flow In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral or any other means of repayment

(ii) Impairment of non-financial assets
At each reporting date the Company reviews the carrying value of its non-financial assets, specifically property and equipment and intangible assets, to determine whether there is any indication that these assets have suffered an impairment loss If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss The recoverable amount for property and equipment and intangible assets is based on an estimation of the continuing use of the assets in the business

Notes to the Financial Statements

(iii) Determining fair values
The determination of fair value for financial assets and liabilities for which there is no observable market price may require the use of valuation techniques, based on variables that may include data not directly from observable markets For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market focus, pricing assumptions and other risks affecting the specific instrument

(iv) Recognition of deferred tax asset
Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable In making this decision, business projections are reviewed in detail and the existence of convincing evidence is considered

(v) Recoverability of VAT
The Company has agreed the partial exemption special method for VAT recoverability with HMRC This follows detailed discussions with HMRC relating to the VAT treatment of specific Islamic products The amount of recoverable VAT recognised represents the expected amount recoverable based on the agreed method

e Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company, including an assessment of capital and liquidity requirements for the foreseeable future Qatar Islamic Bank, the Company's parent, has confirmed its ongoing financial support to the Company whenever needed Based on this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis

3 Significant accounting policies

a Financial instruments

(i) Murabaha is a contract for the 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 a 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 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 contracts are used within financing activities

(iv) Ijara is a contract granting the right to use an asset by one party to another which equates to the leasing of the asset in return for rental payments, and which may include a transfer of ownership title at the end of the rental period Ijara contracts are typically used for medium to long term financing of equipment, plant and machinery and vessels or aircraft

(v) Mudaraba is a partnership contract in which a provider of capital enters into an agreement with a partner to undertake a specific business or project Profits are shared on a pre-agreed basis but losses are borne by the provider of capital unless negligence of the partner, who typically provides the labour or expertise, is demonstrated

Notes to the Financial Statements

(vi) Wa'ad is a purchase undertaking by one party to the other in a transaction effectively resulting in either a right to acquire or sell for one of the parties, structured with Shari'a compliant conditions A wa'ad could be an available for sale asset where it does not meet the definition of a derivative or could be a derivative recognised at fair value

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

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously

b. Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss comprises two sub-categories financial assets classified as held for trading, and financial assets designated by the Company as at fair value through profit or loss upon initial recognition

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

Financial instruments included in this category are recognised initially at fair value, transaction costs are taken directly to the Statement of Comprehensive Income Gains and losses arising from changes in fair value are included directly in the Statement of Comprehensive Income and are reported as 'Net gains / (losses) on financial assets classified as held for trading' The investments are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition

c. Held to maturity financial investments

Held to maturity investments are measured at amortised cost using the effective yield basis The Bank assesses all held to maturity investments for impairment on each reporting date If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and present value of future cash flows discounted using the original effective yield rate The carrying amount of the asset is reduced and the loss is recognised in the Statement of Comprehensive Income If the impairment loss decreases (or there is objective evidence that the loss has decreased) after the impairment was recognised, then the corresponding impairment is reversed through the Statement of Comprehensive Income

Notes to the Financial Statements

d. Financial assets available for sale

Financial assets available for sale are initially recognised at fair value Subsequent to initial measurement, the fair value gain or loss on these assets is reported into the Statement of Changes in Equity On sale or impairment of the asset, the cumulative gain or loss previously recognised in the Statement of Changes in Equity is reclassified within the Statement of Comprehensive Income

e Derivative financial instruments

Derivative financial instruments include forward foreign exchange contracts based on the wa'ad principle Derivative financial instruments are initially recognised at fair value Subsequently, these instruments are measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income

f Property financing

Property finance is provided using the Musharaka (partnership) principal of Islamic financing or Murabaha contracts Under Musharaka, 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 and legal fees 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

g Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or the Company 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 Company is recognised as a separate asset or liability

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

h. Impairment of financial assets

At each reporting 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 from the asset that can be estimated readily

All individually significant financial assets are assessed for specific impairment 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 Company

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

Notes to the Financial Statements

effective yield rate Losses are recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income

In the case of investments classified as available for sale, impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, which impact the estimated future cash flows of the financial assets If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss

i 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 Statement of Comprehensive Income

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

j Provisions

A provision is recognised if, as a result of a past event, the Company 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

k 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 are recognised at the point when any specific actions or events relating to the payment of the fees or commissions have been completed and the fees and commissions are earned

l 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 Company and its cost can be measured reliably The costs of the day-to-day servicing of property and equipment are recognised in the Statement of Comprehensive Income as incurred

Depreciation is recognised in the Statement of Comprehensive Income 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

Notes to the Financial Statements

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

m 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 Company 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

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 Statement of Comprehensive Income as incurred

Amortisation is recognised in the Statement of Comprehensive Income 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

n. Taxation

Income tax payable or receivable is calculated on the basis of the applicable tax law and is recognised as an expense or income for the period, except to the extent that current tax is related to items that are charged or credited directly to equity

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

Deferred tax is provided in full 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 there is convincing evidence 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

o Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income 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

Notes to the Financial Statements

p Cash and cash equivalents

Cash and cash equivalents comprise cash and demand bank deposit accounts and are stated at amortised cost

q Other receivables

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

r Lease payments made

Payments made under operating leases are recognised in the Statement of Comprehensive Income 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

s Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates as at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate as 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 translation are recognised in the Statement of Comprehensive Income

t New and amended standards adopted

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that have had a material impact on the Company

u New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements None of these are expected to have an effect on the financial statements of the Company, except the following set out below

IFRS 13, establishes a single source of guidance under IFRS for all fair value measurements IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS IFRS 13 defines fair value as an exit price IFRS 13 also requires additional disclosures

As a result of the guidance in IFRS 13, the Company re-assessed its policies for ensuring fair values, in particular its valuation inputs such as non-performance risk for fair value measurement of liabilities This assessment identified that application of IFRS 13 will not materially impact the fair value measurements of the Company

Notes to the Financial Statements

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost The determination is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company

4. Income from financing and investing activities

Income from	**2013**	2012
	£	£
Banks		
Murabaha placements	**824,142**	816,201
Wakala placements	**77,414**	85,673
Financing arrangements		
Murabaha financing	**2,835,735**	3,270,349
Wakala financing	**-**	87
Musharaka financing	**435,320**	412,397
Mudaraba financing	**58,964**	100,193
Ijara financing	**56,758**	68,988
Other		
Foreign exchange spot transactions	**(27,743)**	(68,855)
Returns on investments	**879,168**	855,766
Total income from financing and investing activities	**5,139,758**	5,540,799

Notes to the Financial Statements

5 Returns to banks and customers

	2013 £	2012 £
Murabaha deposits	**1,840,211**	1,802,023
Wakala deposits	**1,658,241**	1,497,414
Subordinated loans	**116,156**	-
Total returns to banks and customers	**3,614,608**	3,299,437

6 Fees and commissions income

	2013 £	2012 as restated £
Advisory and consultancy fees	**82,764**	126,007
Corporate finance fees	**(216,084)**	2,060,820
Asset management fees	**965,170**	2,749,462
Other fee income	**378,672**	118,117
Total fees and commissions income	**1,210,522**	5,054,406

Corporate finance fees in 2013 are due to a write-off of £216,084 (2012 £nil) for fees which were receivable as at the end of the prior year Corporate finance fees in 2012 have been restated to include an additional £633,500 of fees previously written-off in 2012 and now reclassified as impairment on financing arrangements

7. Personnel expenses

	2013 £	2012 £
Directors' emoluments and fees	**593,471**	530,000
Wages and salaries	**2,144,992**	2,637,607
Social security costs	**350,545**	444,924
Pension contributions	**245,409**	253,178
Other staff costs	**13,280**	124,474
Total personnel expenses	**3,347,697**	3,990,183

The aggregate of the emoluments in 2013 of the highest paid Director was £224,867 (2012 £235,000) and Company pension contributions of £27,000 (2012 £33,000) were made on his behalf

The number of employees at the end of the year was 32 (2012 31) and the average number throughout the year was 34 (2012 33)

Notes to the Financial Statements

8. Profit / (loss) before taxation

Profit / (loss) before taxation is stated after charging	2013 £	2012 £
Auditor's remuneration		
Fees payable to Company's auditor for the audit of financial statements	73,000	85,875
Fees payable to Company's auditor for other services		
– other services pursuant to legislation	17,500	21,788
– other services	31,700	-
	122,200	107,663

During the current year, the auditor was changed from PricewaterhouseCoopers LLP to Ernst & Young LLP The 2013 fees for other services include a £20,000 fee for work performed by PricewaterhouseCoopers LLP in the current year prior to the change

9 Taxation

(i) Analysis of total tax expense / (credit):

	2013 £	2012 £
Current tax expense / (credit) for current period 23 3% (2012 24 5%)	-	-
Deferred tax credit relating to		
Origination and reversal of temporary differences	(785,123)	(984,361)
Effect of tax rate change	488,171	244,007
Prior year adjustment	135,854	69,557
Total tax credit	(161,098)	(670,797)

(ii) Reconciliation of the total tax credit

The total tax credit for the year is lower than that resulting from applying the UK standard rate of corporation tax to the loss before tax The differences are explained as follows

	2013 £	2012 £
Loss before tax	(15,912,745)	(4,472,458)
UK tax at 23 3% (2012 24 5%) thereon	(3,699,713)	(1,095,752)
Effects of		
Movement in unrecognized deferred tax asset	2,901,798	88,865
Non-deductible expenses	12,792	22,526
Effect of tax rate change	488,171	244,007
Prior year adjustment	135,854	69,557
Total tax expense / (credit)	(161,098)	(670,797)

Notes to the Financial Statements

(iii) Deferred tax

Deferred tax is calculated on temporary differences using the tax rate of 20% (2012 23%) The Finance Act 2013 reduced the UK corporation tax rate from 23% to 21% with effect from 1 April 2014, and from 21% to 20% with effect from 1 April 2015

The following are the deferred tax assets calculated by the Company and movements thereon during the current and prior reporting period

	2013 £	2012 £
Deferred tax asset as at 1 January	**(3,037,095)**	(2,366,298)
Credited to the Statement of Comprehensive Income	**(785,123)**	(984,361)
Effect of rate change	**488,171**	244,007
Prior year adjustment	**135,854**	69,557
Deferred tax asset as at 31 December	**(3,198,193)**	(3,037,095)
The deferred tax asset can be analysed as follows		
Decelerating capital allowances	**(31,156)**	(38,408)
Tax losses carried forward	**(3,167,037)**	(2,998,687)
	(3,198,193)	(3,037,095)

The recognition of a deferred tax asset of £3,198,193 (net) as at 31 December 2013 is based on future taxable profit forecasts Based on the evidence available to support the forecasts, the Directors are of the opinion that sufficient future taxable income will be available to utilise the brought forward tax losses and an element of current year tax losses

In addition to the recognised deferred tax asset, the Company has a gross unrecognised deferred tax asset of £13,257,025 (net £2,651,405) arising on tax losses This represents a portion of the overall tax losses on which a deferred tax asset cannot be recognised due to insufficient evidence of future expected taxable profits

10. Cash and balances with banks

	2013 £	2012 £
Cash	**1,024**	499
On demand bank deposits	**2,828,332**	4,625,746
Total cash and balances with banks	**2,829,356**	4,626,245

11 Due from banks

	2013 £	2012 £
Murabaha placements	**68,489,414**	56,112,859
Wakala placements	**9,619,228**	15,299,846
Total due from banks	**78,108,642**	71,412,705

Notes to the Financial Statements

12 Financing arrangements

	2013	2012 as restated
	£	£
Murabaha financing	**20,278,779**	34,011,194
Musharaka financing	**14,996,116**	14,725,326
Mudaraba financing	**1,037,148**	3,188,189
Ijara financing	**366,124**	485,187
Other financing	**-**	687,714
Total financing arrangements	**36,678,167**	53,097,610

Other financing in 2012 has been increased by £633,500 to reflect a reclassification from corporate finance fees

13 Finance lease receivables

Assets leased to customers using the Ijara structure, included under financing arrangements, are treated as finance leases Ijara financing receivables are recognised on the Statement of Financial Position and income is recognised over the period of the lease so as to give a constant rate of return on the net cash investment in the Ijara An Ijara for £339,189 was fully impaired during the year keeping in view the inability of the lessee to keep lease rentals payments up to date and after a detailed consideration of the lessee financial position The following shows the gross investments in Ijara financing receivables

	2013	2012
	£	£
Not later than one year	**366,345**	466,270
Later than one year but not later than five years	**-**	27,142
Later than five years	**-**	-
Gross investment in Ijara financing	**366,345**	493,412
Unearned future rentals	**(221)**	(8,225)
Net investment in Ijara financing	**366,124**	485,187
The net investment in Ijara financing comprises		
Not later than one year	**366,124**	458,252
Later than one year but not later than five years	**-**	26,935
Later than five years	**-**	-
Total	**366,124**	485,187

Notes to the Financial Statements

14. Financial assets held for trading

	2013 £	2012 £
Investment in quoted sukuk	-	14,088,133
Investment in managed funds	-	5,355,972
Investment in structured note	-	6,383,097
Total financial assets held for trading	-	25,827,202

As at 31 December 2012 financial assets held for trading included holdings of quoted Sukuk, managed funds and structured notes With effect from the current year, this portfolio was re-classified as financial assets available for sale based on a change in investment strategy

15. Financial assets held to maturity

	2013 £	2012 £
Investment in sukuk	**4,383,711**	4,485,554
Unquoted fixed-term funds	**2,960,998**	2,960,998
Total financial assets held to maturity	**7,344,709**	7,446,552

16. Derivative financial instruments

	2013 £	2012 £
Wa'ad	-	-
Fair value of forward foreign exchange contracts	**(42)**	(309)
Total derivative financial instruments	**(42)**	(309)

The Company entered into forward foreign exchange contracts to manage its foreign currency exposures The movement in the fair value of forward foreign exchange contracts is included in the Statement of Comprehensive Income and was a gain of £267 (2012 loss of £824,677)

In the prior year, there was a loss of £1,500,000 following the write-off of a wa'ad which had been granted to the Bank following the restructuring of a financing arrangement to a UK corporate

Notes to the Financial Statements

17 Financial assets available for sale

	2013 £	2012 £
Value of financial assets available for sale (AFS) as at 1 January	**4,242,993**	1,900,693
Fair value of wa'ads upon initial recognition	**-**	2,036,751
Increase / (decrease) in fair value of wa'ads after initial recognition	**(4,242,993)**	305,549
Fair value of AFS excluding wa'ads upon initial recognition	**22,181,696**	-
Increase / (decrease) in fair value of AFS excluding wa'ads	**(107,909)**	-
Value of financial assets available for sale as at 31 December	**22,073,787**	4,242,993

During prior years, the Company was granted three equity wa'ads in a UK technology and media company, a UK pharmaceutical research company and a UK specialist financial structuring company The underlying companies relating to two of the wa'ads entered into administration during 2013 and the fair value of these equity wa'ads as at 31 December 2013 has been written-down to £nil (2012 £2,206,242) After a detailed review of the company underlying the third wa'ad and its ability to operate in the foreseeable future, the fair value of this equity interest as at 31 December 2013 was also reduced to £nil (2012 £2,036,751)

The total loss of £4,242,993 relating to these wa'ad write-downs comprises £305,549 loss in fair value of AFS financial assets included within other comprehensive income and £3,949,103 loss included within comprehensive income, less a foreign exchange adjustment of £11,659

The net change in the fair value of AFS financial assets of £413,458 (2012 £305,549) comprises the reversal of £305,549 and the additional loss of £107,909 and is included within other comprehensive income

18 Property and equipment

	Computer Equipment £	Leasehold Improvements £	Fixtures & Fittings/Office Equipment £	Total £
Cost				
Balance at 1 January 2013	339,961	846,843	377,156	1,563,960
Additions	-	-	12,483	12,483
Balance at 31 December 2013	339,961	846,843	389,639	1,576,443
Depreciation				
Balance at 1 January 2013	(325,207)	(439,079)	(332,490)	(1,096,776)
Depreciation charge for the year	(9,414)	(84,592)	(17,353)	(111,359)
Balance at 31 December 2013	(334,621)	(523,671)	(349,843)	(1,208,135)
Net book value at 31 December 2013	**5,340**	**323,172**	**39,796**	**368,308**
Cost				
Balance at 1 January 2012	334,336	844,618	353,491	1,532,445
Additions	5,625	2,225	23,665	31,515
Balance at 31 December 2012	339,961	846,843	377,156	1,563,960
Depreciation				
Balance at 1 January 2012	(305,023)	(354,387)	(272,877)	(932,287)
Depreciation charge for the year	(20,184)	(84,692)	(59,613)	(164,489)
Balance at 31 December 2012	(325,207)	(439,079)	(332,490)	(1,096,776)
Net book value at 31 December 2012	14,754	407,764	44,666	467,184

Notes to the Financial Statements

19. Intangible assets

	Computer Software £	Computer Licenses £	Total £
Cost			
Balance at 1 January 2013	826,294	421,512	1,247,806
Additions	6,162	-	6,162
Balance at 31 December 2013	832,456	421,512	1,253,968
Amortisation			
Balance at 1 January 2013	(788,636)	(395,519)	(1,184,155)
Amortisation charge for the year	(22,579)	(9,020)	(31,599)
Balance at 31 December 2013	(811,215)	(404,539)	(1,215,754)
Net book value at 31 December 2013	**21,241**	**16,973**	**38,214**
Cost			
Balance at 1 January 2012	803,794	394,934	1,198,728
Additions	22,500	26,578	49,078
Balance at 31 December 2012	826,294	421,512	1,247,806
Amortisation			
Balance at 1 January 2012	(755,718)	(393,815)	(1,149,533)
Amortisation charge for the year	(32,918)	(1,704)	(34,622)
Balance at 31 December 2012	(788,636)	(395,519)	(1,184,155)
Net book value at 31 December 2012	37,658	25,993	63,651

20 Other assets

	2013 **£**	2012 £
Income receivable	**2,189,665**	2,146,546
Fees receivable	**177,180**	460,849
VAT recoverable	**42,751**	882,870
Prepayments	**323,640**	339,431
Other receivables	**236,259**	449,811
Total other assets	**2,969,495**	4,279,507

The VAT recoverable in the prior year represented historical amounts due, pending agreement of the Company's partial exemption special method (PESM) with HMRC This followed detailed discussions with HMRC relating to the VAT treatment of specific Islamic products The PESM was agreed during the current year and historical VAT has now been recovered

Notes to the Financial Statements

21 Due to banks

	2013	2012
	£	£
Demand	**191,690**	77,032
Murabaha deposits	**2,688,380**	912,681
Wakala deposits	**50,852,633**	42,538,810
Total due to banks	**53,732,703**	43,528,523

22 Due to customers

	2013	2012
	£	£
Demand	**2,218,412**	4,096,485
Murabaha deposits	**46,968,402**	77,218,468
Wakala deposits	**18,719,426**	21,504,410
Total due to customers	**67,906,240**	102,819,363

23 Other liabilities

	2013	2012
	£	£
Returns payable	**2,650,410**	2,615,130
Accruals	**231,464**	243,561
Trade payables	**5,342**	134,279
Social security and income tax	**82,519**	140,663
Other payables	**422,728**	406,842
Total other liabilities	**3,392,463**	3,540,475

24 Commitments under operating lease

There is a commitment at the year-end under a non-cancellable lease for the Company's main premises at 4th Floor, Berkeley Square House, Berkeley Square, London W1J 6BX at an annual rental of £434,340, expiring on 6 March 2022 There are also two IT rental leases, one for an annual rental of £20,000 expiring on 26 May 2014 and the other for an annual rental of £16,896 expiring on 5 September 2014 The following shows the total future minimum lease payments under these non-cancellable operating leases

	2013	2012
	£	£
Not later than one year	**453,820**	471,236
Later than one year and not later than five years	**1,737,360**	1,756,840
Later than five years	**1,416,741**	1,849,891
	3,607,921	4,077,967

During the year £483,176 (2012 £471,812) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases

Notes to the Financial Statements

25. Contingent liabilities and commitments

	2013 £	2012 £
Letters of credit	**3,225,377**	-
Total	**3,225,377**	-

Letters of credit (LC) include a LC issued by a Middle Eastern Bank for £3,023,249 (2012 £nil) in favour of a UK Corporate QIB (UK) has in turn confirmed the LC to the UK Corporate and thereby taken on the risk of the Middle Eastern Bank Commitments and contingent liabilities stated above do not necessarily represent expected future cash flows as these contracts may expire before actually being drawn

26. Share capital

During the year 18,999,999 new ordinary shares were issued for £1 00 and fully paid

	2013 £	2012 £
Authorised		
50,000,000 Ordinary shares of £1 00 each	**50,000,000**	50,000,00
Allotted, called up and fully paid		
Ordinary shares of £1 00 each	**44,000,000**	25,000,001

The details of the shareholders as at 31 December are

	2013	2012
Qatar Islamic Bank	**44,000,000**	19,000,000
Albidaa LLC	-	2,500,000
City Capital Limited	-	2,500,000
Sheikh Jassim Bin Hamad J J Al Thani	-	250,000
Mr Salah Jaidah	-	250,000
Professor Abdul Latif Al Meer	-	250,000
Mr Jean-Marc Riegel	-	250,000
Mr Michael Clark	-	1
Total	**44,000,000**	25,000,001

Notes to the Financial Statements

27 Related party transactions

Qatar Islamic Bank (QIB) is the immediate and ultimate controlling party by virtue of the fact that it holds 100% of the issued share capital and voting rights in the Company QIB was incorporated on 8 July 1982 as a Qatari shareholding company by the Emiri Decree Number 45 of 1982 to provide banking services, and conduct investment and financing activities in accordance with Islamic Shari'a principles, as determined by its Shari'a Committee and in accordance with the provisions of its Memorandum and Articles of Association

EFH Funds SCA SICAV SIF ('EFH Funds') is an investment fund vehicle incorporated in Luxembourg as a limited liability partnership The General Partner of the limited liability partnership is an independent limited company (Sarl) incorporated in Luxembourg The General Partner acts out of Luxembourg and is responsible for the overall management and governance of the fund The management board of the Sarl is made up of three managers The Chief Financial Officer of the Company acts as one of the managers with equal voting rights to each of the other two managers

There are two active sub-funds that have been launched by EFH Funds, namely, Global Sukuk Plus Fund ('GSPF') and Islamic Financial Institution Fund ('IFI') The Bank has been appointed as investment advisor for these funds

All other related parties are related by virtue of QIB ownership or common Non-Executive Directors, unless otherwise stated below

Subordinated loan from related party
As at 31 December there was an outstanding subordinated loan balance payable to QIB of £9,757,834 (2012 £4,757,834) During the year, new subordinated loans of £5,000,000 (2012 £4,757,834) were issued

Due to banks
QIB held demand deposit accounts and entered into Wakala deposit transactions with the Bank on an arm's length basis As at 31 December, total deposits from QIB were £11,118,103 (2012 £5,591,119), of which £5,450,298 (2012 £nil) relate to sub-participation agreements into Real Estate transactions Total returns due to QIB in the year were £144,353 (2012 £68,581) and returns of £39,036 (2012 £14,010) were payable as at the end of the year The highest balance of deposits from QIB during the year was £11,118,103 (2012 £7,475,576)

QInvest entered into Wakala deposit transactions with the Bank on an arm's length basis As at 31 December, total deposits from QInvest were £nil (2012 £1,856,091) Total returns due to QInvest in the year were £20,464 (2012 £22,431) and returns of £nil (2012 £3,243) were payable as at the end of the year The highest balance of deposits from QInvest during the year was £4,936,646 (2012 £6,092,371)

Cash and balances with banks
Demand bank accounts were held with QIB in line with QIB's normal account terms and conditions As at 31 December, the balance held with QIB was £661 (2012 £8,574)

Financial assets available for sale
As at 31 December 2013, the total investment in EFH Funds, shown within assets available for sale, was £4,541,640 In the prior year this investment was classified as assets held for trading and the balance as at 31 December 2012 was £4,855,987

Notes to the Financial Statements

Fees and commissions income
Fund management fees of £739,963 (2012 £1,014,135) were received in relation to GSPF and £195,180 (2012 £102,584) in relation to IFI during the year

Fees receivable
As at 31 December, fund management fees of £37,062 (2012 £122,829) and £8,225 (2012 £25,197) were receivable from GSPF and IFI respectively relating to the fund management services performed by the Company for the funds during the year

Fees payable
As at 31 December, an amount of £2,236 (2012 £675) was payable to QIB relating to asset management fee rebates Total rebates due to QIB and AFH in the year were £2,772 (2012 £59,090) and £1,244 (2012 £4,114) respectively A further payment of £3,107 (2012 £nil) was payable to QIB for professional fees that were paid by the parent on behalf of QIB (UK)

Financing arrangements
As at 31 December, financing arrangements included a balance of £3,377,780 (2012 £3,261,699) relating to a property Musharaka financing transaction made with Mr Abdullah Al-Eida, a Director of QIB, on an arm's length basis The highest balance during the year for this financing was £3,377,780 (2012 £3,261,699) and returns of £13,371 (2012 £12,053) were payable at the end of the year There was a further Musharaka financing transaction of £3,483,336 (2012 £3,363,627) with Peterson Development Limited, a company related to Mr Al-Eida The highest balance during the year for this financing was £3,483,336 (2012 £3,363,627) and returns of £13,789 (2012 £12,987) were payable at the end of the year A total of £3,500,000 of these exposures is subject to a sub-participation agreement with an unrelated third party bank

Due to Customers
As at 31 December, Mr Abdullah Al-Eida had a demand deposit account with a balance of £260 (2012 £260)

Bank lines
As at 31 December the Company had £48,976,630 (2012 £42,900,452) of agreed inter-bank borrowing lines and £45,000,000 (2012 £24,747,881) of agreed lending lines with related parties within the QIB Group These lines are of varying tenor and duration

No fees are payable or receivable for these lines and they have been utilised during the year only as described above

Key management compensation
Key management of the Company is the Management Committee of the Bank The Management Committee was reformed during the year with an increased number of members The compensation of key management personnel is as follows

	2013	2012
	£	£
Emoluments including social security costs	**654,530**	528,840
Company contributions to pension plans	**71,472**	65,250
	726,002	594,090

As at 31 December, advances totalling £110,000 (2012 £252,722) had been made to key management as part of a staff advance scheme No returns are payable on these advances and repayment is directly from salary over a maximum period of 5 years or as defined in specific agreements

Notes to the Financial Statements

28 Financial risk management

The Bank monitors and manages exposures to the following risks arising from its use of financial instruments

- Capital adequacy
- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Profit rate risk
- Shari'a compliance risk

This note presents information about the Bank's exposure to each of these risks, and its objectives, policies and processes for identifying, mitigating, managing and reporting them

Risk management framework

QIB (UK) seeks to mitigate risk through robust systems and controls, and through effective corporate governance The Bank has an established risk management which has been enhanced following an in-depth review during 2013

The major components of QIB (UK)'s risk management framework include

a) committee / governance structure
b) delegated approval limits for credit exposures
c) delegated approval limits for trading and investment purposes
d) three lines of defence model
e) risk appetite statement
f) Risk and Compliance functions
g) Risk register
h) risk indicator framework
i) risk policies and procedures
j) Internal Audit

Elements of the framework are detailed further below

Governance structure

QIB (UK) Board
The QIB (UK) Board is the statutory board of directors of QIB (UK) It has authority to act on behalf of the Bank in all matters in accordance with the Memorandum and the Articles of Association of the Company

The QIB (UK) Board is responsible for the process of risk management, and will form its own opinion on the effectiveness of the process The QIB (UK) Board provides oversight and takes responsibility for strategic leadership of the Bank within a framework of good corporate governance and prudent and effective controls which enable risk to be assessed and managed The QIB (UK) Board, working with the Bank's executive directors and senior management, sets the risk strategy policies and ensures that the necessary financial and human resources are in place for the Bank to meet its objectives

The QIB (UK) Board decides the Bank's appetite or tolerance for risk and ensures that the Bank has implemented an effective, on-going process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed

The QIB (UK) Board has a general duty to ensure that the Bank conducts business in accordance with all relevant statutory and regulatory requirements This includes specific responsibilities for ensuring that

Notes to the Financial Statements

a) the business has an effective system of internal control and management of business risks and is conducted in accordance with the PRA/FCA principles for businesses
b) adequate records are maintained
c) a strong capital base is maintained to support the development of its business and to meet regulatory capital requirements at all times
d) the compliance department and internal and external auditors are competent and provided with appropriate resource in the discharge of their duties
e) an integrated system of planning and budgeting is established to ensure that the Company can efficiently and effectively achieve its strategic objectives in support of and in line with the strategic objectives of the shareholders
f) the composition of the QIB (UK) Board is periodically reviewed to ensure its skill-set is appropriate to current and future business requirements

Typically annually, the QIB (UK) Board will request that management review the effectiveness of the Bank's system of internal controls The review will cover all material controls, including financial, operational and compliance controls and risk management systems

The QIB (UK) Board has established a governance framework of Board Sub-Committees and Management Committees to ensure the sound management of the Bank These committees are depicted below

The QIB (UK) Board approves financing and investment proposals and corporate facilities above the Sub-Committees' and Sub-Management Committees' delegated authority in accordance with the agreed delegated credit authority limit structure

Board Sub-Committees

The QIB (UK) Board has delegated specific powers and authority to the following Board Sub-Committees as set out in their respective terms of reference

- Board Executive Committee,
- Shari'a Supervisory Committee,
- Board Audit & Risk Committee, and
- Board Remuneration Committee

Board Executive Committee ("Board ExCo")
The Board ExCo reviews, rejects, recommends or approves as appropriate new credit exposures within the authority delegated to it Its principal purpose is to preserve the independence of the members of the Board Audit and Risk Committee from the commercial activities of the Bank

Shari'a Supervisory Committee ("SSC")
The SSC reviews the proposed products and services of QIB (UK) to ensure that they are fully compliant and in accordance with the rules and principles of Shari'a The guidance of the SSC prevents the Bank from taking risks outside an important facet of its risk appetite, that of compliance with Shari'a

Board Audit & Risk Committee ("ARC")
The ARC is constituted to ensure that the executive management has established and maintains an effective system of internal controls on behalf of the QIB (UK) Board It is also responsible for providing a channel of communication between the QIB (UK) Board, executive management, the Risk and Compliance functions and Internal and External Audit

Board Remuneration Committee ("RemCo")
RemCo provides a formal, objective and transparent means of developing policy on executive remuneration and fixing the remuneration packages of individual Bank directors It also functions as a nominations committee, evaluating the performance of the QIB (UK) Board and the executive

Notes to the Financial Statements

Executive Management Committee ("ManCo")
Drawn from the executives of the Company, ManCo is responsible for the operational oversight and management of the Company
Under the leadership of the Chief Executive Officer, the ManCo is the principal forum for conducting the business of QIB (UK) plc and is responsible for the efficient and controlled operation of the business within the limits of the strategy, budgets and mandates approved by the QIB (UK) Board

The ManCo has specific delegated authority for the establishment, approval and periodic review of all policies and procedures adopted by the Bank as part of the risk management and control framework

Sub-Management Committees

The ManCo has two Sub-Management Committees
- the Risk Management Committee, and
- the Asset & Liability Committee

Their roles and responsibilities are covered below

Risk Management Committee ("RMC")
The RMC provides support and advice directly to the ManCo, and indirectly to the QIB (UK) Board

The RMC is the primary committee with regard to risk management It acts within authority delegated to it through the ManCo, as amended from time to time by the QIB (UK) Board, and has two main roles

First, to establish and oversee a robust risk management framework and advise the ManCo and ultimately the QIB (UK) Board on all areas of risk management, current risk exposures and future risk strategy, including capital and liquidity management

Secondly, to assess, decide and recommend upon proposed credit risk exposures In consultation with the QIB Group Risk function and subject to QIB (UK) Board approval the RMC sets and approves financial institution limits to avoid excessive consolidated Group exposures

The RMC is chaired by the Chief Risk Officer ("CRO")

Asset & Liability Committee ("ALCO")
The ALCO manages and monitors the capital, assets and liabilities of the Bank to ensure an appropriate risk/reward relationship between solvency, liquidity and profit rate risk

Capital management

The Bank's capital requirements are set and monitored by the PRA Regulatory capital is analysed in two tiers

- Tier 1 capital, which includes ordinary share capital and retained earnings
- Tier 2 capital, which includes qualifying subordinated loans

The level of total regulatory capital is monitored against the Individual Capital Guidance Individual Capital Guidance is comprised of Pillar 1 capital using the Standardised Approach and Pillar 2 as required by the PRA The Bank has complied with all capital requirements throughout the period

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty is unable to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements

Notes to the Financial Statements

The Bank has a thorough quantitative and qualitative vetting process in place covering all of its customers and counterparties This involves assigning internal risk ratings and maximum tenors 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 Bank 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 capacity is diversified across the Bank's business lines to ensure an appropriate allocation of risk capital and avoid undue concentrations of risk by customer, country, sector or internal ratings

Risk Management is responsible for the operational management of the Bank's credit risk, including
- 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
- monitoring ongoing adherence to country and counterparty limits

A detailed credit approval limit structure was established during 2013 Within this limit structure, potential exposures and proposals are assessed by either the RMC, the Board ExCo or the QIB (UK) Board itself

The RMC is responsible for the formal assessment of any new exposures Business lines submit credit approval requests to the Risk Manager using the standardised QIB Group Risk Rating procedure The Risk Manager submits the request to the RMC for consideration

The RMC reviews all potential exposures If the potential exposure falls within its delegated authority, the RMC will form its own decision If not, the RMC will review and if appropriate recommend the exposure to either the Board ExCo or the QIB (UK) Board Credit risk exposures as at 31 December are shown below

	2013	2012 as restated
	£	£
Balances with banks	**2,828,332**	4,625,746
Due from banks	**78,108,642**	71,412,705
Other financing	**-**	687,714
Murabaha financing	**20,278,779**	34,011,194
Musharaka financing	**14,996,116**	14,725,326
Mudaraba financing	**1,037,148**	3,188,189
Ijara financing	**366,124**	485,187
Financial assets held to maturity	**7,344,709**	7,446,552
Total	**124,959,850**	136,582,613
Off-balance sheet		
Letters of credit	**3,225,377**	-
Total	**3,225,377**	-
Total credit risk	**128,185,227**	136,582,613

The credit exposures shown above are gross before taking account of any collateral held

Notes to the Financial Statements

Concentration of risks of financial assets with credit risk exposure

The following tables provide additional analysis of the credit exposure, showing concentration by geographical location and industry type of counterparties For geographical sector, allocation of exposures to regions is based on the country of incorporation or nationality of the counterparty

Geographical sectors	**Europe** £	**Middle East** £	**USA** £	**Other** £	**Total** £
Balances with banks	2,665,779	662	161,891	-	2,828,332
Due from banks	20,012,232	30,748,220	15,000,000	12,348,190	78,108,642
Other financing	-	-	-	-	-
Murabaha financing	20,278,779	-	-	-	20,278,779
Musharaka financing	1,700,000	3,377,780	-	9,918,336	14,996,116
Mudaraba financing	1,037,148	-	-	-	1,037,148
Ijara financing	366,124	-	-	-	366,124
Financial assets held to maturity	2,960,998	4,383,711	-	-	7,344,709
31 December 2013	**49,021,060**	**38,510,373**	**15,161,891**	**22,266,526**	**124,959,850**
Off-balance sheet					
Letters of credit	-	3,225,377	-	-	3,225,377
31 December 2013	-	3,225,377	-	-	3,225,377
Total	**49,021,060**	**41,735,750**	**15,161,891**	**22,266,526**	**128,185,227**
Balances with banks	4,180,980	8,574	436,192	-	4,625,746
Due from banks	35,685,913	17,426,792	14,300,000	4,000,000	71,412,705
Other financing	687,714	-	-	-	687,714
Murabaha financing	32,127,086	1,884,108	-	-	34,011,194
Musharaka financing	14,725,326	-	-	-	14,725,326
Mudaraba financing	3,188,189	-	-	-	3,188,189
Ijara financing	485,187	-	-	-	485,187
Financial assets held to maturity	2,960,998	4,485,554	-	-	7,446,552
31 December 2012 as restated	94,041,393	23,805,028	14,736,192	4,000,000	136,582,613
Off-balance sheet					
Letters of credit	-	-	-	-	-
31 December 2012	-	-	-	-	-
Total	94,041,393	23,805,028	14,736,192	4,000,000	136,582,613

Notes to the Financial Statements

Industry sectors

The following table breaks down the Bank's credit exposures, at their carrying value, by industry sector of the Bank's counterparties

	Banks	Individuals	Real Estate	Manufacturing / Other	Total
	£	£	£	£	£
Balances with banks	2,828,332	-	-	-	2,828,332
Due from banks	78,108,642	-	-	-	78,108,642
Other financing	-	-	-	-	-
Murabaha financing	-	110,806	14,725,987	5,441,986	20,278,779
Musharaka financing	-	-	14,996,116	-	14,996,116
Mudaraba financing	-	-	-	1,037,148	1,037,148
Ijara financing	-	-	-	366,124	366,124
Financial assets held to maturity	-	-	4,774,947	2,569,762	7,344,709
31 December 2013	**80,936,974**	**110,806**	**34,497,050**	**9,415,020**	**124,959,850**
Off-balance sheet					
Letters of credit	3,225,377	-	-	-	3,225,377
31 December 2013	3,225,377	-	-	-	3,225,377
Total	**84,162,351**	**110,806**	**34,497,050**	**9,415,020**	**128,185,227**
Balances with banks	4,625,746	-	-	-	4,625,746
Due from banks	71,412,705	-	-	-	71,412,705
Other financing	-	-	-	687,714	687,714
Murabaha financing	-	22,644	20,206,783	13,781,767	34,011,194
Musharaka financing	-	-	14,725,326	-	14,725,326
Mudaraba financing	-	-	-	3,188,189	3,188,189
Ijara financing	-	-	-	485,187	485,187
Financial assets held to maturity	2,960,998	-	1,856,092	2,629,462	7,446,552
31 December 2012 as restated	78,999,449	22,644	36,788,201	20,772,319	136,582,613
Off-balance sheet					
Letters of credit	-	-	-	-	-
31 December 2012	-	-	-	-	-
Total	78,999,449	22,644	36,788,201	20,772,319	136,582,613

Notes to the Financial Statements

Credit quality

The credit quality of the Bank's exposures is reviewed and managed by the Bank's Risk department and RMC

Credit quality is assessed using techniques which use information from the major External Credit Assessment Institutions ("ECAI"), together with specific financial data, to determine internal risk ratings The latter are mapped to the ECAI and Regulators' credit risk ratings

The Bank has policies and procedures 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 Bank writes off a balance (and any related allowances for impairment) when it considers that the balance is uncollectable This would be determined after considering information such as significant changes in the obligor's financial position and an assessment of collateral levels

During the year, the Bank incurred impairment losses of £7,652,242 (2012 £4,675,471) This mainly related to two UK corporates, which had been financed by the Bank in prior years, entering into administration, resulting in an impairment charge of £5,228,186 Additionally, after a detailed portfolio review, a full provision was raised against 2 further UK corporates for £2,398,967 and an UK individual for £7,620 Impairments were reduced by £8,000 following repayment of an amount previously fully impaired

As at 31 December 2013, the Bank wrote off £11,453,542 of fully impaired assets The table below shows the movement in impairment provisions during the year

Total provisions brought forward	£6,276,132
Additional 2013 provisions	£7,652,242
Foreign exchange revaluation on USD impairments	(£68,245)
Less transfer to write offs	(£11,453,542)
Closing impairment provision as at 31 December	**£2,406,587**

The table below shows past due amounts and impairments The 2012 totals for individually impaired financing arrangements and impairment have been restated by £996,216, this comprises £362,716 of additional impairment where subsequent to the approval of the prior year financial statements, it was discovered that the underlying company relating to the exposure had entered into administration, and £633,500 reclassified from corporate finance fees to other financing

	2013		2012 as restated	
	Due from banks	**Financing arrangements**	Due from banks	Financing arrangements
	£	**£**	£	£
Neither past due nor impaired	**78,108,642**	**34,415,861**	71,412,705	46,821,478
Past due	**-**	**101,548**	-	-
Individually impaired	**-**	**2,160,758**	-	6,276,132
Gross	**78,108,642**	**36,678,167**	71,412,705	53,097,610
Impairment	**-**	**(2,160,758)**	-	(6,276,132)
Total	**78,108,642**	**34,517,409**	71,412,705	46,821,478

Notes to the Financial Statements

The credit quality of the portfolio of financing arrangements and due from banks is further assessed by reference to the internal rating system adopted by the Bank

	Investment Grade £	Standard Monitoring £	Special Monitoring £	Total £
Balances with banks	2,828,332	-	-	2,828,332
Due from banks	65,708,025	12,400,617	-	78,108,642
Other financing	-	-	-	-
Murabaha financing	-	14,727,624	5,551,155	20,278,779
Musharaka financing	-	14,996,116	-	14,996,116
Mudaraba financing	-	1,037,148	-	1,037,148
Ijara financing	26,935	-	339,189	366,124
Financial assets held to maturity	2,569,761	4,774,948	-	7,344,709
31 December 2013	**71,133,053**	**47,936,453**	**5,890,344**	**124,959,850**
Off Balance Sheet				
Letters of credit	3,225,377	-	-	3,225,377
31 December 2013	**3,225,377**	**-**	**-**	**3,225,377**
Total	**74,358,430**	**47,936,453**	**5,890,344**	**128,185,227**
Balances with banks	4,625,746	-	-	4,625,746
Due from banks	55,494,162	15,918,543	-	71,412,705
Other financing	-	-	687,714	687,714
Murabaha financing	-	28,462,697	5,548,497	34,011,194
Musharaka financing	14,725,326	-	-	14,725,326
Mudaraba financing	-	1,106,189	2,082,000	3,188,189
Ijara financing	128,645	356,542	-	485,187
Financial assets held to maturity	2,629,462	4,817,090	-	7,446,552
31 December 2012 as restated	77,603,341	50,661,061	8,318,211	136,582,613
Off Balance Sheet				
Letters of credit	-	-	-	-
31 December 2012	-	-	-	-
Total	77,603,341	50,661,061	8,318,211	136,582,613

Notes to the Financial Statements

As at 31 December 2013, the Bank had the following impaired assets for which it is undertaking special monitoring

1) Corporates with total financing exposures of £2,153,138 (2012 £3,377,957) The total impairment provision against these assets as at 31 December is £2,398,966 (2012 £3,377,957) This includes a further impairment of £245,828 relating to accrued profit receivable on these exposures

2) A UK individual with a total Murabaha financing amount due of £7,620 (2012 £17,851) The total impairment provision against this asset as at 31 December is £7,620 (2012 £17,851)

A full assessment of all other assets where a potential loss event has occurred has been completed It has been determined that no other impairment provision is required

Collateral

Risk Management assesses exposure against collateral held This is done as part of the initial credit assessment and then as part of periodic credit reviews The fair value of collateral can vary

	2013		2012 as restated	
	Exposure	**Collateral**	Exposure	Collateral
	£	**£**	£	£
Balances with banks	**2,828,332**	-	4,625,746	-
Due from banks	**78,108,642**	-	71,412,705	-
Other financing	-	-	687,714	-
Murabaha financing	**20,278,779**	**30,791,149**	34,011,194	40,996,070
Musharaka financing	**14,996,116**	**23,231,380**	14,725,326	16,470,136
Mudaraba financing	**1,037,148**	**2,888,689**	3,188,189	3,283,712
Ijara financing	**366,124**	-	485,187	150,000
Financial assets held to maturity	**7,344,709**	-	7,446,552	-
Letters of credit	**3,225,377**	-	-	-
Total credit risk	**128,185,227**	**56,911,218**	136,582,613	60,899,918

The Murabaha financing collateral of £30,791,149 is held against exposures totaling £18,354,024 Exposures totaling £1,924,755 have no collateral held against them, of which £1,821,569 represents the fully impaired exposures With Musharaka and Mudaraba financing, collateral is held against all exposures

Market risk

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 Bank is managed in accordance with the PRA Capital Requirement Directive BIPRU 7 and includes all

- trading book positions, and
- foreign exchange positions, whether or not in the trading book

The market risk definition can be further broken down into the sub-risk types shown on the following pages

Notes to the Financial Statements

Exchange rate risk

This is 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 The following table summarises the Bank's exposures arising from its financial instruments

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Cash and balances with banks	161,905	49,022	2,609,078	948	8,403	2,829,356
Due from banks	32,258,065	1,498,190	44,352,387	-	-	78,108,642
Financing arrangements	5,441,987	-	31,236,180	-	-	36,678,167
Financial assets held for trading	-	-	-	-	-	-
Financial assets held to maturity	4,383,711	-	2,960,998	-	-	7,344,709
Financial assets available for sale	22,073,787	-	-	-	-	22,073,787
Derivative financial instruments	-	-	(42)	-	-	(42)
Other assets	1,987,145	40,786	941,463	101	-	2,969,495
31 December 2013	**66,306,600**	**1,587,998**	**82,100,064**	**1,049**	**8,403**	**150,004,114**
Liabilities						
Due to banks	7,319,293	35,986	46,377,424	-	-	53,732,703
Due to customers	60,481,383	1,499,216	5,925,641	-	-	67,906,240
Subordinated Loan	-	-	9,757,834	-	-	9,757,834
Other liabilities	2,469,664	1,949	920,799	51	-	3,392,463
31 December 2013	**70,270,340**	**1,537,151**	**62,981,698**	**51**	**-**	**134,789,240**
Net on balance sheet financial position	**(3,963,740)**	**50,847**	**19,118,366**	**998**	**8,403**	**15,214,874**
Forward foreign exchange contracts	4,000,000	-	(4,000,000)	-	-	-

Notes to the Financial Statements

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Cash and balances with banks	436,235	273,348	3,863,626	8,574	44,462	4,626,245
Due from banks	45,010,209	3,222,648	23,179,848	-	-	71,412,705
Financing arrangements	7,452,522	-	45,645,088	-	-	53,097,610
Financial assets held for trading	25,827,202	-	-	-	-	25,827,202
Financial assets held to maturity	4,485,554	-	2,960,998	-	-	7,446,552
Financial assets available for sale	2,036,751	-	2,206,242	-	-	4,242,993
Derivative financial instruments	-	-	(309)	-	-	(309)
Other assets	1,478,095	7,504	2,793,638	270	-	4,279,507
31 December 2012 as restated	86,726,568	3,503,500	80,649,131	8,844	44,462	170,932,505
Liabilities						
Due to banks	4,641,316	48,015	38,839,192	-	-	43,528,523
Due to customers	90,056,615	3,296,076	9,466,672	-	-	102,819,363
Subordinated Loan	-	-	4,757,834	-	-	4,757,834
Other liabilities	2,540,968	59,250	940,122	135	-	3,540,475
31 December 2012	97,238,899	3,403,341	54,003,820	135	-	154,646,195
Net on balance sheet financial position	(10,512,331)	100,159	26,645,311	8,709	44,462	16,286,310
Forward foreign exchange contracts	14,281,721	(1,599,951)	(12,681,770)	-	-	-

Notes to the Financial Statements

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible, and as at 31 December 2013, held a net exposure to exchange rate risk equivalent to £96,508 (2012 as restated £2,322,769)

Commodity risk

This is 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 2013, the Bank had no direct exposure to commodity risk (2012 £nil)

Equity risk

This is 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 2013, the Bank's total equity exposure, relating to these equity wa'ads, was £nil (2012 £4,242,993)

Profit rate risk (trading book only)

This is 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

The Bank's profit rate risk sensitivity analysis considers a number of factors such as historical data and stress testing based scenarios, this analysis also includes net present value of cash flows based on respective currency yield curves in which trading book portfolio instruments are denominated

The profit rate risk of the trading book portfolio is reviewed on daily basis If the risk related to any instrument in the portfolio exceeds the tolerance limits set by the RMC, it will be disposed of from the portfolio

Operational risk

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

The Bank'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 Bank's Operational Risk Policy under the guidance of the RMC

Notes to the Financial Statements

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

- the Board of Directors approves the strategy and policy documents
- RMC monitors the following operational risk factors high risk areas as defined by departmental risk indicator self-assessments, organisational deficiencies, inadequate policies and procedures, key risk indicators, and loss information
- a detailed Risk Register has been compiled and is maintained based on the above reviews The register is reviewed monthly by the RMC and quarterly by the Audit and Risk Committee, and updated as appropriate

The Compliance team ensures that all aspects of regulatory risk impacting the Bank are appropriately reviewed and managed The Bank does not have a dedicated in-house legal function but uses professional legal firms for all matters requiring legal advice

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

Shari'a compliance risk

Shari'a compliance risk is the risk of loss arising from non-compliance of products or services offered by the Bank with Shari'a principles The Bank's Shari'a Supervisory Committee (SSC) ensures that all products and activities of the Bank are Shari'a compliant The members of the SSC are leading experts in the interpretation of Islamic law and its applications in the contemporary financial markets

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations due from its financial liabilities The Bank's Treasury department is responsible for formulating an overall market strategy for managing liquidity to ensure this does not occur, which is then approved by ALCO The liquidity profile of all financial assets and liabilities, including projected cash flows from current and future business, is monitored by Treasury department, reviewed by Risk Management and reported to members of ALCO daily

Details of the Company's net liquid assets are summarised in the table on the following page using the maturity profile of the Company's assets and liabilities based on the contractual repayment arrangements The contractual maturities of assets and liabilities reflect the remaining period between the balance sheet date and the contractual maturity date Financial assets held for trading can be realised immediately in the open market

Notes to the Financial Statements

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
31 December 2013						
Assets						
Cash and balances with banks	2,829,356	-	-	-	-	2,829,356
Due from banks	47,218,581	16,077,829	14,812,232	-	-	78,108,642
Financing arrangements	2,947	-	2,765,720	31,748,742	-	34,517,409
Financial assets held for trading	-	-	-	-	-	-
Financial assets held to maturity	-	-	755,812	6,588,897	-	7,344,709
Financial assets available for sale	4,541,640	-	307,935	17,224,212	-	22,073,787
Derivative financial instruments	3	(45)	-	-	-	(42)
Total assets	**54,592,527**	**16,077,784**	**18,641,699**	**55,561,851**	**-**	**144,873,861**
Liabilities						
Due to banks	23,191,690	14,767,039	2,938,380	12,835,594	-	53,732,703
Due to customers	2,733,622	3,260,389	30,546,145	31,366,084	-	67,906,240
Loan from related party	-	-	-	-	-	-
Subordinated loan	-	-	-	4,757,834	5,000,000	9,757,834
Total liabilities	**25,925,312**	**18,027,428**	**33,484,525**	**48,959,512**	**5,000,000**	**131,396,777**
Difference	**28,667,215**	**(1,949,644)**	**(14,842,826)**	**6,602,339**	**(5,000,000)**	**13,477,084**

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
31 December 2012 as restated						
Assets						
Cash and balances with banks	4,626,245	-	-	-	-	4,626,245
Due from banks	43,579,878	13,198,122	250,000	14,384,705	-	71,412,705
Financing arrangements	-	-	5,381,328	41,440,150	-	46,821,478
Financial assets held for trading	19,444,105	-	6,383,097	-	-	25,827,202
Financial assets held to maturity	-	-	-	7,446,552	-	7,446,552
Financial assets available for sale	2,017,402	-	-	2,225,591	-	4,242,993
Derivative financial instruments	(152)	(157)	-	-	-	(309)
Total assets	69,667,478	13,197,965	12,014,425	65,496,998	-	160,376,866
Liabilities						
Due to banks	21,247,127	12,868,715	5,912,681	3,500,000	-	43,528,523
Due to customers	10,010,428	6,231,735	37,111,682	49,465,518	-	102,819,363
Loan from related party	-	-	-	-	-	-
Subordinated loan	-	-	-	4,757,834	-	4,757,834
Total liabilities	31,257,555	19,100,450	43,024,363	57,723,352	-	151,105,720
Difference	38,409,923	(5,902,485)	(31,009,938)	7,773,646	-	9,271,146

Notes to the Financial Statements

Profit rate risk (non-Trading book)

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

Profit rate risk is measured and monitored daily against revenue and capital in the Risk Report which is distributed to the Treasury department, ALCO and senior management The same report is distributed monthly to the Audit and Risk Committee

	2013	2012
Net income from financing activities	**£3,386,777**	£3,852,014
Parallel rate shock risk		
- 1% rate shock	**£422,020**	£407,327
Impact of rate shock on capital		
- 1% rate increase	**1.83%**	2 87%
- 1% rate decrease	**-1.83%**	-2 87%
Impact of rate shock on net income		
- 1% rate increase	**12%**	11%
- 1% rate decrease	**-12%**	-11%

29 Fair value of financial assets and liabilities

In the opinion of the Directors, the fair value of financial assets and financial liabilities are not materially different from their carrying value

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Company's market assumptions These two types of inputs have created the following fair value hierarchy

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities This level includes listed equity securities on exchanges

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

• Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This level includes equity investments with significant unobservable components

Notes to the Financial Statements

This hierarchy requires the use of observable market data when available The Company considers relevant and observable market prices in its valuations where possible

The fair value for investments in Sukuk and funds under 'financial assets available for sale' are based on quoted prices as defined in level 1 under IFRS 7 The fair value of investments in structured notes is based on observable market prices as defined in level 2 under IFRS 7

The following table presents the Bank's assets that are measured at fair value as at 31 December

31 December 2013	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Financial assets at fair value through profit and loss				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
Derivative financial instruments	-	(42)	-	(42)
Financial assets available for sale				
- Equity instruments	-	-	-	-
- Debt instruments	15,715,290	6,358,497	-	22,073,787
Total Assets	**15,715,290**	**6,358,455**	**-**	**22,073,745**
31 December 2012				
Financial assets at fair value through profit and loss				
- Debt instruments	18,944,121	6,383,097	-	25,327,218
- Equity instruments	499,984	-	-	499,984
Derivative financial instruments	-	(309)	-	(309)
Financial assets available for sale				
- Equity interests	-	-	4,242,993	4,242,993
Total Assets	19,444,105	6,382,788	4,242,993	30,069,886

Notes to the Financial Statements

The following table presents the changes in level 3 instruments

	Financial assets available for sale £	Derivative financial instruments £	Total £
Balance as at 1 January 2013	4,242,993	-	4,242,993
Transfers into level 3 instruments	-	-	-
Level 3 instruments recognised in year	-	-	-
Write-down on level 3 instruments	(4,242,993)	-	(4,242,993)
Balance as at 31 December 2013	**-**	**-**	**-**
Balance as at 1 January 2012	-	1,500,000	1,500,000
Transfers into level 3 instruments	1,900,693	-	1,900,693
Level 3 instruments recognised in year	2,036,751	-	2,036,751
Gain / (loss) on level 3 instruments	305,549	(1,500,000)	(1,194,451)
Balance as at 31 December 2012	4,242,993	-	4,242,993

Financial assets available for sale include equity interests (in the form of wa'ads) in three counterparties During the year two of these counterparties entered into administration and the third is under special monitoring, the values have therefore been reduced to nil as at 31 December 2013

30. Events after the balance sheet date

There were no events between the balance sheet date and the date when the financial statements were signed, which would have had any material impact on the financial results for the year ended 31 December 2013