

Islamic Bank of Britain PLC

Interim Report

6 month period ended 30 June 2005

Registered number 4483430

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Chairman's Statement

I am pleased to present the Interim Report of the Islamic Bank of Britain PLC (the 'Bank') for the period ending 30 June 2005. In the six months to 30 June 2005 the operating loss amounted to £2.7m (five months to December 2004, loss of £3.1m). This position was broadly in line with forecast.

Customer deposits increased to £33.9m (31 December 2004, £2.1m). Of this, £14.1m represented a deposit from a significant shareholder which was placed in the early part of the year. Consumer finance, which was not released until the second quarter of 2005, amounted to £2.6m. Our consumer finance activity has been restricted due to two key products, based on the Islamic financing principles of Murabaha and Ijara, requiring tax clearance from the Revenue and Customs Authority. The tax situation with regard to both is complex, but good progress towards achieving a solution to the issues is being made.

During the half-year further progress has been made in developing products and in building the delivery channel capability. In addition to savings accounts, the Bank is now able to offer its customers Islamic current accounts, debit cards and consumer financing facilities. Distribution has been expanded with the addition of a further three branches, Small Heath Birmingham, London Road Leicester and Southall London. This has been supplemented with the introduction of a direct banking service which became effective in April.

Customer recruitment during the six month period was more active in the second quarter of 2005, a response reflecting the timing of the launch of additional products and the new delivery channels becoming functional. At the end of June the customer base stood at 5,962 with a total of 10,511 accounts opened. The strengthening customer recruitment profile has continued as we enter the second half of the year with the past two months alone reflecting a further 40% increase in customer numbers.

During the second half of 2005 our plan is to expand the Bank's distribution network and open a further three branches. The first of these, Whitechapel Road, London, opened on 5 July. Subject to receipt of the requisite permissions from the FSA, the home finance product will become available during this period as will the introduction of business finance to complement the Small Business proposition recently launched on to the market. Inception of our internet banking solution has taken place. The project will be further developed in the months ahead, although current planning indicates that it will be the early part of 2006 before this capability will become available to customers.



Abdul Rahman Abdul Malik
Chairman

Income Statement

for the 6 month period ended 30 June 2005

	<i>Note</i>	6 month period ended 30 June 2005	5 month period ended 31 December 2004
		£	£
Income receivable from:			
Murabaha and Wakala transactions		1,178,740	683,898
Consumer finance		17,351	-
Returns payable to customers		(183,794)	(7,500)
Net income from Islamic financing transactions		1,012,297	676,398
Fees and commission receivable		7,948	-
Fees and commission payable		(746)	-
Net fee income		7,202	-
Total operating income		1,019,499	676,398
Impairment charges and other credit risk provisions	5	(25,996)	-
Net operating income		993,503	676,398
Employee compensation & benefits		(1,334,967)	(867,769)
General and Administrative expenses		(1,743,592)	(2,412,435)
Depreciation of property, plant and equipment		(647,357)	(503,564)
Total operating expenses		(3,725,916)	(3,783,768)
Operating loss		(2,732,413)	(3,107,370)
Tax on operating loss	6	-	-
Loss for the period		(2,732,413)	(3,107,370)
Earnings per ordinary share (basic and diluted) - pence	4	(0.7)	(0.9)

The notes on pages 6 to 11 form part of these financial statements

Balance sheet

At 30 June 2005

	Note	30 June 2005 £	31 December 2004 £
Assets			
Cash		198,598	47,195
Murabaha and Wakala receivables and other advances due from banks		71,947,916	47,022,681
Consumer finance	5	2,573,727	-
Other assets		349,004	197,568
Prepayments and accrued income		218,220	189,509
Property, plant & equipment		4,477,835	3,547,073
Total assets		79,765,300	51,004,026
Liabilities and equity			
Liabilities			
Customer accounts	7	33,884,326	2,124,790
Other liabilities		1,599,340	1,865,189
Total liabilities		35,483,666	3,989,979
Equity			
Called up share capital		4,190,000	4,190,000
Share premium		48,747,255	48,747,255
Retained earnings		(8,655,621)	(5,923,208)
Total equity		44,281,634	47,014,047
Total equity and liabilities		79,765,300	51,004,026

These financial statements were approved by the board of directors on 12 September 2005 and were signed on its behalf by:



Michael R. Hanlon
Managing Director

The notes on pages 6 to 11 form part of these financial statements

Statement of changes in equity

for the 6 month period ended 30 June 2005

	Share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
Balance at 1 August 2004	2,590,000	11,636,398	(3,089,436)	11,136,962
New share capital subscribed (net of issue costs)	1,600,000	37,384,455	-	38,984,455
Transfer between reserves	-	(273,598)	273,598	-
Loss for the financial period	-	-	(3,107,370)	(3,107,370)
	<hr/>			
Balance at 31 December 2004	4,190,000	48,747,255	(5,923,208)	47,014,047
	<hr/>			
Balance at 1 January 2005	4,190,000	48,747,255	(5,923,208)	47,014,047
Loss for the financial period	-	-	(2,732,413)	(2,732,413)
	<hr/>			
Balance at 30 June 2005	4,190,000	48,747,255	(8,655,621)	44,281,634
	<hr/>			

Statement of recognised income and expense

for the 6 month period ended 30 June 2005

There were no items of recognised income and expense other than those disclosed in the income statement or the statement of changes in equity.

The notes on pages 6 to 11 form part of these financial statements

Statement of cashflows

for the 6 month period ended 30 June 2005

	<i>Note</i>	6 month period ended 30 June 2005	5 month period ended 31 December 2004
		£	£
Cash flows from operating activities			
Operating loss		(2,732,413)	(3,107,370)
Adjustments for:			
Non cash items included in net profit:			
Depreciation		647,357	503,564
Impairment charges and other credit risk provisions		25,996	-
Change in operating assets		(18,904,777)	(34,787,063)
Change in operating liabilities		31,493,687	1,965,526
		<hr/>	<hr/>
Net cashflow from operating activities		10,529,850	(35,425,343)
Cash flows from investing activities			
Purchase of property, plant & equipment		(1,578,119)	(2,084,529)
		<hr/>	<hr/>
Net cash used in investing activities		(1,578,119)	(2,084,529)
Cash flows from financing activities			
Issue of ordinary share capital		-	40,000,000
Expenses paid in connection with share issue		-	(1,015,545)
		<hr/>	<hr/>
Net cash from financing activities		-	38,984,455
		<hr/>	<hr/>
Net increase in cash and cash equivalents		8,951,731	1,474,583
Cash and cash equivalents at beginning of period	8	1,692,012	217,429
Cash and cash equivalents at end of period	8	10,643,743	1,692,012

The notes on pages 6 to 11 form part of these financial statements

Notes to the Financial Statements

1 Basis of preparation

For all periods up to and including the 5 months ended 31 December 2004, Islamic Bank of Britain PLC prepared its financial statements in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'). From 1 January 2005, Islamic Bank of Britain PLC has elected to prepare its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the EU and effective for the reporting period ended 31 December 2005. IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body. IFRSs in existence as at the date of these interim consolidated financial statements may differ from endorsed IFRSs actually in effect at 31 December 2005 as a result of decisions taken by the EU on endorsement, interpretative guidance issued by the IASB and IFRIC, and the requirements of companies legislation. These factors may affect Islamic Bank of Britain PLC's Annual Report and Accounts 2005 and the information contained within this document.

The adoption of IFRS has resulted in changes to the accounting policies as compared with the most recent published financial statements prepared under UK GAAP. The accounting policies set out below have been applied consistently during the period commencing 1 January 2005.

In preparing these interim financial statements Islamic Bank of Britain PLC has elected to take advantage of certain transitional provisions within IFRS 1 'First-time Adoption of International Financial Reporting Standards' which offer exemption from presenting comparative information or applying IFRS retrospectively. The most significant of these provisions applying to these accounts is the exemption from presenting comparative information in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' ('IAS 32') and IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'). Comparative information for financial instruments has been prepared on the basis of Islamic Bank of Britain PLC's previous accounting policies.

The transition to IFRS has had no material impact upon the figures previously reported in the Islamic Bank of Britain PLC's financial statements for the 5 month period ended 31 December 2004 nor on its opening balance sheets as at 1 August 2004 and 1 January 2005. Consequently, no material adjustments were required of the figures previously reported under UK GAAP to those now reported under IFRS, and, hence, reconciliations of the UK GAAP and IFRS figures have not been provided.

2 Accounting policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Company's financial statements. Where these accounting policies differ to those previously applied under UK GAAP, the old UK GAAP accounting policy has also been provided.

(a) *Murabaha and Wakala receivables and other advances due from banks*

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

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

Income, on both Murabaha and Wakala receivables, is recognised on a time-apportioned basis over the period of the contract. Murabaha and Wakala receivables are stated at cost less any provision for impairment and the accrued income receivable is classified under other assets.

Other advances due from banks are stated at cost and are non-profit bearing.

(b) *Consumer finance*

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 in order to generate cash. Consumer finance balances are stated at cost less any provision for impairment. Income is recognised on an effective yield basis over the period of the contract based on the principal amounts outstanding. The accrued profit receivable from the customer is classified under other assets.

(c) *Impairment of financial assets*

An assessment is made at each balance sheet date to determine whether there is evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present values of future anticipated cashflows discounted at original profit rates, is recognised in the income statement.

In addition, a provision is made to cover impairment of financing transactions assessed collectively. These are estimated based on historical patterns of losses in each component, and the credit ratings allocated to the counterparties and reflecting the current economic climate in which the counterparties operate.

(d) Customer accounts

Profit sharing accounts are based on the principle of Mudaraba whereby the bank and the customer share an agreed percentage of any profit earned on the customer deposit accounts. 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 balance sheet under customer accounts and the accrued returns payable to the customer is classified under other liabilities. Returns payable on Customer Murabaha deposits is recognised on a time apportioned basis over the period of the contract.

(e) Property, plant and equipment

Property, plant and equipment is stated at historical cost less any impairment losses and depreciation. Depreciation of property, plant & equipment is provided on a straight-line basis over estimated useful lives as follows:

Computer equipment, software and licences	3 years
Fixtures, fittings and office equipment	5 years
Leasehold improvements	10 years

Property, plant & equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(f) Provisions

Provisions are recognised at the management's best estimate, when the Company has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

(g) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to 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 substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet 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 reduced to the extent that it is no longer probable that the related tax benefit will be realised. Previously under UK GAAP, deferred tax was recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and for accounting purposes and which were risen but not reserved by the balance sheet date, except as otherwise required by FRS 19. This change in accounting policy has not resulted in any impact to these financial statements.

(h) Operating lease charges

Operating lease rentals, where the Company is the lessee, are accounted for on a straight line basis over the period of the lease and included in general and administrative expenses. The leased assets are not recognised on the balance sheet.

(i) Pension costs

The Company participates in a defined stakeholder contribution pension scheme. The cost of the defined stakeholder contribution scheme is equal to the contributions payable to the scheme for the accounting period and are recognised as an expense as they fall due.

(j) Cash and cash equivalents

For the purposes of the statement of cashflows, cash and cash equivalents comprises of cash and any Murabaha and Wakala receivables and other advances due from banks which are repayable in three months or less. Previously under UK GAAP, cash, for the purposes of the cashflow statement, comprised of cash and any Murabaha and Wakala receivables and other advances due from banks which were repayable upon demand.

(k) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Income and expenses denominated in foreign currencies are converted into sterling at the rate prevailing at the date of the transaction.

3 Segmental Reporting

The company has one class of business and all other services provided are ancillary to this. All business is conducted from the United Kingdom.

4 Earnings per ordinary share

Basic and diluted earnings per ordinary share are calculated by dividing the loss for the financial period attributable to equity shareholders by the weighted average number of ordinary shares in issue in the 6 month period ended 30 June 2005 of 419,000,000 (5 month period ended 31 December 2004: 343,705,882).

5 Impairment charges and other credit risk provisions

	6 month period ended 30 June 2005	5 month period ended 31 December 2004
	£	£
Income statement charge		
Financing impairment charges:		
- collectively assessed provision allowance	25,996	-
Total impairment charges and other credit risk provisions	25,996	-

This impairment provision has been classified in the balance sheet against consumer finance.

6 Taxation

There were no taxable profits or recoverable losses for the 6 month period ended 30 June 2005 (5 month period ended 31 December 2004: £nil) and, accordingly, the Company has not provided for a tax charge or a tax debtor.

As at 30 June 2005, the Company had deferred tax assets in respect of tax losses carried forward of £1,846,016 (31 December 2004: £1,252,347) and in respect of timing differences on capital allowances of £392,169 (31 December 2004: £197,962). 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.

7 Customer accounts

	6 month period ended 30 June 2005	5 month period ended 31 December 2004
	£	£
Non profit sharing accounts	2,529,980	6,593
Profit sharing accounts	27,738,034	2,118,197
Customer Murabaha deposits	3,616,312	-
Total customer accounts	<u>33,884,326</u>	<u>2,124,790</u>

8 Cash and cash equivalents

	6 month period ended 30 June 2005	5 month period ended 31 December 2004
	£	£
Cash	198,597	47,195
Murabaha and Wakala receivables and other advances due from banks which are repayable within 3 months	10,445,146	1,644,817
Total cash and cash equivalents	<u>10,643,743</u>	<u>1,692,012</u>

9 Related party disclosures

During the period the Company has undertaken transactions with Pelham Incorporated Limited and The Support Store Limited, related parties by virtue of the fact that Mr Shabir Randeree is a Director of Pelham Incorporated Limited and The Support Store Limited and also serves on the board of the Company. Details of these transactions are as follows:

	6 month period ended 30 June 2005	5 month period ended 31 December 2004
	£	£
Pelham Incorporated Limited		
Property rental	7,386	727
Other	-	336
The Support Store Limited		
IT expenses	2,201	7,859
Other	1,003	612

As at 30 June 2005 Pelham Incorporated Limited had deposits of £752,975 held within accounts as a customer of the Bank. During the period ended 30 June 2005 total customer profit returns paid for these accounts were £6,185.

Additionally, as at 30 June 2005 one significant shareholder of the Company had a deposit balance of £14,145,877. During the period ended 30 June 2005 total customer profit returns paid for this account were £44,714.

10 Interim Report and statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (the Act). The Interim Report 2005 was approved by the Board of Directors on 12 September 2005. The comparative figures for the 5 month period ended 31 December 2004 are the Company's statutory accounts for that period. These accounts, which were prepared under UK GAAP have been delivered to the Registrar of Companies in England & Wales in accordance with section 242 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

Independent review report by KPMG Audit Plc to Islamic Bank of Britain PLC

Introduction

We have been engaged by the Islamic Bank of Britain PLC ('the Company') to review the financial information set out on pages 2 to 11 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Alternative Investment Market of the London Stock Exchange ('AIM'). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the company will be prepared in accordance with IFRSs adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of company management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

KPMG Audit Plc
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