

Islamic Bank of Britain PLC

Annual Report and
Financial Statements

Registered number 4483430

31 December 2010

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Chairman's statement

The Bank's financial performance for the year ended 31 December 2010 has continued to be impacted by the challenging economic environment. The UK only tentatively emerged from recession during 2010, with the housing market continuing to be subdued, increasing unemployment, downward pressure on disposable incomes and market yields still at historic lows. Current liquidity and minimum capital requirements are also constricting the ability of banks to increase their asset bases.

Despite the difficult conditions, Islamic Bank of Britain has seen growth in customer finance assets whilst customer deposits have been maintained.

Highlights

- Customer financing increased by 17.1% to £55m
- Deposits increased by 1% to £187.8m
- Costs excluding depreciation, amortisation and impairment provisions fell from £9.6m to £8.5m.
- Customer numbers increased slightly to 50,531.
- Total regulatory capital expressed as a percentage of risk weighted assets increased to 43.1% (2009: 28.3%)

Current environment and trading performance

The Bank was successful in raising an additional £20m of capital during the year. We were then able to use a part of this to fund the growth of the Home Purchase Plan ("HPP") product, which, together with the increase in HPP balances achieved in 2009, led to the improvement in our revenues from consumer products by £0.7m to £2.5m. However, yields in the interbank markets remained at historically low levels in 2010 with revenues from this source declining to £0.6m from £1.2m. The result was a slight increase in net income to £1.3m (2009: £1.2m). The specific actions implemented during 2009 to mitigate the declining revenues continued into 2010 with a £1.1m reduction in operating expenses net of impairment losses to £9.6m. The focus on good quality, secured finance assets and a reduction in unsecured Personal Finance balances has led to a 60% fall in impairment costs to £0.16m. The overall result of these initiatives has resulted in a reduced loss for the year of £8.1m (2009: loss of £9.5m).

Products

The HPP product was in demand and achieved growth when we had the capital and funding in place to achieve asset expansion. Considering that this was only for part of the year, the resulting 32% increase in the Bank's HPP balances was pleasing to note; as was the fact that this new business was achieved in accordance with prudent credit policies, with currently no impairment within the HPP and commercial property finance portfolios. The Bank is now the provider of the widest range of Sharia compliant products in the UK retail market.

Capital

As stated in the Interim Report, the Bank raised new capital of £20m via a placing of new shares in August 2010. While the Bank continues to have sufficient capital for its current requirements, the Board is in ongoing discussions with its advisors and interested parties regarding the raising of additional capital and funding to support planned future growth. In the absence of access to alternative additional sources of funds the Board believes that it will be difficult for the Bank to achieve the necessary asset growth to achieve profitability.

Outlook

The challenging market conditions look set to persist into 2011 and the directors and management will continue to identify opportunities to mitigate the adverse effects. We will maintain tight cost control, although mindful that

Chairman's statement (continued)

further reductions may impact the operational capability of the Bank and its ability to respond quickly when its financial position strengthens. The Bank intends to seek new funding to support quality asset growth, with the emphasis on secured consumer finance assets.

I would like to take this opportunity to thank Mohsen Moustafa for his commitment and stewardship of the Bank, as a director since 2005 and as Chairman from March 2007 until his retirement on 31 December 2010. He has played an important role in the development of the Bank and in strengthening Islamic finance in the UK.

I would also like to thank Abdul Hakim Al-Adhamy, who retired from the Board in November 2010, for the valuable role he played on the Board, as chairman of the Audit Committee and for his wise counsel and financial advice he provided.

Arising from the strategic review carried out by the Bank and its advisers in 2010, we are well progressed in seeking to strengthen the Board with the appointment of additional, experienced Non-Executive Directors. I am pleased with the support of our major shareholder, Qatar International Islamic Bank and with their continued backing; I am looking forward to the next phase of growth for the Bank. Inshallah.

Finally, I would like to extend my thanks and gratitude to Islamic Bank of Britain's customers, employees, Sharia Supervisory Committee scholars and shareholders for their continued support and commitment to the Bank.

Robert J Owen
Chairman

15 March 2011

Report of the Sharia Supervisory Committee

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

To the Members of the Islamic Bank of Britain PLC
For the period from 1 January 2010 to 31 December 2010

السَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

In compliance with the Terms of Reference of the Bank's Sharia Supervisory Committee, we submit the following report:

We have reviewed the documentation relating to the products and transactions entered into by the Islamic Bank of Britain PLC for the period from 1 January 2010 to 31 December 2010.

According to Management, the Sharia Compliance Officer of the Bank and documents evidencing the facts, the Bank's funds were raised and invested during this period on the basis of agreements approved by us.

Therefore, based on the report of our representative and representations received from Management, in our opinion, the transactions and the products entered into by the Bank during the period from 1 January 2010 to 31 December 2010 are in compliance with the Islamic Sharia rules and principles and fulfil the specific directives, rulings and guidelines issued by us.

We beg Allah the Almighty to grant us all the success and straightforwardness.

وَالسَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ



Dr Abdul Sattar Abu Ghuddah
Chairman of the Sharia Supervisory Committee

15 March 2011

Directors' report

The directors present their report and financial statements for the year ended 31 December 2010.

Principal activities

Islamic Bank of Britain PLC (the 'Company' or the 'Bank') is the only independent Islamic retail bank in the United Kingdom established and managed on a wholly Sharia compliant basis.

The Bank offers a range of Sharia compliant banking solutions for both individual and business customers including current accounts, savings accounts, Home Purchase Plan and business financing. These are delivered through the Bank's branch network, which is complemented by internet, telephone and postal banking channels.

Business review and financial results

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

The financial statements for the year ended 31 December 2010 are shown on pages 9 to 37. The loss for the year amounts to £8,125,342 (2009: £9,492,744). Details of the Company's performance and prospects are given within the Chairman's statement on pages 1 and 2.

The directors do not recommend the payment of a dividend (2009: £nil).

The development and performance of the Company during the financial year and its position at the end of the year, together with key performance indicators are expanded upon in the Chairman's statement on pages 1 to 2.

Principal risks and uncertainties

The Bank regards the monitoring and controlling of risks as a fundamental part of the management process. Senior management are involved in the development of risk management policies and in monitoring their application.

The principal non-operational risks inherent in the Bank's business are credit, liquidity, market, concentration and Sharia compliance risks. A detailed description of the principal risks and risk management policies in these areas is set out in Note 4 to the financial statements.

Principal uncertainties faced by the Bank

Changing Macro economic conditions

Macro economic conditions impact consumer consumption and demand; the availability of credit and the debt burden of customers and businesses; and the availability of capital and funding for the Bank. All these factors will influence the performance of the Bank.

Changes in Laws and Regulations

The Bank operates in markets that are subject to a wide variety of legislation, regulation and codes of conduct. Uncertainty arises from the way in which these laws and regulations change in response to macroeconomic conditions; new products and services; and rightfully the greater awareness and prominence of consumer protection. The nature and impact of future changes in laws, regulations and codes of practice are not predictable.

Reduced access to funding

Liquidity risk is the risk we do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can access funding only at excessive cost.

Changing Geopolitical environment

Whilst the Bank operates principally in the UK our performance is part reliant on the openness of cross border funding and capital flows. There is therefore a risk that geopolitical tensions or conflict could impact trade flows and our ability to manage capital or funding across borders.

Directors' report (continued)

Creditor payment policy

The Company seeks to settle trade invoices in line with their payment terms. The Company does not follow any industry standards or guidelines for the payment of suppliers. The amount due to the Company's trade creditors as at 31 December 2010 represented 11 days (2009: 30 days) average daily purchases of goods and services calculated in accordance with the Companies Act 2006.

Capital

On 17 August 2010, an ordinary resolution was passed at an extraordinary general meeting increasing the authorised share capital of the Company from £7,250,000 to £28,488,233 by the creation of an additional 2,123,823,300 new Ordinary Shares. On 17 August 2010, an additional 2,000,000,000 shares were allotted for consideration of £20,000,000 before expenses.

Directors and directors' interests

The directors who held office during the year were as follows:

Mohsen Moustafa (c)	Resigned 31 December 2010
Robert Owen (Chairman) (a) (b) (c)	
Abdul Hakim Al-Adhamy (a) (b)	Resigned 10 November 2010
Gerry Deegan (c)	
Sultan Choudhury	

- (a) Denotes member of Audit Committee
- (b) Denotes member of Remuneration Committee
- (c) Denotes member of Nomination Committee

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

	Class of share	Interest at start and end of year
Gerry Deegan	Ordinary	20,000
Sultan Choudhury	Ordinary	34,000

Details of the Executive Director's options to subscribe for ordinary shares are given below. Further information on the share options is provided in note 22.

	Interest at start of year	Interest at end of year	Earliest exercise date	Latest exercise date	Exercise price
Gerry Deegan	157,894	157,894	5 Nov 2010	4 Nov 2017	9.5p
Sultan Choudhury	157,894	157,894	5 Nov 2010	4 Nov 2017	9.5p

No options were granted or exercised during the year by the directors.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Directors' report (continued)

Significant Shareholders

The following shareholders had interests in the ordinary shares of the Company in excess of 3% as at 31 December 2010 (comparatives only shown if holding as at 31 December 2010 was greater than 3%):

	2010 (%)	2009 (%)
Qatar International Islamic Bank	80.95	11.22
HE Sheikh Thani Bin Abdulla Bin Thani Jasim Al Thani	6.44	29.99

On 17 August 2010 Qatar International Islamic Bank acquired and additional 2,000,000,000 shares in the Bank making it the parent undertaking of the Bank.

Sharia Supervisory Committee members

The Sharia Supervisory Committee members during the year were as follows:

Dr. Abdul Sattar Abu Ghuddah (Chairman)
Sheikh Nizam Yaqoobi
Mufti Abdul Kadir Barkatullah

The report of the Sharia Supervisory Committee is set out on page 3.

Political and charitable contributions

The Company made no political contributions during the year (2009: £nil). Donations to UK charities amounted to £200 (2009: £1,200) and consisted of late payment fees received on personal finance accounts that were paid to charity in accordance with product terms as agreed with the Sharia Supervisory Committee.

Going Concern

Based on the forecasts performed, the directors consider that at the date of approving the financial statements the Company has adequate resources to continue operational business for at least the next 12 months and therefore to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

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

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Islamic Bank of Britain PLC
Edgbaston House
3 Duchess Place
Birmingham
B16 8NH

Gerry Deegan
Managing Director

15 March 2011

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 financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the 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 and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the Members of Islamic Bank of Britain PLC

We have audited the financial statements of Islamic Bank of Britain PLC for the year ended 31 December 2010 set out on pages 9 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Director's Responsibilities Statement set out on page 7, 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 and express an opinion on 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; 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 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 required by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ian A Dewar (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

15 March 2011

Statement of comprehensive income

For the year ended 31 December 2010

	<i>Note</i>	2010 £	2009 £
Income receivable from Islamic financing transactions	6	3,092,194	3,017,012
Returns payable to customers and banks	6	(1,779,827)	(1,807,271)
Net income from Islamic financing transactions	6	1,312,367	1,209,741
Fee and commission income	7	404,170	480,591
Fee and commission expense	7	(79,148)	(86,939)
Net fee and commission income	7	325,022	393,652
Operating income		1,637,389	1,603,393
Net impairment loss on financial assets	14	(162,218)	(408,939)
Personnel expenses	9	(4,532,041)	(5,241,104)
General and administrative expenses		(3,955,790)	(4,314,807)
Depreciation	15	(876,416)	(724,477)
Amortisation	16	(236,266)	(406,810)
Total operating expenses		(9,762,731)	(11,096,137)
Loss before income tax		(8,125,342)	(9,492,744)
Income tax expense	11	-	-
Loss for the year		(8,125,342)	(9,492,744)
Total comprehensive income for the year		(8,125,342)	(9,492,744)
Loss attributable to owners of the Company		(8,125,342)	(9,492,744)
Total comprehensive income attributable to owners of the Company		(8,125,342)	(9,492,744)
Loss per ordinary share			
Basic and diluted (pence)	24	(0.63)	(1.8)

The notes on pages 13 to 37 are an integral part of these financial statements.

Statement of financial position

As at 31 December 2010

	<i>Note</i>	2010 £	2009 £
Assets			
Cash		559,791	577,273
Commodity Murabaha and Wakala receivables and other advances to banks	13	160,333,251	155,951,375
Consumer finance accounts and other advances to customers	14	2,310,206	4,488,744
Net investment in home purchase plans	14	43,761,647	33,077,501
Net investment in commercial property finance	14	8,132,739	8,611,393
Property and equipment	15	1,885,136	2,660,754
Intangible assets	16	363,222	315,541
Other assets	17	846,206	1,340,277
		218,192,198	207,022,858
Total assets			
Liabilities and equity			
Liabilities			
Deposits from banks	18	880,645	609,292
Deposits from customers	19	187,796,190	185,975,992
Other liabilities	20	3,317,104	3,623,541
		191,993,939	190,208,825
Total liabilities			
Equity			
Called up share capital	22	25,464,700	5,464,700
Share premium		54,806,652	54,806,652
Retained deficit		(54,118,414)	(43,502,640)
Profit stabilisation reserve		45,321	45,321
		26,198,259	16,814,033
Total equity			
		218,192,198	207,022,858
Total equity and liabilities			

The notes on pages 13 to 37 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 15 March 2011 and were signed on its behalf by:

Gerry Deegan
Managing Director

Islamic Bank of Britain PLC
Registration number: 4483430

Statement of changes in equity

For the year ended 31 December 2010

	Share capital £	Share premium account £	Profit and loss account £	Profit stabilisation reserve £	Total £
Balance at 1 January 2009	4,190,000	48,747,255	(34,046,165)	52,446	18,943,536
Total comprehensive income for the year	-	-	(9,492,744)	-	(9,492,744)
Credit in respect of share based payments charge	-	-	29,144	-	29,144
Transfer from profit stabilisation reserve	-	-	7,125	(7,125)	-
Issue of ordinary share capital	1,274,700	6,059,397	-	-	7,334,097
Balance at 31 December 2009	5,464,700	54,806,652	(43,502,640)	45,321	16,814,033
Balance at 1 January 2010	5,464,700	54,806,652	(43,502,640)	45,321	16,814,033
Total comprehensive income for the year	-	-	(8,125,342)	-	(8,125,342)
Credit in respect of share based payments charge	-	-	20,994	-	20,994
Transfer from profit stabilisation reserve	-	-	-	-	-
Issue of ordinary share capital	20,000,000	-	(2,511,426)	-	17,488,574
Balance at 31 December 2010	25,464,700	54,806,652	(54,118,414)	45,321	26,198,259

The notes on pages 13 to 37 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2010

	<i>Note</i>	2010 £	2009 £
Cash flows from operating activities			
Loss for the year		(8,125,342)	(9,492,744)
Adjustments for:			
Depreciation	<i>15</i>	876,416	724,477
Amortisation	<i>16</i>	236,266	406,810
Impairment on financial assets	<i>14</i>	162,218	408,939
Share based payments charge	<i>22</i>	20,994	29,144
Change in Commodity Murabaha and Wakala receivables		(649,216)	(3,151,765)
Change in consumer finance accounts and other advances to customers		2,016,319	2,980,609
Change in net investment in commercial property finance		478,654	(13,500)
Change in net investment in home purchase plans		(10,684,146)	(26,096,661)
Change in other assets		494,071	(77,149)
Change in deposits from banks		271,352	(4,484,827)
Change in deposits from customers		1,820,198	32,695,238
Change in other liabilities		(306,436)	142,650
		<hr/>	<hr/>
Net cash used in operating activities		(13,388,652)	(5,928,779)
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property and equipment	<i>15</i>	(100,798)	(119,486)
Purchase of intangible assets	<i>16</i>	(283,947)	(143,638)
		<hr/>	<hr/>
Net cash used in investing activities		(384,745)	(263,124)
		<hr/>	<hr/>
Cash flows from financing activities			
Issue of ordinary share capital		17,488,574	7,334,097
		<hr/>	<hr/>
Net cash generated from financing activities		17,488,574	7,334,097
		<hr/>	<hr/>
Net change in cash and cash equivalents		3,715,177	1,142,194
Foreign exchange gains		228	(4,716)
Cash and cash equivalents at 1 January		3,751,962	2,614,484
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	<i>12</i>	7,467,367	3,751,962
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 37 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Islamic Bank of Britain PLC (the 'Company' or the 'Bank') is a company domiciled in the UK. The address of the Company's registered office is Edgbaston House, 3 Duchess Place, Hagley Road, Birmingham B16 8NH. The financial statements of the Company are presented as at and for the year ended 31 December 2010. The Company is a retail bank offering Sharia compliant banking products and services.

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 and approved by the directors.

These financial statements were approved by the Board of Directors on 15 March 2011.

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

(b) Basis of measurement

The financial statements of the Company have been prepared on the going concern basis. In making the going concern assessment, the directors have prepared detailed financial forecasts for the Company, including its funding and capital position, for the twelve months from the date of approval of these financial statements.

As noted in the Chairman's statement, the Board is in ongoing discussions with its advisors and interested parties regarding the raising of additional capital to support planned future growth. The directors have considered the effect upon the Company of more pessimistic scenarios on its business, in particular the worsening of the economic environment and if new capital is not raised as planned. The scenarios show that the Bank can continue to operate without breaching Regulatory capital requirements throughout 2011.

Based on the forecasts, the directors are confident that the Company has adequate resources to continue in operational existence and will continue to comply with all relevant regulatory requirements for a period of at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

(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.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 5.

Notes to the financial statements

3 Significant accounting policies

(a) Property and equipment

(i) Recognition and measurement

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

(ii) Subsequent costs

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.

(iii) Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful lives of each part of an item of property and equipment as follows:

Computer equipment	3 Years
Fixtures, fittings and office equipment	5 Years
Leasehold improvements	10 years or over the life of the lease whichever is shorter

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(b) Intangible assets

Software and computer licences acquired by the Company 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 complete the development and 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 estimated useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets and computer licences is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure on software or computer licences is expensed as incurred.

Amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful life of the software or the licence term, from the date that it becomes available for use. The estimated useful life of software is three years.

Notes to the financial statements

3 Significant accounting policies (continued)

(c) Commodity Murabaha and Wakala receivables and other advances to banks

Commodity Murabaha is an Islamic financing transaction, which represents an agreement whereby the Company buys a commodity and sells it to a counterparty based on a promise received from that counterparty to buy the commodity according to specific terms and conditions. The selling price comprises of the cost of the commodity and a pre-agreed profit margin.

Wakala is an Islamic financing transaction, which represents an agreement whereby the Company 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.

Commodity Murabaha receivables are recognised upon the sale of the commodity to the counterparty. Wakala receivables are recognised upon placement of funds with other institutions.

Income on both Commodity Murabaha and Wakala receivables is 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. The effective yield is established on initial recognition of the asset and is not revised subsequently.

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.

Commodity Murabaha and Wakala receivables are initially recorded at fair value and are subsequently measured at amortised cost using the effective yield method, less impairment losses. The accrued income receivable is classified under other assets.

Other advances to banks are stated at cost and are non-return bearing.

(d) Consumer finance accounts

Islamic consumer financing transactions represent an agreement whereby the Company buys a commodity or goods and then sells it to the customer with an agreed profit mark-up with settlement of the sale price being deferred for an agreed period. The customer may subsequently sell the commodity purchased to generate cash.

Consumer finance assets will be recognised on the date that the commodity or good is sold by the Company. Consumer finance account balances are initially recorded at fair value and are subsequently measured at amortised cost. The amortised cost is the amount at which the asset is measured at initial recognition, minus repayments received relating to the initial recognised amount, plus the cumulative amortisation using an effective yield method of any difference between the initial amount recognised and the agreed sales price to the customer, minus any reduction for impairment.

Income is recognised on an effective yield basis over the period of the contract. 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. The effective yield is established on initial recognition of the asset and is not revised subsequently.

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.

The accrued income receivable from the customer is classified under other assets.

Notes to the financial statements

3 Significant accounting policies (continued)

(e) Commercial property finance and home purchase plans

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

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

(f) Deposits from customers

Profit sharing accounts are based on the principle of Mudaraba whereby the Company and the customer share an agreed percentage of any profit earned on the customer's deposit. The customer's share of profit is paid in accordance with the terms and conditions of the account. The profit calculation is undertaken at the end of each calendar month.

Customer Murabaha deposits consist of an Islamic financing transaction involving the Company arranging the purchase of an asset on behalf of the customer and the purchase thereof from the same customer by the Company at cost plus an agreed profit mark-up with settlement on a deferred payment basis. Customer Murabaha deposit balances are included in the statement of financial position under deposits from customers and the accrued returns payable to the customer are classified under other liabilities. Returns payable on customer Murabaha deposits are recognised on an effective yield basis over the period of the contract.

Customer Wakala deposits consist of an Islamic financing transaction, which represents an agreement whereby the customer appoints the Company as agent to invest a certain sum of money, according to specific conditions in order to achieve a certain specified return. The Company, as 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.

(g) Profit stabilisation reserve

The profit stabilisation reserve is used to maintain returns payable to customers on Mudaraba based savings accounts. Returns payable on these profit sharing accounts are credited to customers in accordance with the terms and conditions of the account. Any surplus returns arising from the investment of funds are then credited to this reserve. In the case of inadequate returns generated by these funds, the Company will maintain the return to depositors by utilising this reserve.

(h) Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards or 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 have expired.

Notes to the financial statements

3 Significant accounting policies (continued)

(i) Impairment of financial assets

At each statement of financial position reporting date the Company assesses whether there is objective evidence that financial assets 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 of the asset that can be estimated reliably.

The Company considers evidence of impairment 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 the group of assets such as adverse changes in the payment status of counterparties, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Company uses analysis of historical trends to identify the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions are such that actual losses are likely to be greater or less than suggested by historical analysis. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

(j) Impairment of non-financial assets

The carrying amounts of the Company's 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.

(k) 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.

Notes to the financial statements

3 Significant accounting policies (continued)

(l) Fees and commissions

Fee and commission income that relates mainly to transaction and service fees are recognised as the related services are performed. Fees and commission expenses that relate mainly to transaction and service fees are expensed as incurred.

Arrangement fees for commercial property finance deals and home purchase plans are amortised over the expected life of the transaction.

(m) Income tax expense

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

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

Deferred tax is provided using the statement of financial position 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.

(n) 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.

(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 the Company has a present obligation to its employees that can be measured reliably.

(p) Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Commodity Murabaha and Wakala transactions, used by the Company for investment purposes, are not included within cash and cash equivalents. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Notes to the financial statements

3 Significant accounting policies (continued)

(q) Other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

(r) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(s) Foreign currency transactions

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

(t) Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an option pricing model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is expensed on a straight-line basis, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Any dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(u) New standards and interpretations effective in 2010

There have been no new standards issued during the year which impact the Bank's financial statements for 2010.

(v) New standards and interpretations not yet adopted

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

- IAS 24 (Revised), 'Related Party Disclosures' (effective from 1 January 2011). This revised standard includes an exemption from the disclosure requirements for related transactions between "state-controlled" entities and includes a revised definition for related parties. The revised standard will not have a material impact on the Company's financial results.

Notes to the financial statements

3 Significant accounting policies (continued)

- IFRS 9, 'Financial Instruments' (effective from 1 January 2013). This standard deals with the classification and measurement of financial assets and will replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of 'held to maturity' and 'loans and receivables'. The potential effect of this standard is currently being evaluated. (*)
- Improvements to IFRSs. This sets out minor amendments to IFRS standards as part of an annual improvements process.

* - The revised IFRS 9 has not yet been endorsed by the EU.

4 Financial risk management

The Company has exposure to the following risks arising from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Sharia compliance risk
- Concentration risk

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has established the Asset & Liability (ALCO), Credit and Risk Committees, which are responsible for developing and monitoring risk management policies in their specific areas.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk management controls and procedures are reviewed by Internal Audit, both as part of the regular audit review programme and through ad-hoc reviews. The results of these reviews are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk of loss arising from the failure of a customer or counterparty to meet their contractual obligations. The risk arises from the Company's secured and unsecured finance provided to customers and the investment of surplus funds in Sharia compliant wholesale deposits with bank counterparties.

Notes to the financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee. A separate Credit department, reporting to the Credit Committee is responsible for oversight of the Company's credit risk, including:

- Formulating credit policies in consultation with other business units, covering credit assessments, collateral requirements, risk reporting, legal requirements and compliance with regulatory and statutory requirements.
- Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.
- Reviewing and assessing credit risk prior to agreements being entered into with customers.
- Limiting concentrations of exposure to counterparties, countries or sectors and reviewing these limits.
- Ongoing assessment of exposure and implementation of procedures to reduce this exposure.
- Providing advice, guidance and specialist skills to all business areas to promote best practice throughout the Company in the management of credit risk.

Adherence to country and counterparty limits, for amounts due from other banks, is monitored on an ongoing basis by the Company's Treasury department, with a detailed review of all limits at least annually. Senior management receive regular reports on the utilisation of these limits.

(ii) Exposure to credit risk

	Note	Commodity Murabaha and Wakala receivables and other advances to banks £	Consumer finance accounts and other advances to customers £	Net investment in commercial property finance £	Net investment in home purchase plans £	Total £
2010						
Investment grade financial assets	13	160,333,251	-	-	-	160,333,251
Unrated financial assets	14	-	3,121,158	8,132,739	43,761,647	55,015,544
Specific allowances for impairment	14	-	(26,094)	-	-	(26,094)
Collective allowances for impairment	14	-	(784,857)	-	-	(784,857)
Carrying amount		<u>160,333,251</u>	<u>2,310,207</u>	<u>8,132,739</u>	<u>43,761,647</u>	<u>214,537,844</u>
2009						
Investment grade financial assets	13	155,951,375	-	-	-	155,951,375
Unrated financial assets	14	-	5,300,564	8,611,393	33,077,501	46,989,458
Specific allowances for impairment	14	-	(18,481)	-	-	(18,481)
Collective allowances for impairment	14	-	(793,339)	-	-	(793,339)
Carrying amount		<u>155,951,375</u>	<u>4,488,744</u>	<u>8,611,393</u>	<u>33,077,501</u>	<u>202,129,013</u>

Investment grade financial assets have a minimum rating of BBB. As at 31 December 2010, the amount of unimpaired balances stood at £214,405,799 (2009: £201,997,391). The maximum exposure to credit risk is the carrying amount of the financial asset receivable balances as at 31 December 2010 and 31 December 2009.

Notes to the financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

(iii) Write-off policy

The Company writes off a balance (and any related allowances for impairment) when the Credit department determines that the balance is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iv) Collateral

The Company holds collateral against secured advances made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and are updated on a periodic basis. The estimated fair value of collateral held against financial assets as at 31 December 2010 is £92.4 m (2009: £68.0m). None of this amount was held against impaired assets.

(v) Concentration of credit risk

The Company monitors concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk at the reporting date is shown below.

	Commodity Murabaha and Wakala receivables and other advances to banks		Consumer finance accounts and other advances to customers		Net investment in commercial property finance		Net investment in home purchase plan finance	
	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £
Concentration by sector:								
Individuals	-	-	2,292,315	4,433,965	3,592,910	3,787,954	43,761,647	33,077,501
Corporate	-	-	17,891	54,779	4,539,829	4,823,439	-	-
Bank	160,333,251	155,951,375	-	-	-	-	-	-
	<u>160,333,251</u>	<u>155,951,375</u>	<u>2,310,206</u>	<u>4,488,744</u>	<u>8,132,739</u>	<u>8,611,393</u>	<u>43,761,647</u>	<u>33,077,501</u>
Concentration by location:								
United Kingdom	22,758,311	30,797,199	2,310,206	4,488,744	8,132,739	8,611,393	43,761,647	33,077,501
Europe	117,600,000	63,369,582	-	-	-	-	-	-
Middle East	19,974,940	61,784,594	-	-	-	-	-	-
	<u>160,333,251</u>	<u>155,951,375</u>	<u>2,310,206</u>	<u>4,488,744</u>	<u>8,132,739</u>	<u>8,611,393</u>	<u>43,761,647</u>	<u>33,077,501</u>

The asset quality underlying the commercial property finance and home purchase plan portfolios is high, with financing decisions based on clear affordability assessments and prudent finance-to-value (FTV) ratios. As at 31 December 2010 none of the facilities within the secured finance portfolios were in arrears.

(b) Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Treasury department is responsible for monitoring the liquidity profile of financial assets and liabilities and preparing details of projected cash flows arising from projected future business. The Treasury department maintains a portfolio of short-term liquid assets, made up of cash on demand and short term Commodity Murabaha and Wakala transactions to ensure that sufficient liquidity is maintained. All liquidity policies and procedures are subject to review and approval by ALCO.

Notes to the financial statements

4 Financial risk management (continued)

(b) Liquidity risk (continued)

The key measure used by the Company for managing liquidity risk is the comparison of the maturity of assets and customer deposits. This analysis is completed and monitored on a daily basis and reports are submitted each month for review by ALCO. A similar calculation of mismatches is submitted to the Financial Services Authority (the 'FSA') as part of the Company's quarterly regulatory reporting.

Residual contractual maturities of financial liabilities

The following table shows the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. However, based on behavioural experience demand deposits from customers are expected to maintain an increasing balance.

	<i>Note</i>	Carrying amount	Gross maturity outflow	Less than 1 month	1 - 3 months	3 months - 1 year	1 year – 2 years
		£	£	£	£	£	£
2010							
Deposits from banks	18	880,645	881,403	881,403	-	-	-
Deposits from customers	19	187,796,190	190,156,464	116,458,042	42,489,900	28,036,093	3,172,429
		<u>188,676,835</u>	<u>191,037,867</u>	<u>117,339,445</u>	<u>42,489,900</u>	<u>28,036,093</u>	<u>3,172,429</u>
2009							
Deposits from banks	18	609,292	609,449	609,449	-	-	-
Deposits from customers	19	185,975,992	187,755,526	108,533,978	43,074,152	19,029,148	17,118,248
		<u>186,585,284</u>	<u>188,364,975</u>	<u>109,143,427</u>	<u>43,074,152</u>	<u>19,029,148</u>	<u>17,118,248</u>

A breakdown of the Company's Commodity Murabaha and Wakala receivables by maturity date is shown in note 13.

(c) Market risk

Market risk is the risk of loss of income arising from unfavourable market movements, including foreign exchange rates and profit rates. The objective of market risk management is to manage and control exposures within acceptable parameters, whilst optimising returns. The Company is not exposed to any material foreign currency risk. Given the Company's current profile of financial instruments, the principle exposure is the risk of loss arising from fluctuations in the future cash flows or fair values of these financial instruments because of a change in achievable rates. This is managed principally through monitoring gaps between effective profit and rental rates and reviewing approved rates and bands at regular re-pricing meetings:

- Profit rates for Commodity Murabaha and Wakala receivables are agreed with the counterparty bank at the time of each transaction and the profit mark-up and effective yield rate is consequently fixed for the duration of the contract. Risk exposure is managed by reviewing the maturity profiles of transactions entered into.
- Effective rates applied to new consumer finance transactions are agreed on a monthly basis by ALCO and the profit mark-up will then be fixed for each individual transaction for the agreed deferred payment term.
- Rentals for longer term commercial property financing and home purchase plans are benchmarked against a market measure, in agreement with the Company's Sharia Supervisory Committee, subject to minimum rent levels.

Notes to the financial statements

4 Financial risk management (continued)

(c) market risk (continued)

- Profit rates payable on Mudaraba customer deposit accounts are calculated at each month-end in line with the profit allocation model and the customer terms and conditions. Profit rates payable on Murabaha and Wakala deposits are agreed with the customer at the time of each transaction and the profit mark-up and effective yield rate is consequently fixed for the duration of the contract. Risk exposure is managed by reviewing the maturity profiles of transactions entered into.

All rates and re-pricings are reviewed and agreed at ALCO, which is principally responsible for monitoring market risk. ALCO will also review sensitivities of the Company's assets and liabilities to standard and non-standard changes in achievable effective rates. Standard scenarios that are considered on a monthly basis include a 2.00% or 0.50% rise or fall in effective average rates. An analysis of the Company's statement of comprehensive income sensitivity to an increase or decrease in effective rates (assuming no asymmetrical movement and a constant statement of financial position status) is as follows:

	2.00% parallel increase £	2.00% parallel decrease £	0.50% parallel increase £	0.50% parallel decrease £
31 December 2010	1,801,901	(1,801,901)	450,475	(450,475)
31 December 2009	1,601,764	(1,601,764)	400,441	(400,441)

(d) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external factors other than credit, liquidity and market risks. Legal and regulatory risks are included within operational risk and managed and monitored under the risk management framework.

The Company's objective in managing operational risk is to implement an integrated internal control structure 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. Primary responsibility for the development and implementation of internal controls is assigned to senior management within each business department, with the assistance of the Risk department. Adherence to operational risk policies and procedures is monitored regularly by the Risk Committee, through the use of key risk indicators, control related metrics and reports from the Risk department.

(e) Sharia compliance risk

Sharia compliance risk is the risk of loss arising from products and services not complying with Sharia requirements or in accordance with Islamic principles. The Bank's purpose is to provide Sharia compliant banking to customers. The Sharia compliant nature of each product and service offered is therefore critical to the success of the Bank.

The Sharia compliance of each product and service offered is achieved via the Sharia Supervisory Committee (SSC), which seeks to ensure that the Bank's operations are in compliance with Islamic law. The SSC is comprised of experts in the interpretation of Islamic law and its application to modern day Islamic financial institutions. The SSC meets on a regular basis to review all material contracts and agreements relating to the Bank's transactions, certifying every product and service offered. On a day-to-day basis, the Bank's Sharia Compliance Officer oversees the adherence of transactions, processes and procedures to ensure that all are operated in accordance with Sharia requirements.

(f) Concentration risk

Concentration risk is the risk of loss arising from inadequate diversification of credit risk across sectors. The risk arises due to exposure to specific geographical locations, industry sectors or particular customers or institutions.

The Board sets counterparty, country and regional limits in respect of treasury assets and adherence to these limits is monitored on a daily basis. Concentrations exist within the commercial property finance and home purchase plan portfolios due to their current small overall size. As these portfolios grow, such concentrations are expected to reduce.

The Credit Committee monitors both sectoral and geographic concentration for each finance asset class and regularly reviews counterparty, country and regional limits in respect of treasury assets.

Notes to the financial statements

4 Financial risk management (continued)

(g) Capital management

In accordance with the EU's Capital Requirements Directive (CRD) and the guidance provided in the FSA Handbook (BIPRU 2.2), the Company's Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Company. The ICAAP is reviewed on an annual basis as part of the Company's strategic planning process and more frequently if business requirements demand.

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

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

The level of total capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets. The Company has put in place processes to monitor and manage capital adequacy.

The FSA has reviewed and evaluated the ICAAP, and has provided Individual Capital Guidance (ICG) to the Company. The FSA sets out ICG for all banks operating in the United Kingdom by reference to its Capital Resources Requirement. The FSA's approach is to monitor the available capital resources in relation to the ICG requirement.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company has complied with all externally imposed capital requirements throughout the period.

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

	2010 £	2009 £
Tier 1 capital		
Total equity	26,198,259	16,814,033
Less intangible assets	(363,222)	(315,541)
	<hr/> 25,835,037 <hr/>	<hr/> 16,498,492 <hr/>
Tier 2 capital		
Collective allowances for impairment (2009 - restricted to a maximum amount)	784,857	763,179
Total regulatory capital	<i>(a)</i> 26,619,894	<hr/> 17,261,671 <hr/>
Risk weighted assets	<i>(b)</i> 61,707,561	61,054,328
Total regulatory capital expressed as a percentage of risk weighted assets	<i>(a)/(b)</i> 43.14%	28.27%

Notes to the financial statements

5 Key judgements and uncertainties

Management discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies and estimates, and the application of these policies and estimates. The critical accounting policies are set out below.

(a) Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3(i).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the estimates of cash flows considered recoverable are approved by the Credit function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

(b) Financial Services Compensation Scheme

Based on its share of protected deposits, the Bank, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

As a result of notifications it has received from the Financial Services Authority, the Bank recognises a provision (within Other liabilities) to reflect the Bank's best estimate of the amount that would be payable. This provision has been reassessed at 31 December 2010 to reflect the estimated amounts that will fall payable in respect of the 2010/11 and 2011/12 scheme years. The movement in the provision during the year is as follows:

	2010 £	2009 £
Balance at 1 January	187,869	224,000
Utilised in respect of 2009/10 (2009:2008/9) scheme year settlement	(59,799)	(59,165)
Increase in provision during year	20,000	23,034
Balance at 31 December	148,070	187,869

Notes to the financial statements

6 Net income from Islamic financing transactions

	2010 £	2009 £
Income received		
Commodity Murabaha and Wakala transactions	593,020	1,239,825
Consumer finance	306,402	556,891
Commercial property finance	255,748	370,618
Home purchase plans	1,937,024	849,678
	3,092,194	3,017,012
Returns payable		
Deposits from banks	(6,419)	(16,116)
Deposits from customers	(1,773,408)	(1,791,155)
	(1,779,827)	(1,807,271)
Total returns payable to customers and banks	(1,779,827)	(1,807,271)
Net income from Islamic financing transactions	1,312,367	1,209,741

7 Net fee and commission income

	2010 £	2009 £
Fee and commission income		
Retail customer banking fees	330,919	399,933
ATM commission	31,284	30,140
Other	11,966	25,585
Arrangement fees	30,001	24,933
	404,170	480,591
Total fee and commission income	404,170	480,591
Fee and commission expense		
ATM interchange fees	(70,923)	(69,704)
Electronic transaction fees	(8,225)	(17,235)
	(79,148)	(86,939)
Total fee and commission expense	(79,148)	(86,939)
Net fee and commission income	325,022	393,652

8 Auditors' remuneration

Included within operating losses are the following amounts payable to the auditors:

	2010 £	2009 £
Audit of these financial statements	86,510	74,000
Amounts receivable by the auditors and their associates in respect of:		
Other services relating to taxation	22,100	9,900
All other services	-	13,000
	108,610	96,900
Total	108,610	96,900

Notes to the financial statements

9 Personnel expenses

	2010 £	2009 £
Wages and salaries	3,958,259	4,647,751
Social security costs	277,295	434,179
Contributions to defined contribution pension plans	265,062	116,103
Share based payments charge	20,994	29,144
Other staff costs	10,431	13,927
Total	<u>4,532,041</u>	<u>5,241,104</u>

The following tables summarise the average number of employees within the company during the year:

	2010			2009		
	Consumer Banking	Support Services	Total	Consumer Banking	Support Services	Total
Average for the Period	64	56	120	72	75	147

10 Directors' emoluments

The emoluments of the directors who served during the year were as follows:

Remuneration of Non Executive Directors

	2010				2009			
	Salary	Fees	Benefits in Kind	Total	Salary	Fees	Benefits in Kind	Total
	£	£	£	£	£	£	£	£
M Moustafa	30,000	20,000	-	50,000	30,000	16,500	-	46,500
R Owen	18,000	22,000	448	40,448	18,000	19,500	307	37,807
AH Al -Adhamy	12,962	20,000	-	32,962	18,000	16,000	-	34,000
A Al Khulaifi	-	-	-	-	613	-	-	613
	<u>60,962</u>	<u>62,000</u>	<u>448</u>	<u>123,410</u>	<u>66,613</u>	<u>52,000</u>	<u>307</u>	<u>118,920</u>

M Moustafa resigned on 31 December 2010. AH Al-Adhamy resigned on 10 November 2010. A Al Khulaifi resigned on 19 January 2009.

Remuneration of the Executive Directors

	2010				
	Salary	Bonus	Benefits	Pension Contributions	Total
	£	£	£	£	£
G Deegan	154,125	40,000	57	16,791	210,973
S Choudhury	97,613	40,000	457	10,634	148,704
	<u>251,738</u>	<u>80,000</u>	<u>514</u>	<u>27,425</u>	<u>359,677</u>

Notes to the financial statements

2009

	Salary	Bonus	Benefits	Pension Contributions	Total
	£	£	£	£	£
G Deegan	150,000	67,500	57	15,000	232,557
S Choudhury	95,000	42,750	420	9,500	147,670
	<u>245,000</u>	<u>110,250</u>	<u>477</u>	<u>24,500</u>	<u>380,227</u>

11 Income tax expense

There were no taxable profits or recoverable losses for the year ended 31 December 2010 (2009: £nil) and accordingly the Company has not provided for a tax charge or a tax debtor.

	2010 £	2009 £
<i>Reconciliation of effective tax rate</i>		
Loss before tax	<u>(8,125,342)</u>	<u>(9,492,744)</u>
Income tax at UK corporation tax rate 28% (2009: 28%)	(2,275,096)	(2,657,968)
Non deductible expenses	18,252	20,938
Depreciation in excess of capital allowances on which deferred tax not recognised	245,397	205,162
Short term timing differences	(7,588)	(31,537)
Unutilised tax losses	2,019,035	2,463,405
Income tax expense	<u>-</u>	<u>-</u>
<i>Deferred tax assets have not been recognised in respect of the following items:</i>		
Capital allowances	1,387,502	1,627,667
Tax losses	11,582,712	10,000,664
	<u>12,970,214</u>	<u>11,628,331</u>

In respect of the recognition of deferred tax assets, for the purposes of applying the requirements of IAS 12 ('Income Taxes'), it has been considered that the Company is not currently at a sufficiently advanced stage in its development to confidently assert future offsetting tax liabilities. Capital allowances to be claimed are being finalised and therefore the level of the asset shown above may change.

The corporation tax rate used to calculate potential deferred tax assets was 27% (2009: 28%).

Factors that may affect future current and total tax charges

The Emergency Budget on 22 June 2010 announced that the UK Corporation tax rate will be reduced from 28% to 24% over a period of 4 years effective from 2011. The first reduction in the UK corporation tax rate from 28% to 27% will be effective from 1 April 2011 and will reduce the Company's future tax charge.

Notes to the financial statements

12 Cash and cash equivalents

	2010	2009
	£	£
Cash	559,791	577,273
Other advances to banks	6,907,576	3,174,689
	7,467,367	3,751,962

13 Commodity Murabaha and Wakala receivables and other advances to banks

	2010	2009
	£	£
Repayable on demand	6,907,576	6,174,689
3 months or less but not repayable on demand	152,574,940	149,154,176
1 year or less but over 3 months	850,735	622,510
	160,333,251	155,951,375

A breakdown of Commodity Murabaha and Wakala receivables and other advances to bank by geographic regions is shown in note 4. Balances maturing in 1 year or less but over 3 months include a balance of £850,735 (2009: £622,510) representing repayable security deposits held by banks that have issued a guarantee to cover the Company's future customer card transactions with MasterCard. These deposits do not earn a return.

14 Advances to customers

	Gross amount 2010	Impairment allowance 2010	Carrying amount 2010	Gross amount 2009	Impairment allowance 2009	Carrying amount 2009
	£	£	£	£	£	£
Retail customers:						
Consumer finance accounts and other advances to customers	3,103,267	(810,952)	2,292,315	5,245,785	(811,820)	4,433,965
Corporate customers:						
Consumer finance accounts and other advances to customers	17,891	-	17,891	54,779	-	54,779
Total consumer finance accounts and other advances to customers	3,121,158	(810,952)	2,310,206	5,300,564	(811,820)	4,488,744
Net investment in commercial property finance	8,132,739	-	8,132,739	8,611,393	-	8,611,393
Net investment in home purchase plans	43,761,647	-	43,761,647	33,077,501	-	33,077,501

Notes to the financial statements

14 Advances to customers (continued)

	2010	2009
	£	£
Specific allowances for impairment		
Balance at 1 January	18,481	145,707
Charge for the year	8,851	-
Amounts written off during the year	<u>(1,238)</u>	<u>(127,226)</u>
Balance at 31 December	<u>26,094</u>	<u>18,481</u>
Collective allowances for impairment		
Balance at 1 January	793,339	939,908
Charge for the year	153,367	408,939
Amounts written off during the year	<u>(161,848)</u>	<u>(555,508)</u>
Balance at 31 December	<u>784,858</u>	<u>793,339</u>
Total allowances for impairment		
Balance at 1 January	811,820	1,085,615
Charge for the year	162,218	408,939
Amounts written off during the year	<u>(163,086)</u>	<u>(682,734)</u>
Balance at 31 December	<u>810,952</u>	<u>811,820</u>

This impairment allowance relates to consumer finance accounts.

The gross investment in commercial property finance comprises:

Less than one year	578,677	594,493
Between one and five years	2,254,938	2,330,371
More than five years	<u>8,096,511</u>	<u>8,893,311</u>
Total gross investment in commercial property finance	10,930,126	11,818,175
Unearned future rental on commercial property finance	<u>(2,797,387)</u>	<u>(3,206,782)</u>
Net investment in commercial property finance	<u>8,132,739</u>	<u>8,611,393</u>

The net investment in commercial property finance comprises:

Less than one year	333,572	326,317
Between one and five years	1,379,703	1,367,151
More than five years	<u>6,419,464</u>	<u>6,917,925</u>
Net investment in commercial property finance	<u>8,132,739</u>	<u>8,611,393</u>

The gross investment in home purchase plans comprises:

	2010	2009
	£	£
Less than one year	3,271,687	2,459,386
Between one and five years	13,048,086	9,837,544
More than five years	<u>54,375,426</u>	<u>42,286,737</u>
Total gross investment in home purchase plans	70,695,199	54,583,667
Unearned future rental on home purchase plans	<u>(26,933,552)</u>	<u>(21,506,166)</u>
Net investment in home purchase plans	<u>43,761,647</u>	<u>33,077,501</u>

The net investment in home purchase plans comprises:

Less than one year	1,335,930	951,605
Between one and five years	5,923,671	4,264,510
More than five years	<u>36,502,046</u>	<u>27,861,386</u>
Net investment in home purchase plans	<u>43,761,647</u>	<u>33,077,501</u>

As at 31 December 2010 there is no material difference between the carrying value and the fair value of any financial assets or liabilities (2009: £nil).

Notes to the financial statements

15 Property and equipment

	Computer Equipment	Office equipment	Leasehold Improvements	Fixtures & fittings	Total
	£	£	£	£	£
Cost					
Balance at 1 January 2010	1,855,187	135,242	4,247,143	335,848	6,573,420
Additions	99,254	1,544	0	0	100,798
Disposals	(30,950)	(1,415)	(360,922)	(23,514)	(416,801)
Balance at 31 December 2010	<u>1,923,491</u>	<u>135,371</u>	<u>3,886,221</u>	<u>312,334</u>	<u>6,257,417</u>
Depreciation					
Balance at 1 January 2010	1,560,720	94,769	1,970,181	286,996	3,912,666
Depreciation charge for the year	205,038	14,987	625,327	31,064	876,416
Disposals	(30,950)	(1,415)	(360,922)	(23,514)	(416,801)
Balance at 31 December 2010	<u>1,734,808</u>	<u>108,341</u>	<u>2,234,586</u>	<u>294,546</u>	<u>4,372,281</u>
Net book value					
At 31 December 2010	<u>188,683</u>	<u>27,030</u>	<u>1,651,635</u>	<u>17,788</u>	<u>1,885,136</u>
Cost					
Balance at 1 January 2009	1,754,591	123,877	4,245,070	330,396	6,453,934
Additions	100,596	11,365	2,073	5,452	119,486
Balance at 31 December 2009	<u>1,855,187</u>	<u>135,242</u>	<u>4,247,143</u>	<u>335,848</u>	<u>6,573,420</u>
Depreciation					
Balance at 1 January 2009	1,338,160	74,383	1,548,256	227,390	3,188,189
Depreciation charge for the year	222,560	20,386	421,925	59,606	724,477
Balance at 31 December 2009	<u>1,560,720</u>	<u>94,769</u>	<u>1,970,181</u>	<u>286,996</u>	<u>3,912,666</u>
Net book value					
At 31 December 2009	<u>294,467</u>	<u>40,473</u>	<u>2,276,962</u>	<u>48,852</u>	<u>2,660,754</u>

The Company leases its branch and office premises under operating leases. The leases typically run for 10 years, with options to renew the lease after that date. Lease payments are reviewed after periods stipulated in the agreements to reflect market rentals.

Notes to the financial statements

16 Intangible assets

	Computer licences	Purchased & developed software	Total
Cost	£	£	£
Balance at 1 January 2010	782,919	4,190,966	4,973,885
Additions	243,264	40,683	283,947
Disposals	(194)	0	(194)
Balance at 31 December 2010	<u>1,025,989</u>	<u>4,231,648</u>	<u>5,257,638</u>
Amortisation			
Balance at 1 January 2010	720,948	3,937,396	4,658,344
Amortisation charge for the year	37,696	198,570	236,266
Disposals	(194)	0	(194)
Balance at 31 December 2010	<u>758,450</u>	<u>4,135,966</u>	<u>4,894,416</u>
Net book value			
At 31 December 2010	<u>267,539</u>	<u>95,683</u>	<u>363,222</u>
Cost			
Balance at 1 January 2009	718,520	4,111,727	4,830,247
Additions	64,399	79,239	143,638
Balance at 31 December 2009	<u>782,919</u>	<u>4,190,966</u>	<u>4,973,885</u>
Amortisation			
Balance at 1 January 2009	655,086	3,596,448	4,251,534
Amortisation charge for the year	65,862	340,948	406,810
Balance at 31 December 2009	<u>720,948</u>	<u>3,937,396</u>	<u>4,658,344</u>
Net book value			
At 31 December 2009	<u>61,971</u>	<u>253,570</u>	<u>315,541</u>

17 Other assets

	2010	2009
	£	£
VAT recoverable	-	70,565
Accrued income	130,831	114,393
Prepayments	715,375	961,319
Other debtors	-	194,000
Total	<u>846,206</u>	<u>1,340,277</u>

There are no receivables within other assets that are expected to be recovered in more than 12 months (2009: £nil). Other debtors represent funds remitted to solicitors for home purchase plans that had not completed at the year-end.

Notes to the financial statements

18 Deposits from banks

	2010 £	2009 £
Repayable on demand	104,539	78,652
3 months or less but not repayable on demand	776,106	530,640
Total deposits from banks	<u>880,645</u>	<u>609,292</u>
Comprising:		
Non profit sharing accounts	104,539	78,652
Profit sharing / paying accounts	776,106	530,640
Total deposits from banks	<u>880,645</u>	<u>609,292</u>

19 Deposits from customers

	2010 £	2009 £
Repayable on demand	110,148,894	104,437,151
3 months or less but not repayable on demand	47,885,521	46,993,655
1 year or less but over 3 months	26,407,339	18,664,345
2 years or less but over 1 year	3,354,436	15,880,841
Total deposits from customers	<u>187,796,190</u>	<u>185,975,992</u>
Comprising:		
Non profit sharing	38,364,719	34,215,366
Profit sharing / paying accounts	149,431,471	151,760,626
Total deposits from customers	<u>187,796,190</u>	<u>185,975,992</u>

20 Other liabilities

	2010 £	2009 £
Returns payable to customers	426,879	348,708
Trade payables	184,299	421,859
Social security and income tax	162,251	395,540
Accruals	947,985	1,125,441
Other creditors	1,565,490	1,331,993
VAT payable	30,200	-
Total	<u>3,317,104</u>	<u>3,623,541</u>

Included within accruals is a balance of £24,000 payable over the remaining lease term of 3 years relating to refurbishment of a branch property (2009: £32,000). This is paid in equal annual instalments with £16,000 payable in more than 12 months.

Notes to the financial statements

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010 £	2009 £
Less than one year	414,305	444,305
Between one and five years	1,376,430	1,711,735
More than five years	643,250	1,022,250
Total	2,433,985	3,178,290

During the year £670,273 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2009: £502,085).

22 Called up share capital

	2010 £	2009 £
Authorised		
Equity: 2,848,823,300 (2009: 725,000,000) ordinary shares of £0.01 each	28,488,233	7,250,000
Allotted, called up and fully paid		
Issued ordinary share capital	25,464,700	5,464,700

On 17 August 2010, an ordinary resolution was passed at an extraordinary general meeting increasing the authorised share capital of the Company from £7,250,000 to £28,488,233 by the creation of an additional 2,123,823,300 new Ordinary Shares. On 17 August 2010, an additional 2,000,000,000 shares were allotted for consideration of £20,000,000 before expenses. Expenses of £2,511,426 were incurred in the placing resulting in an increase to equity of £17,488,574.

Company Share Option Plan

In 2007 the Company established an HMRC approved Company Share Option Plan ('CSOP') under which options to subscribe for the Company's ordinary shares of 1p each were awarded to certain employees ('Optionholders').

All options have a vesting period of 3 years, and are subject to the achievement of specific performance criteria.

Options are forfeited if they remain unexercised after a period of more than 10 years from the date of grant. Options are also forfeited if the Optionholder ceases to hold office with the Company before the options vest, with certain exceptions ("good leaver" provisions). All options are non-transferable and there are no cash settlement alternatives.

The following options were previously granted under the CSOP scheme and represent all outstanding options issued by the Company:

Number of options outstanding at 1 January 2010	Exercise Price	Date of grant	Date of first exercise	Date of last exercise	Cancelled during year	Number of options outstanding at 31 December 2010
1,371,823	9.5p	5 Nov 2007	5 Nov 2010	4 Nov 2017	157,894	1,213,929
109,210	9.5p	11 Dec 2007	11 Dec 2010	10 Dec 2017	-	109,210

During the year, 157,895 of the options granted in 2007 were cancelled due to the employee to whom the options were granted leaving the employment of the Company. No options were granted during the year and no options were exercised during the current or prior years.

Notes to the financial statements

22 Called up share capital (continued)

The fair value of the equity-settled share options granted under the CSOP are estimated at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. There are no market conditions which need to be taken into account in measuring the fair value of the share options.

The assumptions used in the model are as follows:

Input	Assumption
Share price	Price at date of grant
Expected share price volatility	70% (Expected volatility is based on the Company's historic share price volatility over the previous 260 days)
Option life	Per scheme rules
Expected dividends	Nil
Risk free rate	4.9%

The expense recognised in the statement of comprehensive income for share based payments and the corresponding movement within reserves during the year was £20,994 (2009: £29,144).

23 Related parties

At 31 December 2010, directors of the Company and their immediate relatives controlled 0.002% of the voting shares of the Company (2009: 0.03%).

Transactions with key management personnel

Key management of the Company are the Board of Directors and senior management. The compensation of key management personnel including the directors is as follows:

	2010 £	2009 £
Key management emoluments including social security costs	1,514,005	1,568,407
Company contributions to pension plans	63,578	58,684
Total	1,577,583	1,627,091

Deposit balances, operated under standard customer terms and conditions, held by key management personnel and immediate relatives, including directors, totalled £200,869 as at 31 December 2010 (2009: £303,194). The highest balance during the year was £407,219 (2009: £441,718). Total returns paid on these accounts during the year totalled £1,605 (2009: £2,355).

Outstanding consumer finance and home purchase plan balances relating to key management personnel and immediate relatives totalled £195,749 as at 31 December 2010 (2009: £209,753). Returns recognised during the year for these accounts were £8,188 (2009: £7,544). All consumer finance account facilities taken by key management personnel and staff were offered in line with standard customer terms and conditions.

Ultimate parent company

The Company is a subsidiary undertaking of Qatar International Islamic Bank which is the ultimate parent company registered in Doha, Qatar. The ultimate controlling party is Qatar International Islamic Bank.

Notes to the financial statements

24 Loss per ordinary share

Basic and diluted loss per ordinary share are calculated by dividing the loss for the financial period attributable to equity holders by the weighted average number of ordinary shares in issue for the year ended 31 December 2010 of 1,297,154,932 (31 December 2009: 538,437,644).

The Company has established a HMRC approved Company Share Option Plan, "CSOP", under which options to subscribe for the Company's ordinary shares of 1p each have been awarded to certain employees. At 31 December 2010, 1,323,139 options remain outstanding (31 December 2009: 1,481,033). Diluted loss per share is the same as basic loss per share since the outstanding share options have not been taken into account due to their anti-dilutive effect. This arises since the Company is loss making.

25 Capital commitments

The Company had no outstanding capital commitments at 31 December 2010 (2009: £nil).

26 Segmental reporting

The Company measures and reports on the financial performance of the business to the chief operating decision maker as a whole and so has only one operating segment. All business is conducted from the United Kingdom.

A split of the Company's revenue by the geographic location in which the revenue was generated is provided below:

	2010 £	2009 £
United Kingdom	2,539,543	1,923,190
Europe	296,409	232,800
Middle East	256,242	861,022
Total	<u>3,092,194</u>	<u>3,017,012</u>

The Company does not have any non-current assets located outside the United Kingdom and no single external customer accounts for more than 10% of total income.

27 Assets and liabilities denominated in foreign currency

As at 31 December 2010, assets equivalent to £1,342,325 were denominated in US Dollars and are included within Commodity Murabaha and Wakala receivables and other advances to banks (2009: £1,097,371). At 31 December 2010 assets equivalent to £511,949 were denominated in Euro and are included within Commodity Murabaha and Wakala receivables and other advances to banks (2009: £359,529).

Customer liabilities of £1,328,854 were denominated in US Dollars (2009: £1,078,281) and £508,468 were denominated in Euro (2009: £356,184).