

**Islamic Bank of Britain PLC**

**Interim Report**

**6 month period ended 30 June 2007**

**Registered number 4483430**

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## Chairman's Statement

I am pleased to present the Interim Report of Islamic Bank of Britain PLC for the six months period ended June 30th 2007. This has been a period of continued growth for the bank and also a period of consolidation. Having launched in August 2004 it was appropriate we revisited our strategic focus and ensured the correct vision is in place to meet the demands of our next stage of development.

Some of the highlights of the first half year performance in 2007 include:

- Growth in customer numbers of 8722 (28%)
- Growth in bank and customer deposits of £27 million (32%)
- Growth in customer financing £4.5 million (41%)

The operating loss for the first half year amounted to £3.8 million (30 June 2006: £4.2 million). Operating income increased by 62% compared to the same period last year and stood at £2.1 million. This was less than budget due to lower than anticipated levels of asset growth. A review of all expense categories during the period established ongoing savings and ensured operating expenses were under budget at £6 million (30 June 2006: £5.6 million).

During the period, management performed a review of the Bank's provisioning policy. Management made some adjustments to ensure it fully recognized the Bank's current experience in the wake of industry-wide deterioration. Impairment charges for the period amounted to £0.3 million (30 June 2006: £0.1 million) and accumulated provision reserves were £0.8 million (30 June 2006: £0.2 million) representing 0.5% (30 June 2006: 0.2%) of total assets.

In June we launched internet banking for businesses which complemented our existing consumer product. This has proved to be a popular service among our customers and has received significant positive feedback.

I would also like to mention the Bank's involvement in the development and implementation of "Centres of Excellence", educational resources to be established across the UK under the auspices of the Government's Academies Programme. This initiative underlines IBB's focus on young people and its commitment to supporting educational excellence in our schools.

I am pleased to announce two new members of the Board of Directors. Mr. Abdul Hakim Al-Adhamy, BA, FCA will join the Board as Non-Executive Director on Oct 1<sup>st</sup> 2007. Mr. Sultan Choudhury joined as Executive Commercial Director on June 28<sup>th</sup> 2007.

I would like to thank Islamic Bank of Britain's shareholders for their continued support and commitment to the Bank.

May Allah grant us success in our endeavours.

Mohsen Moustafa  
Chairman

## Income Statement

for the 6 month period ended 30 June 2007

	Note	<b>6 month period ended 30 June 2007</b> £	6 month period ended 30 June 2006 £	6 month period ended 31 Dec 2006 £
Income receivable from Islamic financing transactions		<b>3,400,002</b>	2,006,888	2,547,690
Returns payable to customers and banks		<b>(1,369,220)</b>	(734,605)	(970,784)
<b>Net income from Islamic financing transactions</b>		<b>2,030,782</b>	1,272,283	1,576,906
Fees and commissions income		<b>124,207</b>	54,994	119,560
Fees and commissions expense		<b>(7,746)</b>	(5,001)	(7,763)
<b>Net fee and commission income</b>		<b>116,461</b>	49,993	111,797
<b>Operating income</b>		<b>2,147,243</b>	1,322,276	1,688,703
Net impairment loss on financial assets	6	<b>(311,347)</b>	(134,546)	(310,543)
Personnel expenses		<b>(2,395,095)</b>	(1,955,807)	(2,285,971)
General and administrative expenses		<b>(2,371,646)</b>	(2,762,905)	(2,667,997)
Depreciation		<b>(383,753)</b>	(200,038)	(421,424)
Amortisation		<b>(561,734)</b>	(496,774)	(608,227)
<b>Total operating expenses</b>		<b>(6,023,575)</b>	(5,550,070)	(6,294,162)
<b>Loss before income tax</b>		<b>(3,876,332)</b>	(4,227,794)	(4,605,459)
Income tax expense	4	-	-	-
<b>Loss for the period</b>		<b>(3,876,332)</b>	(4,227,794)	(4,605,459)
<b>Loss per ordinary share (basic and diluted) - pence</b>	3	<b>(0.9)</b>	(1.0)	(1.1)

The notes on pages 6 to 9 form part of these financial statements

## Balance Sheet

At 30 June 2007

	Note	30 June 2007 £	30 June 2006 £	31 Dec 2006 £
<b>Assets</b>				
Cash		273,772	642,055	451,492
Commodity Murabaha and Wakala receivables and other advances due from banks		119,745,351	93,686,166	100,286,964
Consumer finance accounts and other advances to customers	6	9,249,857	6,930,066	8,092,326
Net investment in commercial property finance		5,386,012	-	2,338,401
Property and equipment		3,694,825	3,764,893	3,965,370
Intangible assets		1,431,447	1,695,062	1,894,272
Other assets		1,060,224	1,017,848	983,270
<b>Total assets</b>		<b>140,841,488</b>	107,736,090	118,012,095
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Deposits from banks	7	4,988,977	4,942,189	240,164
Deposits from customers	8	105,988,967	65,142,041	83,853,383
Other liabilities		2,008,589	1,315,114	2,187,261
<b>Total liabilities</b>		<b>112,986,533</b>	71,399,344	86,280,808
<b>Equity</b>				
Called up share capital		4,190,000	4,190,000	4,190,000
Share premium		48,747,255	48,747,255	48,747,255
Retained deficit		(25,082,300)	(16,600,509)	(21,205,968)
<b>Total equity</b>		<b>27,854,955</b>	36,336,746	31,731,287
<b>Total equity and liabilities</b>		<b>140,841,488</b>	107,736,090	118,012,095

These financial statements were approved by the Board of Directors on 25 September 2007 and were signed on its behalf by:

**Gerry Deegan**  
Managing Director

The notes on pages 6 to 9 form part of these financial statements

## Statement of Changes in Equity

for the 6 month period ended 30 June 2007

	<b>Share capital</b>	<b>Share premium account</b>	<b>Retained Deficit</b>	<b>Total</b>
	£	£	£	£
Balance at 1 July 2006	4,190,000	48,747,255	(16,600,509)	36,336,746
Loss for the financial period	-	-	(4,605,459)	(4,605,459)
Balance at 31 December 2006	4,190,000	48,747,255	(21,205,968)	31,731,287
Balance at 1 January 2007	4,190,000	48,747,255	(21,205,968)	31,731,287
Loss for the financial period	-	-	(3,876,332)	(3,876,332)
<b>Balance at 30 June 2007</b>	<b>4,190,000</b>	<b>48,747,255</b>	<b>(25,082,300)</b>	<b>27,854,955</b>

The notes on pages 6 to 9 form part of these financial statements

## Cash Flow Statement

for the 6 month period ended 30 June 2007

	Note	<b>6 month period ended 30 June 2007 £</b>	6 month period ended 30 June 2006 £	6 month period ended 31 Dec 2006 £
<b>Cash flows from operating activities</b>				
Loss for the period		<b>(3,876,332)</b>	(4,227,794)	(4,605,459)
<i>Adjustments for:</i>				
Depreciation		<b>383,753</b>	200,038	421,424
Amortisation		<b>561,734</b>	496,774	608,227
Net impairment loss on financial assets		<b>311,347</b>	134,546	310,543
Change in Commodity Murabaha and Wakala receivables and other advances due from banks		<b>(18,984,286)</b>	(17,241,077)	(7,629,747)
Change in consumer finance accounts and other advances to customers		<b>(1,468,878)</b>	(2,610,243)	(1,472,803)
Change in net investment in commercial property finance		<b>(3,047,611)</b>	-	(2,338,401)
Change in other assets		<b>(76,954)</b>	(107,600)	34,578
Change in deposits from banks		<b>4,748,813</b>	(89,604)	329,768
Change in deposits from customers		<b>22,135,584</b>	22,459,241	13,679,549
Change in other liabilities		<b>(178,672)</b>	304,747	872,147
Net cash from/(used in) operating activities		<b>508,498</b>	(680,972)	209,826
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		<b>(113,208)</b>	(165,979)	(621,902)
Purchase of intangible assets		<b>(98,909)</b>	(682,832)	(807,436)
Net cash used in investing activities		<b>(212,117)</b>	(848,811)	(1,429,338)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>296,381</b>	(1,529,783)	(1,219,512)
Cash and cash equivalents at beginning of period	5	<b>2,190,582</b>	4,939,877	3,410,094
<b>Cash and cash equivalents at the end of the period</b>	5	<b>2,486,963</b>	3,410,094	2,190,582

The notes on pages 6 to 9 form part of these financial statements

## Notes

(forming part of the financial statements)

### 1 Accounting policies and basis of preparation

Islamic Bank of Britain PLC ('the Company') is a company incorporated in the UK.

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published financial statements for the year ended 31 December 2006.

The directors anticipate that these accounting policies will be used in the preparation of the Company's annual accounts for the year ended 31 December 2007.

### 2 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.

### 3 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 2007 of 419,000,000 (6 month period ended 30 June 2006: 419,000,000, 6 month period ended 31 December 2006: 419,000,000).

### 4 Income tax expense

There were no taxable profits or recoverable losses for the 6 month period ended 30 June 2007 (6 month period ended 30 June 2006: £nil, 6 month period ended 31 December 2006: £nil) and, accordingly, the Company has not provided for a tax charge or a tax debtor.

As at 30 June 2007, the Company had potential deferred tax assets in respect of tax losses carried forward of £5,234,252 (30 June 2006: £3,703,692, 31 December 2006: £4,909,069) and in respect of timing differences on capital allowances of £1,218,045 (30 June 2006: £781,257, 31 December 2006: £1,064,645).

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. The capital allowances to be claimed are being finalised and therefore the level of the asset shown above may change.

In previous periods, the corporation tax rate used to calculate potential deferred tax assets was 30%. In the current period, the corporation tax rate used is 28%.

### 5 Cash and cash equivalents

	<b>30 June 2007</b>	30 June 2006	31 Dec 2006
	£	£	£
Cash	<b>273,772</b>	642,055	451,492
Other advances to banks	<b>2,213,191</b>	2,768,039	1,739,090
Total cash and cash equivalents	<b>2,486,963</b>	3,410,094	2,190,582

## Notes (continued)

### 6 Impairment allowance

	<b>30 June 2007</b>	30 June 2006	31 Dec 2006
	£	£	£
<b>Specific allowances for impairment</b>			
Balance at beginning of period	<b>357,081</b>	-	102,831
Transfer to collective allowance for impairment	<b>(302,938)</b>	-	-
Charge for period	<b>35,459</b>	102,831	254,250
Balance at end of period	<b>89,602</b>	102,831	357,081
<b>Collective allowance for impairment</b>			
Balance at beginning of period	<b>140,076</b>	52,068	83,783
Transfer from specific allowances for impairment	<b>302,938</b>	-	-
Charge for period	<b>275,888</b>	31,715	56,293
Balance at end of period	<b>718,902</b>	83,783	140,076
<b>Total allowances for impairment</b>			
Balance at beginning of period	<b>497,157</b>	52,068	186,614
Charge for period	<b>311,347</b>	134,546	310,543
Balance at end of period	<b>808,504</b>	186,614	497,157

This impairment allowance relates to consumer finance accounts and other advances to retail customers.

Following a review of the impairment calculation during the period, a transfer was made from the specific allowance to the collective allowance, as shown in the table above.

### 7 Deposits from banks

	<b>30 June 2007</b>	30 June 2006	31 Dec 2006
	£	£	£
Repayable on demand	<b>246,092</b>	242,189	240,164
3 months or less but not repayable on demand	<b>4,742,885</b>	4,700,000	-
Total deposits from banks	<b>4,988,977</b>	4,942,189	240,164
Comprising:			
Non profit sharing	<b>6,000</b>	-	-
Profit sharing/paying accounts	<b>4,982,977</b>	4,942,189	240,164
Total deposits from banks	<b>4,988,977</b>	4,942,189	240,164

## Notes (continued)

### 8 Deposits from customers

	<b>30 June 2007</b>	30 June 2006	31 Dec 2006
	<b>£</b>	£	£
Repayable on demand	<b>66,754,673</b>	38,511,945	52,159,169
3 months or less but not repayable on demand	<b>23,500,047</b>	18,502,097	24,687,830
1 year or less but over 3 months	<b>15,734,247</b>	8,127,999	7,006,384
<b>Total deposits from customers</b>	<b>105,988,967</b>	65,142,041	83,853,383
Comprising:			
Non profit sharing	<b>22,027,110</b>	13,054,446	19,304,662
Profit sharing/paying accounts	<b>83,961,857</b>	52,087,595	64,548,721
<b>Total deposits from customers</b>	<b>105,988,967</b>	65,142,041	83,853,383

### 9 Related party disclosures

During comparative periods the Company undertook the following transactions with DCD London & Mutual PLC, a related party by virtue of the fact that Mr Shabir Randeree is a director of DCD London & Mutual PLC and also serves on the Board of the Company.

	<b>6 month period ended 30 June 2007</b>	6 month period ended 30 June 2006	6 month period ended 31 Dec 2006
	<b>£</b>	£	£
<b>DCD London &amp; Mutual PLC</b>			
Meeting costs	-	-	2,394
Other	-	-	777

There were no amounts outstanding to this related party included within trade payables at 30 June 2007 (30 June 2006: £nil, 31 December 2006: £nil).

In addition to the above transactions, Pelham Incorporated Limited, DCD Properties Limited and European Islamic Investment Bank PLC (EIIB) (related parties by the same virtue) held bank accounts with the Company under normal customer terms and conditions.

As at 30 June 2007, Pelham Incorporated Limited deposit balances amounted to £1,719,881 (30 June 2006: £2,583,170, 31 December 2006: £6,584,292) and the highest balance during the period was £6,620,897 (30 June 2006: £2,583,170, 31 December 2006: £6,584,292). Returns paid on these deposits during the period totalled £52,030 (30 June 2006: £7,876, 31 December 2006: £38,481).

As at 30 June 2007, DCD Properties Limited deposit balances amounted to £84,400 (30 June 2006: £nil, 31 December 2006: £526,291) and the highest balance during the period was £526,291 (30 June 2006: £nil, 31 December 2006: £526,291). Returns paid on these deposits during the period totalled £1,644 (30 June 2006: £nil, 31 December 2006: £nil).

## Notes (continued)

### 9 Related party disclosures (continued)

As at 30 June 2007, EIB deposit balances amounted to £240,092 (30 June 2006: £4,942,189, 31 December 2006: £240,164) and the highest balance during the period was £5,284,929 (30 June 2006: £4,942,189, 31 December 2006: £242,704). Returns paid on these deposits during the period totalled £53,483 (30 June 2006: £46,228, 31 December 2006: £23,488).

At 30 June 2007, directors of the Company and their immediate relatives controlled 7.17% of the voting shares of the Company (30 June 2006: 7.41%, 31 December 2006: 7.41%).

#### Transactions with key management personnel

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

	<b>6 month period ended 30 June 2007</b>	6 month period ended 30 June 2006	6 month period ended 31 Dec 2006
	£	£	£
Key management emoluments including social security costs	<b>586,638</b>	544,950	536,178
Company contributions to pension plans	<b>17,450</b>	15,872	22,560
<b>Total</b>	<b>604,088</b>	560,822	558,738

Key management emoluments for the 6 month period ended 31 December 2006 included an ex gratia payment of £60,000 to a former director.

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including directors, totalled £157,049 as at 30 June 2007 (30 June 2006: £183,488, 31 December 2006: £151,894). The highest balance during the 6 month period ended 30 June 2007 was £233,445 (6 month period ended 30 June 2006: £210,010, 6 month period ended 31 December 2006: £151,894). Total returns paid on these accounts for the 6 month period ended 30 June 2007 totalled £724 (6 month period ended 30 June 2006: £488, 6 month period ended 31 December 2006: £596).

Outstanding consumer finance account balances relating to key management personnel, including directors, totalled £19,874 as at 30 June 2007 (30 June 2006: £18,871, 31 December 2006: £34,670). Returns recognised on these accounts for the 6 month period ended 30 June 2007 totalled £683 (6 month period ended 30 June 2006: £448, 6 month period ended 31 December 2006: £1,154). All consumer finance account facilities taken by key management personnel and directors were offered in line with standard customer terms and conditions.

### 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'). This interim report was approved by the Board of Directors on 25 September 2007. The statutory accounts for the year ended 31 December 2006 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 instructed by Islamic Bank of Britain PLC ("the Company") to review the financial information for the six months ended 30 June 2007 set out on pages 2 to 9, which comprises of an income statement, balance sheet, statement of changes in equity, cash flow statement and related notes. 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. 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 Rules which require that the interim report must be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

### **Review work performed**

We conducted our review having regard to the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. 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 excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) 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 2007.

**KPMG Audit Plc**  
Chartered Accountants  
8 Salisbury Square  
London  
EC4Y 8BB

25 September 2007