4656003

European Finance House Limited
Annual Report

Registered number 4656003

For the year ended 31 December 2009

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Group Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2009.

Principal activities

European Finance House Limited (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

Financial results and business review

The financial statements for the year ended 31 December 2009 are shown on pages 10 to 45. The Company and its subsidiaries are together referred to as the 'Group' The Group and Company loss for the year amounts to £1,657,951 (2008. £2,351,025)

The current year was the first full year of banking operations and the primary focus was on further enhancing the Bank's products across each of its core business lines Progress in each of these areas is summarised further below. Additionally, Pall Mall Property Development Limited (a subsidiary) completed the acquisition of a commercial property from a third party and sold it to Qatar Islamic Bank (QIB) at the cost price. Legal formalities relating to the sale are in progress

At this stage of the Bank's development, the key performance indicators monitored by the Directors are based on overall income and costs The loss for the year reflects the development stage of the Bank against the backdrop of overall financial market conditions worldwide. Despite this, there was solid growth in net fees and commissions income which increased to £2,502,800 compared with £1,184,037 in 2008.

Total operating expenses were £6,031,547 increasing from £4,764,412 in 2008. This increase was in line with plans and was mainly due to infrastructure costs being incurred for a full year in 2009 following the launch of the Bank during 2008.

The loss for the current year includes an impairment provision of £924,784 against a single past due financing asset. Whilst work is ongoing to resolve this situation, a provision at this level is deemed appropriate at this stage.

The objective of the Bank in 2010 is to continue to develop its income according to the existing business plan, whilst maintaining strong cost control.

The activities and plans of each of the Bank's 4 main business lines are summarised below:

Asset Management
The aim is to provide a wide range of Shari'a compliant investment solutions to clients including high net worth individuals, sovereign wealth funds and institutional investors. During the year a Sukuk Fund was successfully developed and launched through a mutual fund platform, with the Bank providing investment management services. The platform, which is independently managed in Luxembourg, has been designed to accommodate multiple product offerings and it is intended to launch additional fund products in 2010

Corporate Finance
Activities include the provision of Shari'a compliant financing, participation in capital markets, treasury services, international trade finance and advice and arrangement relating to private equity and mergers and acquisitions During the year a product offering working capital financing to small and medium businesses was successfully launched. It is planned to further develop this product in 2010, as well as continuing to engage with a wide range of corporate clients in order to provide financing solutions

Group Directors' Report (continued)

Real Estate
Provides a range of services including property related advice and consultancy, Shari'a compliant financing and asset management of property investments. During the year the division continued to act as mandated advisors on significant UK and European real estate development projects. Plans for the launch of a Shari'a compliant real estate financing fund platform are currently progressing

Treasury
The Treasury function is responsible for managing the Bank's balance sheet in accordance with FSA guidelines and Shari'a principles, as well as maximising profit from trading in various Shari'a compliant investment products. During the year the focus was on continuing to build the Bank's counterparty base. These efforts will continue in 2010 to ensure that ongoing liquidity requirements are effectively managed

A detailed explanation of the Bank's approach to financial and operational risk management is set out in note 24 to the financial statements.

Proposed dividend

The Directors do not propose the payment of a dividend (2008: £nil)

Directors

The Directors who held office throughout the year were as follows.

Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani (Chairman)
Professor Abdul Latif Al Meer [1]
Mr Roderick Chamberlain [2]
Mr. Michael Clark [3]
Mr Salah Jaidah [1]
Mr Emmanuel Limido
Mr. David Potter [3]
Mr Jean-Marc Riegel [2]
Mr David Sambar [1]

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

Subsequent to the reporting date, Mr David Potter resigned as a Director on 31 March 2010.

On 1 January 2010, Professor Abdul Latif Al Meer was appointed to the Audit and Risk Committee, replacing Mr Jean-Marc Riegel.

Group Directors' Report (continued)

Shari'a Supervisory Committee members

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

Sheikh Walid Ben Hadi (Chairman)
Sheikh Nizam Yacouby
Dr. Abdul Sattar Abu Ghuddeh

The annual report of the SSC is shown on page 7.

Creditor payment policy

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

Political and charitable contributions

The Company made no political contributions (2008: £nil) or charitable donations during the year (2008: £21,811, being the interest received by the Company on a returned rental deposit, was paid over to charity).

Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company and the Group, including an assessment of capital and liquidity requirements for the foreseeable future. Based on this review, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the financial statements have been prepared on a going concern basis.

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 are 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
26 April 2010

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

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position of the Group and parent company and the performance of the Group for that period

In preparing each of the Group and parent company financial statements, the Directors are required to.

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the Group and enable them to ensure that its financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations They are also responsible for safeguarding the assets of the Company and the Group and hence for taking steps to prevent and detect fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shari'a Supervisory Committee Report

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

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

For the year ended 31 December 2009

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 2009

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

Therefore, based on representations received from the Company's management and the Shari'a auditors, in our opinion the transactions entered into by the Company during the year ended 31 December 2009 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
26 April 2010

Independent Auditors' Report to the Members of European Finance House Limited

We have audited the Group and parent company financial statements (the 'financial statements') of European Finance House Limited (the 'Company') for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated and the Company Balance Sheets, the Consolidated and the Company Statements of Changes in Equity, the Consolidated and the Company Statements of Cash Flows and the related notes 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Group's and parent 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's loss and the Group's and the parent company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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.

Darren Meek (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hays Galleria, 1 Hays Lane
London SE1 2RD

27 April 2010

Consolidated Income Statement
For the year ended 31 December 2009

	Note	2009 £	2008 £
Income			
Income from financing and investing activities	4	1,008,449	1,797,773
Returns to financial institutions and customers	5	(453,254)	(568,423)
Net income from financing and investing activities		555,195	1,229,350
Fees and commissions income	6	2,581,742	1,322,169
Fees and commissions expense		(78,942)	(138,132)
Net fees and commissions income		2,502,800	1,184,037
Total operating income		3,057,995	2,413,387
Expenses			
Personnel expenses	7	(3,292,577)	(2,396,552)
Depreciation and amortisation	13, 14	(604,472)	(515,189)
Other expenses		(2,134,498)	(1,852,671)
Total operating expenses		(6,031,547)	(4,764,412)
Loss before provisions for impairment		(2,973,552)	(2,351,025)
Provisions for impairment	24	(924,784)	-
Loss before taxation		(3,898,336)	(2,351,025)
Taxation	9	2,240,385	-
Loss for the year attributable to shareholders		(1,657,951)	(2,351,025)

All activities are derived from continuing operations and there is no comprehensive income other than the result for the current year

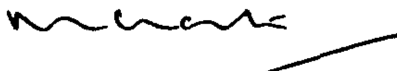
The notes on pages 16 to 45 are an integral part of these financial statements

Consolidated Balance Sheet
As at 31 December 2009

	Note	2009 £	2008 £
Assets			
Cash and balances with banks	10	3,280,523	1,009,334
Due from financial institutions	11	19,169,739	26,835,239
Financing arrangements	12	22,475,309	14,011,401
Less: impairment on financing	24	(924,784)	-
Property and equipment	13	941,327	1,071,906
Intangible assets	14	389,862	685,527
Other assets	15	2,350,715	1,318,566
Deposit paid on property purchase		-	3,300,000
Tax assets	9	2,240,385	-
Total assets		49,923,076	48,231,973
Liabilities			
Due to financial institutions	17	18,526,752	7,740,975
Due to customers	18	7,676,285	15,157,073
Loan from related party	23	4,757,834	4,757,834
Other liabilities	19	772,085	728,020
Total liabilities		31,732,956	28 383 902
Equity			
Share capital	22	25,000,001	25,000,001
Retained deficit		(6,809,881)	(5,151,930)
Total equity		18,190,120	19,848,071
Total liabilities and equity		49,923,076	48,231,973

The notes on pages 16 to 45 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 26 April 2010 and were signed on its behalf by



Michael Clark
Chief Executive Officer
European Finance House Limited
Registered number 4656003

Company Balance Sheet
As at 31 December 2009

	Note	2009	2008
Assets		£	£
Cash and balances with banks	10	3,280,522	1,009,334
Due from financial institutions	11	19,169,739	26,835,239
Financing arrangements	12	22,475,309	14,011,401
Less. impairment on financing	24	(924,784)	-
Property and equipment	13	941,327	1,071,906
Intangible assets	14	389,862	685,527
Other assets	15	2,350,715	1,318,566
Tax assets	9	2,240,385	-
Loan to subsidiary company		-	3,299,999
Investment in subsidiary company	16	1	1
Total assets		49,923,076	48,231,973
Liabilities			
Due to financial institutions	17	18,526,752	7,740,975
Due to customers	18	7,676,285	15,157,073
Loan from related party	23	4,757,834	4,757,834
Other liabilities	19	772,085	728,020
Total liabilities		31,732,956	28,383,902
Equity			
Share capital	22	25,000,001	25,000,001
Retained deficit		(6,809,881)	(5,151,930)
Total equity		18,190,120	19,848,071
Total liabilities and equity		49,923,076	48,231,973

The notes on pages 16 to 45 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 26 April 2010 and were signed on its behalf by

Michael Clark
Chief Executive Officer
European Finance House Limited
Registered number 4656003

Consolidated and Company Statements of Changes in Equity
For the year ended 31 December 2009

	Share Capital £	Retained Earnings £	Total £
Balance at 1 January 2008	1	(2,800,905)	(2,800,904)
Loss for the year	-	(2,351,025)	(2,351,025)
Shares issued	25,000,000	-	25,000,000
Balance at 31 December 2008	25,000,001	(5,151,930)	19,848,071
Balance at 1 January 2009	25,000,001	(5,151,930)	19,848,071
Loss for the year	-	(1,657,951)	(1,657,951)
Balance at 31 December 2009	**25,000,001**	**(6,809,881)**	**18,190,120**

The notes on pages 16 to 45 are an integral part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2009

	Note	2009 £	2008 £
Cash flows from operating activities			
Loss for the year		(1,657,951)	(2,351,025)
Adjustments for:			
Depreciation	13	238,449	220,038
Amortisation	14	366,023	295,151
Taxation	9	(2,240,385)	-
Impairment provision		924,784	-
Decrease/(increase) in amounts due from financial institutions		7,665,500	(26,835,239)
Increase in financing arrangements		(8,463,908)	(14,011,401)
Increase in other assets		(1,032,149)	(272,136)
Increase in amounts due to financial institutions		10,785,777	7,740,975
(Decrease)/increase in amounts due to customers		(7,480,788)	15,157,073
Increase/(decrease) in other liabilities		44,065	(476,104)
Net cash outflow from operating activities		(850,583)	(20,532,668)
Cash flows from investing activities			
Purchase of property and equipment	13	(107,870)	(78,718)
Purchase of intangible assets	14	(70,358)	(236,304)
Property deposit paid		-	(3,300,000)
Additional payment made for purchase of property		(20,000,000)	-
Total proceeds from sale of property		23,300,000	-
Net cash inflow/(outflow) from investing activities		3,121,772	(3,615,022)
Cash flows from financing activities			
Loan from related party for property purchase		20,000,000	
Repayment of related party loan upon sale of property		(20,000,000)	
Net proceeds from issue of share capital			25,000,000
Net cash inflow from financing activities		-	25,000,000
Net increase in cash and cash equivalents		2,271,189	852,310
Cash and cash equivalents at start of year		1,009,334	157,024
Cash and cash equivalents at end of year	10	3,280,523	1,009,334

The notes on pages 16 to 45 are an integral part of these financial statements

Company Statement of Cash Flows
For the year ended 31 December 2009

	Note	2009 £	2008 £
Cash flows from operating activities			
Loss for the year		(1,657,951)	(2,351,025)
Adjustments for			
Depreciation	13	238,449	220,038
Amortisation	14	366,023	295,151
Taxation	9	(2,240,385)	
Impairment provision		924,784	
Decrease/(increase) in amounts due from financial institutions		7,665,500	(26,835,239)
Increase in financing arrangements		(8,463,908)	(14,011,401)
Increase in other assets		(1,032,149)	(272,136)
Increase in amounts due to financial institutions		10,785,777	7,740,975
(Decrease)/increase in amounts due to customers		(7,480,788)	15,157,073
Increase/(decrease) in other liabilities		44,065	(476,104)
Net cash outflow from operating activities		(850,583)	(20,532,668)
Cash flows from investing activities			
Purchase of property and equipment	13	(107,870)	(78,718)
Purchase of intangible assets	14	(70,358)	(236,304)
Investment in subsidiary company		-	(1)
Decrease/(increase) in loan to subsidiary company		3,299,999	(3,299,999)
Net cash inflow/(outflow) from investing activities		3,121,771	(3,615,022)
Cash flows from financing activities			
Net proceeds from issue of share capital		-	25,000,000
Net cash inflow from financing activities		-	25,000,000
Net increase in cash and cash equivalents		2,271,188	852,310
Cash and cash equivalents at start of year		1,009,334	157,024
Cash and cash equivalents at end of year	10	3,280,522	1,009,334

The notes on pages 16 to 45 are an integral part of these financial statements.

Notes to the Financial Statements

1. Reporting entity

European Finance House Limited (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 6BY. The Company operates as a Shari'a compliant investment bank.

2. Basis of preparation

a. Statement of compliance

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

The financial statements were approved by the Board of Directors on 26 April 2010.

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 on the historical cost basis.

c. Income Statement of parent company

As permitted by section 408 of the Companies Act 2006 the Income Statement of the parent company is not presented as part of the financial statements. The parent company's loss for the year ended 31 December 2009 amounts to £1,657,951

d. Functional and presentation currency

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

e. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the entities that the Company controls Control exists where the Company has the power to govern the financial and operating policies of the entity. Controlled entities are consolidated from the date on which control is transferred to the Company and they are deconsolidated from the date the control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation.

Notes to the Financial Statements

f. Use of estimates and judgements

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

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

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 Bank 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.

(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 stress-tested to assess the probable likelihood of such recovery.

g. Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company and the Group, including an assessment of capital and liquidity requirements for the foreseeable future. Based on this review, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future For this reason the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements

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 an 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 a contract 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

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

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

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

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

Notes to the Financial Statements

b. Property financing

Property finance is provided using the Musharaka (partnership) principal of Islamic financing. The Group 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 Group at any point in time. The other party to the agreement may make separate payments to purchase additional proportions of the property from the Group, thereby reducing the Group'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 Group 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 Group's net investment.

c. Derecognition of financial assets and liabilities

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

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

d. Impairment of financial assets

At each 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 on the asset that can be estimated readily.

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

Objective evidence that financial assets are impaired include default or delinquency by the counterparty, extending or changing repayment terms, indications that a counterparty may go into bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payments status of counterparties, or economic conditions that correlate with defaults in the Group

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

When a subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through the Consolidated Income Statement.

Notes to the Financial Statements

e. Impairment of non-financial assets

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

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

f. Provisions

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

g. Fees and commissions

Fees and commissions which are not recognised on an effective yield basis over the life of the financial instrument to which they relate are recognised at the point when any specific actions or events relating to the payment of the fees or commissions have been completed.

h. Property and equipment

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

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

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

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

Notes to the Financial Statements

i. Intangible assets

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

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

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

Software	3 Years
Computer licenses	3 Years

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

k. Employee benefits

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

l. Cash and cash equivalents

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

Notes to the Financial Statements

m. Other receivables

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

n. Lease payments made

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

o. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on translation are recognised in the Consolidated Income Statement. Forward contracts are accounted for at fair value, with any changes recognised in the Consolidated Income Statement.

p. Investment in subsidiaries

Investment in subsidiaries is stated at cost less, where appropriate, provision for impairment.

q. Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group:

- IFRS 7 Improving disclosures about financial instruments (effective 1 January 2009)
- IAS 1 Presentation of financial statements (effective 1 January 2009)

r. Standards and interpretations issued but not yet effective

New standards, amendments and interpretations to existing standards which have been published by IASB and IFRIC with an effective date after the date of these financial statements and, which the Group has not early adopted, are as follows:

- IAS 24 (Amendments) Related Party Disclosures (effective 1 January 2011)
- IAS 32 Presentation: Classification of Rights Issues (effective 1 February 2010)
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective for financial periods starting on or after 1 July 2009)
- IFRS 1 (Amendments) First-time Adoption of International Financial Reporting Standards (effective for financial periods starting on or after 1 July 2009)
- IFRS 2 (Amendments) Share Based Payments (effective 1 January 2010)
- IFRS 9 Financial Instruments (effective 1 January 2013)
- Improvements to IFRSs – IFRS 2, IFRS 8 (Disclosure about segment assets), IAS 1 (Current/noncurrent classification of convertible instruments), IAS 18 (Principal or agent) (effective 1 January 2010)

The Group anticipates that the accounting pronouncements which have not been early adopted will have no material effect on the financial statements except for IFRS 9. The Group is currently in the process of evaluating the potential effect of this standard

Notes to the Financial Statements

4. Income from financing and investing activities

Income from	2009 £	2008 £
Financial Institutions		
Murabaha	**272,597**	1,274,853
Wakala	**169,485**	-
Financing arrangements		
Murabaha financing	**302,288**	261,169
Istisna financing	**20,888**	37,359
Musharaka financing	**178,918**	224,392
Ijara financing	**58,377**	-
Mudaraba financing	**5,896**	-
Total income from financing and investing activities	**1,008,449**	1,797,773

5. Returns to financial institutions and customers

	2009 £	2008 £
Murabaha	**435,411**	568,423
Wakala	**17,843**	-
Total returns to financial institutions and customers	**453,254**	568,423

Notes to the Financial Statements

6. Fees and commissions income

	2009 £	2008 £
Advisory and consultancy fees	**565,854**	864,041
Arrangement and participation fees	**1,288,217**	-
Corporate and institutional finance fees	**48,509**	201,119
Asset management fees	**582,747**	245,864
Other fee income	**96,415**	11,145
Total fees and commissions income	**2,581,742**	1,322,169

7. Personnel expenses

	2009 £	2008 £
Directors' emoluments and fees	**424,820**	499,500
Wages and salaries	**2,213,540**	1,478,480
Social security costs	**317,056**	242,143
Pension contributions	**248,525**	116,112
Other staff costs	**88,636**	60,317
Total personnel expenses	**3,292,577**	2,396,552

The aggregate of the emoluments in 2009 of the highest paid Director was £181,940 (2008. £216,000) and Company pension contributions of £24,000 (2008 £24,000) were made on his behalf.

The number of employees at the end of the year was 27 (2008: 20) and the average number throughout the year was 26 (2008: 18)

Notes to the Financial Statements

8. Loss before taxation

Loss before taxation is stated after charging:	2009 £	2008 £
Auditor's remuneration – PricewaterhouseCoopers LLP audit services:		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	**45,000**	-
Fees payable to Company's auditor for other services		
– audit of Company's subsidiaries pursuant to legislation	**12,000**	-
– other services pursuant to legislation	**6,000**	-
– other services	**50,000**	-
Auditor's remuneration – KPMG audit services.		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	-	50,000
Fees payable to Company's auditor for other services:		
– audit of Company's subsidiaries pursuant to legislation	-	8,000
– other services pursuant to legislation	-	6,000
– other services	-	8,000
	113,000	72,000

Notes to the Financial Statements

9. Taxation

Group and Company

	2009 £	2008 £
Current tax for the year	-	-
Deferred tax for the year	(2,240,385)	-
Total tax credit	(2,240,385)	-

	2009	2008
Reconciliation of effective tax rate		
Loss before taxation	(3,898,336)	(2,351,025)
Income tax at UK Corporation tax rate at 28% (2008: 28.5%)	(1,091,534)	(670,042)
Non deductible expenses	127,088	24,053
Depreciation in excess of capital allowances on which deferred tax not recognised	-	62,711
Deferred tax asset previously not recognised	(1,275,939)	-
Tax losses on which deferred tax not recognised	-	583,278
	(2,240,385)	-

Deferred tax assets are attributable to the following items

	2009	2008
Capital allowances	44,046	-
Tax losses carried forward	2,196,339	-
	2,240,385	-

The Directors are of the opinion, based on forecast trading profits, that it is probable that sufficient future taxable income will be available against which these recognised deferred tax assets can be recovered.

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

	2009 £	2008 £
Capital allowances	-	61,065
Unutilised losses	-	1,203,894
	-	1,264,959

Notes to the Financial Statements

10. Cash and balances with banks

	2009 £	2008 £
Group:		
Cash	734	671
On demand bank deposits	3,279,789	1,008,663
Total cash and balances with banks	3,280,523	1,009,334
Company:		
Cash	733	671
On demand bank deposits	3,279,789	1,008,663
Total cash and balances with banks	3,280,522	1,009,334

11. Due from financial institutions

Group and Company

	Three months or less but not repayable on demand £	One year or less but over three months £	Greater than one year £	Total £
Murabaha	10,996,683	-	-	10,996,683
Wakala	8,173,056	-	-	8,173,056
31 December 2009	**19,169,739**	**-**	**-**	**19,169,739**
Murabaha	26,319,909	515,330	-	26,835,239
31 December 2008	26,319,909	515,330	-	26,835,239

Notes to the Financial Statements

12. Financing arrangements

Group and Company

	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Greater than five years	Total
	£	£	£	£	£
Murabaha	1,877,487	-	4,474,634	-	6,352,121
Musharaka	-	2,400,000	5,400,000	-	7,800,000
Istisna	-	-	-	2,483,706	2,483,706
Ijara	-	-	5,495,720	-	5,495,720
Other financing	-	343,762	-	-	343,762
31 December 2009	**1,877,487**	**2,743,762**	**15,370,354**	**2,483,706**	**22,475,309**
Murabaha	288,999	2,356,343	4,440,000	-	7,085,342
Musharaka	-	-	4,557,645	-	4,557,645
Istisna	-	-	-	2,368,414	2,368,414
31 December 2008	288,999	2,356,343	8,997,645	2,368,414	14,011,401

A risk participation agreement has been entered into with a related party in respect of one asset of £4,440,000 (2008: £4,440,000) included within Murabaha financing. Under this risk participation agreement, up to 50% of the risk relating to this asset is assumed by that party.

Notes to the Financial Statements

13. Property and equipment

Group and Company

	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment	Total
	£	£	£	£
Cost:				
Balance at 1 January 2009	258,461	788,827	316,391	1,363,679
Additions	46,616	50,707	10,547	107,870
Balance at 31 December 2009	305,077	839,534	326,938	1,471,549
Depreciation:				
Balance at 1 January 2009	(114,987)	(104,469)	(72,317)	(291,773)
Depreciation charge for the year	(91,871)	(81,889)	(64,689)	(238,449)
Balance at 31 December 2009	(206,858)	(186,358)	(137,006)	(530,222)
Net book value at 31 December 2009	**98,219**	**653,176**	**189,932**	**941,327**
Cost:				
Balance at 1 January 2008	227,090	781,297	276,574	1,284,961
Additions	31,371	7,530	39,817	78,718
Balance at 31 December 2008	258,461	788,827	316,391	1,363,679
Depreciation:				
Balance at 1 January 2008	(35,226)	(24,659)	(11,850)	(71,735)
Depreciation charge for the year	(79,761)	(79,810)	(60,467)	(220,038)
Balance at 31 December 2008	(114,987)	(104,469)	(72,317)	(291,773)
Net book value at 31 December 2008	143,474	684,358	244,074	1,071,906

Notes to the Financial Statements

14. Intangible assets

Group and Company

	Computer Software	Computer Licenses	Total
	£	£	£
Cost:			
Balance at 1 January 2009	671,311	383,521	1,054,832
Additions	59,450	10,908	70,358
Balance at 31 December 2009	730,761	394,429	1,125,190
Amortisation:			
Balance at 1 January 2009	(219,849)	(149,456)	(369,305)
Amortisation charge for the year	(235,455)	(130,568)	(366,023)
Balance at 31 December 2009	(455,304)	(280,024)	(735,328)
Net book value at 31 December 2009	**275,457**	**114,405**	**389,862**
Cost:			
Balance at 1 January 2008	438,384	380,144	818,528
Additions	232,927	3,377	236,304
Balance at 31 December 2008	671,311	383,521	1,054,832
Amortisation:			
Balance at 1 January 2008	(47,866)	(26,288)	(74,154)
Amortisation charge for the year	(171,983)	(123,168)	(295,151)
Balance at 31 December 2008	(219,849)	(149,456)	(369,305)
Net book value at 31 December 2008	451,462	234,065	685,527

15. Other assets

Group and Company

	2009	2008
	£	£
Income receivable	**281,724**	-
Fees receivable	**821,714**	877,587
VAT recoverable	**349,380**	73,969
Prepayments	**319,884**	343,234
Other receivables	**578,013**	23,776
Total other assets	**2,350,715**	1,318,566

Notes to the Financial Statements

16. Investment in subsidiaries

On 3 April 2008, the Company had acquired for a total consideration of £1 the entire issued share capital of Pall Mall Property Development (Holdings) Limited, which is the sole shareholder of Pall Mall Property Development Limited, a company incorporated with the intention of acquiring commercial property for development and investment purposes. As at 31 December 2009 neither subsidiary had any assets or liabilities other than cash and the share capital of £1

17. Due to financial institutions

Group and Company

	On demand	Three months or less but not repayable on demand	One year or less but over three months	Total
	£	£	£	£
Demand	653,296	-	-	653,296
Murabaha	-	8,173,056	-	8,173,056
Wakala	-	9,700,400	-	9,700,400
31 December 2009	**653,296**	**17,873,456**	**-**	**18,526,752**
Demand	843,791	-	-	843,791
Murabaha	-	4,397,184	2,500,000	6,897,184
31 December 2008	843,791	4,397,184	2,500,000	7,740,975

18. Due to customers

Group and Company

	On demand	Three months or less but not repayable on demand	One year or less but over three months	Total
	£	£	£	£
Demand	207,643	-	-	207,643
Murabaha	-	7,392,153	-	7,392,153
Wakala	-		76,489	76,489
31 December 2009	**207,643**	**7,392,153**	**76,489**	**7,676,285**
Demand	130,596	-	-	130,596
Murabaha	-	13,512,313	1,514,164	15,026,477
31 December 2008	130,596	13,512,313	1,514,164	15,157,073

Notes to the Financial Statements

19. Other liabilities

Group and Company

	2009 £	2008 £
Returns payable	203,559	-
Accruals	296,570	273,312
Trade payables	100,408	182,860
Social security and income tax	82,603	69,855
Other payables	88,945	201,993
Total other liabilities	772,085	728,020

20. 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 6BY for a 15 year period from 5 April 2007 to 5 April 2022, at an annual rental of £427,840 In addition, there is an IT rental lease for 3 years from 30 November 2009 at an annual charge of £10,400.

	2009 £	2008 £
Within one year	438,240	427,840
One to five years	1,731,277	1,711,360
More than five years	3,106,236	3,422,720
	5,275,753	5,561,920

During the year £438,240 (2008: £431,432) was recognised as an expense in the Consolidated Income Statement in respect of operating leases.

21. Contingent liabilities and commitments

	2009 £	2008 £
Bank guarantee	6,000,000	6,000,000
Committed financing facilities	2,861,100	1,063,895
Letters of credit	228,749	28,560
Total	9,089,849	7,092,455

Commitments and contingent liabilities stated above do not necessarily represent expected future cash flows as these contracts may expire before actually being drawn The bank guarantee is totally covered by a cash deposit which is included in due to financial institutions.

Notes to the Financial Statements

22. Share capital

	2009 £	2008 £
Authorised		
50,000,000 Ordinary shares of £1 00 each	**50,000,000**	50,000,000
Allotted, called up and fully paid		
25,000,001 Ordinary shares of £1 00 each	**25,000,001**	25,000,001

The details of the shareholders as at 31 December are:

	2009	2008
Qatar Islamic Bank	16,500,000	16,500,000
Albidaa LLC	2,500,000	2,500,000
Centuria Holding	2,500,000	2,500,000
H.E. Sheikh Hamad Bin Jassim Al Thani	2,500,000	2,500,000
Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani	250,000	250,000
Mr. Salah Jaidah	250,000	250,000
Professor Abdul Latif Al Meer	250,000	250,000
Mr. Jean-Marc Riegel	250 000	250 000
Mr. Michael Clark	1	1
Total	**25,000,001**	**25,000,001**

Notes to the Financial Statements

23. Related party transactions

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

Loan from related party
As at 31 December 2009 there was an outstanding loan balance payable to QIB of £4,757,834 (2008: £4,757,834). No return is payable on this balance and the total is scheduled to be repaid to QIB at the end of 2010 as agreed.

Due to financial institutions
QIB held demand deposit accounts and entered into Murabaha deposit transactions with the Bank on an arm's length basis As at 31 December 2009 total deposits from QIB were £10,353,696 (2008: £4,864,796) Total deposit returns due to QIB in the year were £110,974 (2008. £141,218) and returns of £10,406 (2008. £14,818) were payable as at the end of the year. The deposit balance as at 31 December 2009 represented the highest balance throughout the year.

Syria International Islamic Bank (SIIB) entered into Murabaha deposit transactions with the Bank on an arm's length basis. As at 31 December 2009 total deposits from SIIB were £8,173,056 (2008· £nil). Total deposit returns due to SIIB in the year were £159,600 (2008· £nil) and these were payable as at the end of the year. The highest balance of deposits from SIIB during the year was £8,413,352 (2008· £nil).

Due from financial institutions
As at 31 December 2009, due from financial institutions included a balance of £8,173,056 (2008· £nil) relating to deposit placements made on an arm's length basis with Arab Finance House (AFH). Total deposit returns due in the year from placements with AFH were £169,362 (2008· £nil) and these were receivable as at the end of the year. The highest balance of placements with AFH during the year was £8,413,352 (2008. £nil).

Financing arrangements
As at 31 December 2009, financing arrangements included a balance of £34,634 (2008· £nil) relating to a Murabaha financing transaction made with David Sambar, a Non-Executive Director, on an arm's length basis. The highest balance during the year for this Murabaha financing was £35,000 (2008· £nil).

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 2009 the balance held with QIB was £1,160 (2008: £843,791).

Pall Mall Property
In February 2009, Pall Mall Property Development Limited, a subsidiary of the Company, completed the acquisition of a commercial property in London for total consideration and acquisition related costs of £23,300,000. In order to complete this acquisition, a loan of £20,000,000 was provided by QIB In May 2009 this property was sold to QIB for £23,300,000. Full payment of the sales proceeds, after repayment of the loan, has been made by QIB. The property was subsequently transferred to Qatar Central Bank (QCB) by QIB. The Company has a mandate with QCB to provide ongoing asset management services relating to the property

Notes to the Financial Statements

Fees receivable

As at 31 December 2009, other assets included a balance of £125,000 (2008: £125,000) for share issue fees receivable from Centuria Holding, a shareholder in the Company. EFH Global Sukuk Plus Fund is an investment fund incorporated in Luxembourg as a limited liability partnership SICAV-SIF. The Company has a mandate to act as investment manager to the fund. The General Partner of the limited liability partnership is an independent limited company (Sàrl) incorporated in Luxembourg. The General Partner acts out of Luxembourg and is responsible for the overall management and governance of the SICAV-SIF The management board for the Sàrl is made up of 4 managers. The Company Secretary of the Company acts as one of the managers with equal voting rights to each of the other 3 managers. As at 31 December 2009, fees of £200,000 (2008: £200,000) were receivable from the EFH Global Sukuk Plus Fund relating to consultancy services performed by the Company for the fund in the prior year. An additional £57,089 (2008: £nil) was also payable by the fund relating to expenses paid by the Company on the fund's behalf and are to be reimbursed

Fees and commissions income

The following income was received in relation to the EFH Global Sukuk Plus Fund. Investment management fees £175,419, placement fees received from QIB relating to QIB investment into fund £349,687, Placement fees received from AFH relating to AFH investment into fund £31,408 As the fund became operational during the year, no income was received in the prior year

Fees and commissions expense

A risk participation agreement has been entered into with QIB in respect of one asset of £4,440,000 included within Murabaha financing Under this risk participation agreement, up to 50% of the risk relating to this asset is assumed by QIB and a fee is paid to them by the Bank. During the year, total fees relating to this agreement were £52,759 (2008: £79,316). Fees outstanding as at 31 December 2009 were £3,817 (2008 £35,566)

Bank lines

As at 31 December 2009 the Company had USD 40,000,000 of agreed inter-bank borrowing lines and £110,000,000 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 are the Executive Directors. The compensation of key management personnel is as follows.

	2009 £	2008 £
Emoluments including social security costs	**399,312**	461,916
Company contributions to pension plans	**46,500**	45,375
	445,812	507,291

As at 31 December 2009, advances totalling £70,844 (2008: £70,000) 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.

Notes to the Financial Statements

24. Financial risk management

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

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

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

Risk management framework

The Board of Directors is ultimately responsible for the management of all risk within the Bank. This includes the establishment and oversight of an overall Risk Management Framework and Corporate Governance Policy which ensure that an appropriate risk management culture is established throughout the Bank.

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

These two sub-committees are responsible for developing suitable policies, approving risks and limits within delegated authorities and regularly reviewing the Bank's exposures to all risk classes. A Risk Management team ('Risk Management') has been established at the Bank and is responsible for the ongoing operational analysis and review of all the Bank's risks and for providing information to the Executive Management Committee and sub-committees. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered

Capital management

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

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

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

Notes to the Financial Statements

Credit risk

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

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

Management of credit risk
The 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 capacities are properly diversified across the Bank's business lines in order to ensure an appropriate allocation of risk capital and to avoid undue concentrations of risk by customer, country, sector or internal ratings.

Risk Management is responsible for the oversight 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

Credit risk exposures as at 31 December are as follows.

	2009 £	2008 £
Balances with banks	**3,279,789**	1,008,663
Due from financial institutions	**19,169,739**	26,835,239
Other financing	**343,762**	-
Murabaha financing	**6,352,121**	7,085,342
Musharaka financing	**7,800,000**	4,557,645
Istisna financing	**2,483,706**	2,368,414
Ijara financing	**5,495,720**	-
Deposit paid	**-**	3,300,000
Total	44,924,837	45,155,303
Off-balance sheet		
Bank guarantee	**6,000,000**	6,000,000
Committed financing facilities	**2,861,100**	1,063,895
Letters of credit	**228,749**	28,560
Total	**9,089,849**	7,092,455
Total credit risk	**54,014,686**	52,247,758

The above table represents the maximum credit risk exposure to the Bank without taking account of any collateral held. The Murabaha financing balance shown includes £4,440,000 for a single transaction, against which the Bank has a risk participation agreement with QIB for £2,220,000 The bank guarantee balance of £6,000,000 is entirely covered by a cash deposit.

Notes to the Financial Statements

Concentration of risks of financial assets with credit risk exposure

Geographical sectors:

The following table breaks down the Bank's credit exposures, at their carrying amounts, by geographical region For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Europe	Middle East	USA	Total
	£	£	£	£
Balances with banks	3,240,736	39,053	-	3,279,789
Due from financial institutions	10,996,683	8,173,056	-	19,169,739
Other financing	343,762	-	-	343,762
Murabaha financing	4,474,634	1,877,487	-	6,352,121
Musharaka financing	7,800,000	-	-	7,800,000
Istisna financing	-	2,483,706	-	2,483,706
Ijara financing	2,669,990	2,825,730	-	5,495,720
31 December 2009	**29,525,805**	**15,399,032**	-	**44,924,837**
Off-balance sheet:				
Bank guarantee	6,000,000	-	-	6,000,000
Committed financing facilities	2,262,192	598,908	-	2,861,100
Letters of credit	228,749	-	-	228,749
31 December 2009	**8,490,941**	**598,908**	-	**9,089,849**
Total	**38,016,746**	**15,997,940**	-	**54,014,686**
Balances with banks	981,961	26,702	-	1,008,663
Due from financial institutions	3,685,722	22,852,103	297,414	26,835,239
Murabaha financing	4,690,053	2,395,289	-	7,085,342
Musharaka financing	4,557,645	-	-	4,557,645
Istisna financing	-	2,368,414	-	2,368,414
Deposit paid	3,300,000	-	-	3,300,000
Total 31 December 2008	17,215,381	27,642,508	297,414	45,155,303
Off-balance sheet:				
Bank guarantee	6,000,000	-	-	6,000,000
Committed financing facilities	-	1,063,895	-	1,063,895
Letters of credit	-	28,560	-	28,560
Total 31 December 2008	6,000,000	1,092,455	-	7,092,455
Total	23,215,381	28,734,963	297,414	52,247,758

Notes to the Financial Statements

Industry sectors·

The following table breaks down the Bank's credit exposures, at their carrying amounts, as categorised by the industry sectors of the Bank's counterparties

	Banks	Individuals	Sovereign	Real Estate	Manufac-turing	Total
	£	£	£	£	£	£
Balance with banks	3,279,789	-	-	-	-	3,279,789
Due from financial institutions	19,169,739	-	-	-	-	19,169,739
Other financing	-	-	-	-	343,762	343,762
Murabaha financing	-	34,634	-	-	6,317,487	6,352,121
Musharaka financing	-	-	-	7,800,000	-	7,800,000
Istisna financing	-	-	2,483,706	-	-	2,483,706
Ijara financing	-	-	2,669,990	-	2,825,730	5,495,720
31 December 2009	**22,449,528**	**34,634**	**5,153,696**	**7,800,000**	**9,486,979**	**44,924,837**
Off-balance sheet:						
Bank guarantee	-	-	-	6,000,000	-	6,000,000
Committed financing facilities	-	-	2,861,100	-	-	2,861,100
Letters of credit	228,749	-	-	-	-	228,749
31 December 2009	**228,749**	**-**	**2,861,100**	**6,000,000**	**-**	**9,089,849**
Total	**22,678,277**	**34,634**	**8,014,796**	**13,800,000**	**9,486,979**	**54,014,686**
Balance with banks	1,008,663	-	-	-	-	1,008,663
Due from financial institutions	26,835,239	-	-	-	-	26,835,239
Murabaha financing	-	300,000	-	-	6,785,342	7,085,342
Musharaka financing	-	-	-	4,557,645	-	4,557,645
Istisna financing	-	-	2,368,414	-	-	2,368,414
Deposit paid	-	-	-	3,300,000	-	3,300,000
31 December 2008	27,843,902	300,000	2,368,414	7,857,645	6,785,342	45,155,303
Off-balance sheet:						
Bank guarantee	-	-	-	6,000,000	-	6,000,000
Committed financing facilities	-	-	1,063,895	-	-	1,063,895
Letters of credit	28,560	-	-	-	-	28,560
31 December 2008	28,560	-	1,063,895	6,000,000	-	7,092,455
Total	27,872,462	300,000	3,432,309	13,857,645	6,785,342	52,247,758

Notes to the Financial Statements

Credit quality

The credit quality of the Bank's exposures is reviewed and managed by the RMC and the Executive Management Committee.

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

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

The Bank writes off a balance (and any related allowances for impairment) when the RMC determines that the balance is uncollectable. This determination would be reached after considering information such as the occurrence of significant changes in the obligor's financial position and an assessment of collateral levels During the year ended 31 December 2009, one counterparty defaulted on its obligations and an impairment charge of £924,784 was recommended and incurred for 2009 (2008· £nil).

The table below analyses past due amounts and impairments·

	2009		2008	
	Due from financial institutions £	Financing arrangements £	Due from financial institutions £	Financing arrangements £
Neither past due nor impaired	19,169,739	20,597,822	26,835,239	14,011,401
Individually impaired	-	1,877,487	-	-
Gross	**19,169,739**	**22,475,309**	26,835,239	14,011,401
Impairment	-	(924,784)	-	-
Total	**19,169,739**	**21,550,525**	26,835,239	14,011,401

The credit quality of the portfolio of financing arrangements and due from financial institutions is further assessed by reference to the internal rating system adopted by the Bank. This is shown on the following page.

Notes to the Financial Statements

Neither past due nor impaired

	Investment Grade £	Standard Monitoring £	Special Monitoring £	Total £
Due from financial institutions	10,710,000	8,459,739	-	19,169,739
Other financing	-	343,762	-	343,762
Murabaha financing	-	4,474,634	-	4,474,634
Musharaka financing	-	7,800,000	-	7,800,000
Istisna financing	2,483,706	-	-	2,483,706
Ijara financing	2,669,990	2,825,730	-	5,495,720
31 December 2009	**15,863,696**	**23,903,865**	-	**39,767,561**
Due from financial institutions	17,568,442	9,266,797	-	26,835,239
Murabaha financing	-	7,085,342	-	7,085,342
Musharaka financing	-	4,557,645	-	4,557,645
Istisna financing	2,368,414	-	-	2,368,414
31 December 2008	19,936,856	20,909,784	-	40,846,640

Individually impaired assets

As at 31 December 2009, the Bank has one individually impaired asset of £1,877,487 (2008 nil) with a Middle Eastern corporate. An impairment provision of £924,784 has been raised against this Murabaha financing arrangement and the Bank is undertaking special monitoring.

A full assessment of any other assets where a potential loss event has occurred has been completed and it has been concluded that no impairment provision is required.

Notes to the Financial Statements

Collateral

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

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

	2009		2008	
	Exposure £	Collateral £	Exposure £	Collateral £
Balances with banks	3,279,789	-	1,008,663	-
Due from financial institutions	19,169,739	-	26,835,239	-
Other financing	343,762	-	-	-
Murabaha financing	6,352,121	-	7,085,342	217,753
Musharaka financing	7,800,000	7,800,000	4,557,645	4,500,000
Istisna financing	2,483,706	-	2,368,414	-
Ijara financing	5,495,720	-	-	-
Committed facilities	2,861,100	-	1,063,895	-
Letters of credit	228,749	-	28,560	-
Bank guarantee	6,000,000	6,000,000	6,000,000	6,000,000
Deposit paid	-	-	3,300,000	-
Total credit risk	**54,014,686**	**13,800,000**	52,247,758	10,717,753

Market risk

The Bank has no trading book positions as at 31 December 2009 (2008: £nil) 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 FSA Capital Requirement Directive BIPRU 7 and includes all:

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

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

Notes to the Financial Statements

Exchange rate risk
The sensitivity of financial positions to adverse movements in foreign exchange rates. Exchange rate risk does not only arise as a result of direct foreign exchange dealings, but can also result from foreign currency based transactions such as financing, deposits, Islamic derivative trades or through foreign currency commission payments and receipts.

The Bank has a policy of matching foreign currency assets and liabilities and as at 31 December 2009, only held a small net exposure to exchange rate risk equivalent to £39,573 (2008 £88,357).

The table below summarises the Bank's exposures arising from its financial instruments:

	USD	EUR	GBP	QAR	Total
	£	£	£	£	£
Assets					
Cash and balances with bank	8,011	89,989	3,180,851	1,672	3,280,523
Due from financial institutions	286,683	8,173,056	10,710,000	-	19,169,739
Financing arrangements	9,856,913	-	12,618,396	-	22,475,309
31 December 2009	**10,151,607**	**8,263,045**	**26,509,247**	**1,672**	**44,925,571**
Liabilities					
Due to financial institutions	7,453,969	8,248,923	2,823,860	-	18,526,752
Due to customers	-	-	7,676,285	-	7,676,285
Loan from related party	-	-	4,757,834	-	4,757,834
31 December 2009	**7,453,969**	**8,248,923**	**15,257,979**	**-**	**30,960,871**
Net on balance sheet financial position	2,697,638	14,122	11,251,268	1,672	13,964,700
Forward foreign exchange contract	2,673,859	-	-	-	2,673,859
Assets					
Cash and balances with bank	20,150	156,956	831,855	373	1,009,334
Due from financial institutions	-	9,266,797	17,568,442	-	26,835,239
Financing arrangements	4,460,066	-	9,551,335	-	14,011,401
31 December 2008	4,480,216	9,423,753	27,951,632	373	41,855,974
Liabilities					
Due to financial institutions	4,387,643	148,922	3,204,410	-	7,740,975
Due to customers	-	9,266,797	5,890,276	-	15,157,073
Loan from related party	-	-	4,757,834	-	4,757,834
31 December 2008	4,387,643	9,415,719	13,852,520	-	27,655,882
Net on balance sheet financial position	92,573	8,034	14,099,112	373	14,200,092

Notes to the Financial Statements

Commodity risk
The sensitivity of financial positions to adverse movements in commodity market dynamics. Movements may typically include changes in commodity prices, commodity price volatility and the price relationship between different commodities or commodity indices (correlation) As at 31 December 2009, the Bank had no exposure to commodity risk (2008: £nil).

Equity risk (trading book only)
The sensitivity of financial positions to adverse movements in stock market dynamics Movements may typically include changes in equity prices, equity price volatility, price relationship between different equities or indices (correlation) and dividend payments. As at 31 December 2009, the Bank had no exposure to equity risk in the trading book (2008: £nil).

Profit rate risk (trading book only)
The sensitivity of financial positions to adverse movements in profit rates The risk is largely the result of the mismatching of assets and liabilities with respect to the maturity and re-pricing profiles; as well as the differing amounts by which rates may move across various tenors of the yield curve. As at 31 December 2009, the Bank had no exposure to profit rate risk in the trading book (2008: £nil).

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.

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
- the following operational risk factors will be monitored by the RMC; high risk areas as defined by departmental risk self assessments; organisational deficiencies, inadequate policies and procedures; key risk indicators; and loss information
- a detailed monthly report of all operational activities is made available to senior management and the RMC

A Compliance team is responsible for ensuring that all aspects of regulatory risk impacting the Bank are appropriately reviewed and managed The Bank does not currently have a dedicated in-house legal function but utilises professional legal firms for all matters requiring legal advice, and this is overseen by the Executive Management Committee.

Internal Audit is performed by a specialist outsourced service provider Reports from Internal Audit are reviewed by the Audit and Risk Committee which is also responsible for reviewing and approving the annual internal audit plan

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

Notes to the Financial Statements

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations due from its financial liabilities. The risk is managed by ensuring that the Bank always has sufficient liquidity to meet its liabilities when due. The Bank's Treasury department is responsible for formulating an overall market strategy for managing liquidity which is then approved by ALCO The Treasury department monitors the liquidity profile of all financial assets and liabilities, including projected cash flows from current and future business, and this is reviewed by Risk Management and reported to members of ALCO on a daily basis

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

The maturities of financial assets and liabilities as at 31 December 2009 are shown within their respective notes in these financial statements.

Profit rate risk

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

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

The profit rate sensitivity is shown in the table below:

	2009	2008
Revenue	**£3,057,995**	£2,413,387
Parallel rate shock risk		
- 1% rate shock	**£440,776**	£710,636
Impact of rate shock on capital		
- 1% rate increase	**2.4%**	3.6%
- 1% rate decrease	**-2.4%**	-3 6%
Impact of rate shock on revenue		
- 1% rate increase	**14.4%**	29.4%
- 1% rate decrease	**-14.4%**	-29.4%

25. Fair value of financial assets and liabilities

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