

**European Islamic Investment Bank plc**



**Annual report**

**For the year ended 31 December 2008**

Chairman's Statement	2
Chief Executive's Statement	3
Directors	5
Operating and Financial Review	7
Report of the Directors	10
Corporate Governance	13
Report of the Sharia'a Supervisory Board	16
Statement of Directors' Responsibilities	17
Independent Auditor's Report	18
The Financial Statements	
Consolidated Income Statement	20
Consolidated Balance Sheet	21
Consolidated Statement of Changes in Equity	22
Consolidated Cash Flow Statement	23
Company Balance Sheet	24
Company Cash Flow Statement	25
Notes to the Financial Statements	26
Bank Information	59

# European Islamic Investment Bank plc

## CHAIRMAN'S STATEMENT

**In the name of Allah, the Most Gracious, the Most Merciful  
To the shareholders of the European Islamic Investment Bank plc**

I am pleased to present to our shareholders, the European Islamic Investment Bank plc's (EIIB) results for 2008.

Without question 2008 has been one of the most dramatic and challenging years global financial markets have ever experienced. The impact of the sub-prime crises and the subsequent credit crunch has evolved into a significant and serious global recession. It is apparent that all economies and markets are or will be impacted by the effects of the recession but what is not yet clear is how long and how deep the recession will be.

EIIB has had a challenging year. The Bank has not been immune from the effects of the turmoil in the global financial markets although I am glad to say that being an Islamic bank has ensured we have avoided many of the problems to which some other institutions have been exposed. Unfortunately the well documented decline in the UK Commercial Real Estate market in the second half of 2008, and the prudent decision to provision for another murabaha obligation has resulted in an overall loss of £14.8m for the full year.

The overall loss is disappointing, however management's conservative approach to risk management, capital preservation and liquidity management means the Bank's core businesses have been profitable and the Bank is in a well capitalised and liquid position to take advantage of opportunities in the coming year.

Highlights for the year include the establishment of a Private Equity and Corporate Advisory business with the first investment by this business, the purchase of a substantial stake in a diamond production company, and the successful completion of a substantial syndication.

I remain confident that the EIIB business model is robust and that the Bank will continue to contribute to the overall development of the Islamic Finance market in London. However we constantly review strategy to ensure it is aligned with market conditions and now is such a time when we should be aware of changes taking place in the global financial markets and be prepared to take advantage of the opportunities that these changes will offer.

A handwritten signature in black ink, appearing to read "Adnan", written in a cursive style.

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Adnan Ahmed Yousif  
*Chairman*

# European Islamic Investment Bank plc

## CHIEF EXECUTIVE'S STATEMENT

### BUSINESS OVERVIEW

Unquestionably 2008 was an extraordinary year for global financial markets, characterised by unprecedented turmoil, declines in asset values, drying up of credit, a crisis of confidence, and the onset of a global recession. The Islamic Banking market in general was not immune from many of these events and the impact of the global downturn.

EIIB operating income for 2008 increased from £13.0m to £13.2m (2%) during the year, with core pre tax profitability (excluding provisions relating to the Property Portfolio and murabaha) growing from £2.6m to £4.7m (82%). Careful management of EIIB's cost base during the year saw EIIB's expenses decline by 18% from £10.4m to £8.5m.

Our strong capital base of £163m which is 680% of the minimum regulatory requirement and high level of liquidity with net liquid assets over customer deposits of +48% which is materially higher than the regulatory minimum of -5% means that the Bank is well positioned for capital and liquidity requirements in the current environment and reflects management's cautious approach to risk management and to positioning the Bank for opportunities in the future.

Unfortunately the overall results for the Group have been impacted by the decline in the commercial real estate market in the UK. It has been well documented in the media that the UK's Commercial Property Sector has suffered a severe decline with the IPD Index of UK Property declining by 18% during the second half of 2008 (22% decline for the full year 2008). EIIB commissioned a valuation of the Group's property portfolio and based on this valuation took the view that it was prudent to take an impairment provision of £14.7m on the portfolio.

In keeping with our careful and prudent approach, management continually reviews EIIB's asset portfolio to assess the performance and recoverability of each financing. This is particularly important in the current economic climate. The circumstances of one particular obligor are such that the ultimate recovery of the full amount of the financing (made under a murabaha agreement) is in doubt. Whilst we are actively working with the obligor to resolve this situation, we believe that an impairment provision of £3.75m is appropriate at this time. These events have unfortunately resulted in a loss for the year of £14.8m after tax, however other than the two items noted above, EIIB's core operations continued to trade profitably.

Despite this disappointing result the strong capital base, cautious approach to risk, and highly liquid balance sheet place the bank in a strong position to take advantage of opportunities arising as a result of the current unprecedented economic environment.

During the course of 2008, management refocused EIIB's business to concentrate on three key areas; Treasury and Capital Markets, Private Equity and Corporate Advisory, and Real Estate.

Treasury and Capital Markets achieved a satisfactory result for the year, particularly given the negative sentiment and low volumes which affected the global debt markets during 2008. Capital markets transactions were subdued with total sukuk issuance declining globally from \$32.3bn in 2007 to \$14.8bn in 2008. International sukuk issuance declined year on year from \$16.3bn to \$6.1bn.

During the year we arranged a \$70m syndication for a major Saudi conglomerate, which successfully closed during August. We remain committed to the Treasury and Capital Markets business, which we view as fundamental to the success of EIIB's business model.

Private Equity and Corporate Advisory was launched during 2008 when EIIB recruited a small but highly regarded Private Equity team. The current upheaval in world markets, plus the lack of leverage finance for traditional Private Equity houses has resulted in a strong pipeline of potential deals for the team. In November, after careful research, EIIB undertook its first investment, buying a material stake in DiamondCorp Plc, an AIM, and Johannesburg Stock Exchange, listed diamond producer. We believe that the DiamondCorp acquisition demonstrates EIIB's ability to source and execute alternative equity deals and that the current environment will afford the Bank the opportunity to carefully deploy further capital in this direction as and when further potential deals become available.

## European Islamic Investment Bank plc

As mentioned earlier the UK real estate market has suffered a rapid decline as a result of the credit crunch. The overall drop in property values is almost 30% from their peak in 2007, yields have moved out significantly, and the volume of transactions has decreased with distressed sellers entering the market. Fears that the value of property company assets would be driven down by lack of debt financing were compounded in the final quarter of the year by the impact of the recession on tenant risk and rental income. The Bank made no real estate investments during the year however as an asset class real estate remains interesting and with the increase in yields and decline in the value of sterling it will, at an appropriate moment, present an investment opportunity.

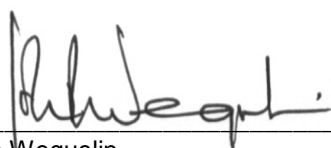
During 2008 we signed a Heads of Terms agreement with Robeco to form a partnership to develop a range of Sharia'a compliant wealth or asset management products. After careful consideration of the opportunities, risks and rewards, especially in the environment at the time and for the foreseeable future, we agreed that formalising the partnership would not be in the best interest of either party, and hence negotiations were terminated.

Our people are a key asset for EIIB. They come from a wide variety of backgrounds and have extensive and varied experience in both Sharia'a and traditional financial services. We are proud of their knowledge and commitment. Our remuneration and promotion structures recognise and encourage long term contribution and success, and align the employees' interests with those of the Bank.

We are delighted that EIIB was awarded the title of European Bank of the Year for 2008 by Islamic Business and Finance, recognising the key role the Bank has played in the development of the Islamic Banking in Europe. The Bank has actively participated in promoting the development and growth of Islamic Finance in the UK, in the discussions around a possible UK Government Sukuk and in promoting London as a centre for Islamic Finance and we remain committed to participating in these activities.

Looking forward 2009 will be another challenging year for all financial institutions, however I am convinced that with EIIB's committed and highly skilled team, its strong capital base, prudent approach to risk management, and focus on maintaining a high level of liquidity means that as a Bank we are well positioned to move quickly to take advantage of opportunities as and when they arise.

Finally, on behalf of management and staff I would like to thank our Board of Directors for their continued support and guidance and express our gratitude to our shareholders for their support and patience during these difficult times.

A handwritten signature in black ink, appearing to read 'John Weguelin', is written over a horizontal line.

John Weguelin  
*Chief Executive Officer*

## DIRECTORS

### NON-EXECUTIVE DIRECTORS

#### **Adnan Yousif\***

Chairman of the Board of EIIB. President and Chief Executive of the Albaraka Banking Group (ABG) and Chairman of the Union of Arab Banks. He was Chief Executive Officer and Board Member of the Bahrain Islamic Bank from 2002 to 2004. He is also Chairman of Albaraka Turk Participation Bank, Banque Al Baraka D'Algerie, Albaraka Bank South Africa, Albaraka Lebanon, Jordan Islamic Bank, Egyptian Saudi Finance Bank and Vice Chairman of Albaraka Islamic Bank. He held various senior positions at Arab Banking Corporation (ABC) over a 20 year period, including: Board Member of the parent company and Member of the Audit Committee; the Executive Chairman of ABC Services & Investment Company and ABC Islamic Bank; Senior Vice President and Head of the Arab World Division; and Head of Global Marketing & Financial Institutions Division. He started his banking career with American Express Bank and his overall international banking experience spans more than 33 years. He was awarded the prestigious Islamic Banker of the Year award for 2004.

#### **Shabir Randeree\***

(2), (3), (4). Deputy Chairman of the Board of EIIB and Chairman of the Remuneration Committee. He is Chairman of DCD London & Mutual, a family investment office and holds a number of other directorships, including that of Deputy Chairman of Albaraka Bank, South Africa. He holds a BA(Hons) in Accounting and Finance and a MBA.

#### **Salman Abbasi\***

(3). Chairman of the Nomination Committee. Joined Investcorp Bahrain as a member of the Management Committee in early 1988 and was General Manager of Investcorp Bahrain from then until 2004 when he retired. He was associated with Chase Manhattan Bank from 1967 serving for 20 years in a variety of positions both at the head office in New York and overseas. In his last position prior to joining Investcorp he was Vice President and Chief Executive responsible for managing all Chase business in Africa and the Middle East. He also served concurrently as a Director on the boards of Saudi Investment Bank and Chase Bank Cameroon. His total banking career exceeds 40 years.

#### **Yusef Abu Khadra\***

(1), (2), (4). Formerly a Member of the Management Committee of Investcorp Bahrain and latterly an Executive Director of Investcorp Securities in London until his retirement in 2005. He has also served with Morgan Stanley in London and New York, and has held a number of positions in financial services based in the Middle East and Switzerland. His banking experience spans nearly 35 years. Currently he is trustee of the American University of Beirut and a director of the Council of British Arab Understanding. He holds a Masters Degree in Finance from Michigan State University.

#### **Zaher Al-Ajjawi**

(1). Director Financial Investments at Premier Group Bahrain. Previously he was Vice President, Real Estate Investment Banking at Morgan Stanley Dubai; Executive Director, Real Estate Unit at Gulf Finance House; and Supervising Senior Auditor at KPMG. Mr. Al-Ajjawi holds a Bachelor of Accounts from Bahrain University and is a CPA.

#### **Mohammed Al Sarhan\***

(3), (4). Senior Independent Director of EIIB. Vice President and Chief Operating Officer of Al Faisaliah Group, Kingdom of Saudi Arabia since 2001. Previously he was Managing Director of Al Safi Danone Co. and Vice President of Samarec. He is Vice Chairman of the National Shipping Company of Saudi Arabia; Board Member of Saudi Arabian Public Transport Company; Board Member of Al Safi Danone Co.; Board Member of Saudi Fresh Dairy Board and President of the Al Safi Club for Friends of the Environment. Mr. Al Sarhan holds a B.Sc (Mathematics) from Oregon State University, USA.

## European Islamic Investment Bank plc

### **Aabed Alzeera\***

(2), (4). Chairman of the Board Executive Committee. He is a prominent Bahraini banker and Board member and Chief Executive Officer of International Investment Bank. He has more than 25 years of international banking experience with major financial institutions in the Kingdom of Bahrain and the United Arab Emirates, including American Express Banking Corporation, Arab Banking Corporation (ABC), Standard Chartered Bank, and First Islamic Investment Bank (now Arcapita). He is a founding shareholder and the key promoter of International Investment Bank, which is an Islamic investment bank established in the Kingdom of Bahrain. He was also instrumental in setting up ABC's Representative Office in Abu Dhabi in 1996, where he served as Vice President and Chief Representative.

### **Subhi Benkhadra\***

(2), (4). Chief Executive Officer of Esterad Investment Company, Bahrain. He was previously Chief Executive Officer and Managing Director of Investment Trust Limited; Deputy Managing Director of Primecorp Investment Management Limited and Head of Arab Capital Markets at United Bank of Kuwait. He holds a B.Sc (Engineering) from the University of Bath, UK and an MBA from City University Business School, UK.

### **George Morton\***

(1), (4). Chairman of the Audit Committee. He has spent over 40 years in government service and international banking, principally in East Asia and the Arabian Gulf, including senior positions with Arab Banking Corporation, National Bank of Bahrain and Gulf International Bank. He holds an MA in East Asian History from the University of Toronto and is also currently a Lay Member of the Governing Council of the University of Bristol.

## **EXECUTIVE DIRECTORS**

### **John Weguelin**

Chief Executive Officer of EIIB. He has over 30 years of experience in the City. Until joining EIIB he spent 20 years with Bank of America where he held various senior roles with the EMEA Capital Markets and Global Capital Markets Groups and was Managing Director of Bank America Securities Ltd in London, and Chief Operating Officer and Chief Administration Officer of Bank of America for Europe, Middle East and Africa.

### **Keith McLeod**

Finance Director of EIIB. He started his career at, and qualified as a chartered accountant with, Price Waterhouse. Before joining EIIB, he was Executive Director, Head of Fund Services and Logistics Reporting at UBS Global Asset Management. He has held senior positions at Schroders, Credit Suisse First Boston, Morgan Stanley and HSBC. He holds a B.Sc (Economics) from the London School of Economics, UK.

(1) Member of the Audit Committee

(2) Member of the Remuneration Committee

(3) Member of the Nomination Committee

(4) Member of the Board Executive Committee

\* Independent Director

# European Islamic Investment Bank plc

## OPERATING AND FINANCIAL REVIEW

### INTRODUCTION

The Directors present the Operating and Financial Review for 2008, having followed the framework set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review as a guide to best practice, the Directors believe they have discharged their responsibilities under Section 417 of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

### EIIB'S OBJECTIVES AND MARKET ENVIRONMENT

EIIB was the first independent Sharia'a compliant Islamic investment bank to be authorised by the Financial Services Authority (FSA). Having received its authorisation on 8 March 2006 the Bank is listed in the UK on the Alternative Investment Market within the London Stock Exchange.

The Bank was established to bridge the gap between the financial markets of the Islamic world and those of western and OECD territories. It delivers a range of innovative products and services across multiple asset classes to the Islamic wholesale, institutional, and high net worth individual markets. EIIB originates investment opportunities in Western Europe and the UK for placement with institutional and high net worth investors primarily, though not exclusively, in the Middle East. The Bank's competitive positioning is significantly enhanced by its base in the pre-eminent global financial centre, London.

The key principles of Islamic banking are derived from the Quran and are based on the avoidance of:

- Interest
- Uncertainty
- Speculation
- Unjust enrichment or unfair exploitation

The Bank's Sharia'a Supervisory Board comprising eminent Islamic scholars is tasked with ensuring that all products are structured to reflect these principles.

### BUSINESS OBJECTIVES

The Directors have organised the operations of the Bank into three business units:

#### TREASURY AND CAPITAL MARKETS

EIIB's Treasury engages in foreign exchange spot and the Islamic equivalent of forward foreign exchange markets and promotes liquidity in the Islamic money markets. The unit manages the short and medium term liquidity profile of the Bank within the guidelines laid down by the Financial Services Authority and the Bank's Asset and Liability Committee. In addition to being involved in Islamic interbank commodity murabaha and wakala money markets, it seeks to build a sustainable base of third party deposits by establishing direct relationships.

The Capital Markets unit's remit covers a range of activities including, but not limited to, term financing, sukuk and structured trade finance. It is involved in all aspects of the product value chain, including origination, structuring, underwriting and distribution. The Bank invests in mandated financing issues and develops and maintains an active secondary market in such issues.

#### PRIVATE EQUITY AND CORPORATE ADVISORY

EIIB's Private Equity and Corporate Advisory Team ('PECA') operates a private equity investment business and provides advisory services to the Bank's clients. PECA sources opportunities to invest in both private and stock exchange listed companies and invests in businesses that meet the criteria set by the Bank's Board Executive Committee. PECA's investment remit is to source transactions primarily from outside of the Gulf Co-operation Council

## European Islamic Investment Bank plc

countries and, whilst that remit is global, PECA focuses on investment opportunities within Europe, the Middle East and Africa.

Investee companies are sought that are revenue producing, recession resistant and have good prospects of generating significant upside within a target period of two to four years.

PECA works closely with EIIB's institutional shareholders and other Middle East based institutions and, typically, PECA invites investor clients of the Bank to invest in its deals, either as co-investors or on a syndicate basis.

PECA is also responsible for monitoring and managing EIIB's private equity investments and handling the timing and process of exit from the investments.

### **REAL ESTATE**

EIIB's Real Estate unit targets bespoke investment and acquisition opportunities for the Bank's clients, as well as managing the existing proprietary real estate investments.

### **BUSINESS STRATEGY AND RESULTS**

2008 was an exceptionally challenging year for all financial institutions. The overriding themes of depressed asset prices and lack of confidence resulted in very low transaction volumes in both the traditional and Islamic capital markets. Despite this EIIB executed, as a mandated lead arranger, a \$70m syndication for a major Saudi conglomerate, which successfully closed in August 2008. Low profit rates in the sukuk, murabaha and wakala markets reflected the low returns being generated in the traditional debt markets around the world.

EIIB's results at the consolidated level reflect a loss of £14.8m after tax. As notified to the market in the preliminary trading statement, the loss reflects two specific items (listed below) and the adverse trading environment.

EIIB makes term financing facilities available to borrowers under a number of Sharia'a compliant structures. Prior to committing any financing, EIIB undertakes rigorous credit and risk assessment of the obligor. The current severe economic downturn has resulted in a significant pressure on the profitability and cashflow of an obligor. Whilst EIIB management is committed to working with the obligor to resolve the situation, the Directors believe that a provision of £3.75m on this exposure is appropriate at this time.

A Private Equity and Corporate Advisory business was launched during the year, with the intention of establishing EIIB as a participant in mid-sized Private Equity deals with GCC investors and European corporates. A rigorous evaluation process is undertaken before committing to an investment. In November EIIB invested in DiamondCorp Plc, a diamond production company listed on AIM and the Johannesburg Stock Exchange. The Directors believe that DiamondCorp represents an ideal opportunity for long term value creation. The current financial turmoil and constrained funding environment provides favorable conditions for EIIB'S Private Equity business model. The Directors anticipate that further advantageous deals will result from the substantial deal pipeline.

The latter part of 2008 saw a significant reduction in volume of investment transactions as a result of the market uncertainty and the continuing effects of the global economic downturn. The institutional commercial property market led by out of town retail and city offices has had a major correction since the onset of the credit crunch, showing a drop in capital growth of (30.8%) and (29.2%) respectively since December 2007. Investors remain hesitant as further drops in capital values are anticipated during 2009. In addition investor financing is difficult to source and although interest rates have decreased significantly over the current year the higher margins, reduced finance to value ratios together with the lack of confidence has led to a hiatus in activity. We believe there will be opportunities to acquire prime assets with secure long-term income at depressed market prices during 2009.

## **PEOPLE**

A significant differentiating factor for our business has been our ability to attract quality staff from the London market. The Directors believe that the Bank has a competitive remuneration structure, which will enable EIIB to retain and attract staff of the highest calibre.

## **OPERATIONAL**

The Bank has built an operational infrastructure that is robust and scaleable. The Directors are confident that the controls around these systems and processes are effective in protecting and safeguarding the Bank's assets. EIIB's Internal Audit department, under the direction of the Board's Audit Committee, is responsible for working with management to identify and quantify risk, provide independent appraisals of systems of internal control, add value to business initiatives and support development of a sound control culture throughout the Bank.

## **RISKS**

EIIB is exposed to market risk in relation to its proprietary investments, counterparty risk from transactions with third parties, particularly money market transactions, liquidity risk from liquidity mismatches and operational risk.

The Bank's measured approach to risk is documented in the risk policy. Under this policy risk is monitored on a daily basis.

## **KEY PERFORMANCE INDICATORS**

The Board are of the view that management should build the business while tracking performance against indicators such as return on equity ('ROE'), staff turnover and efficiency. As business activities further develop, the Bank will benchmark these key performance indicators ('KPI's') against international Islamic banking institutions. The Bank does not consider it meaningful at this point to disclose numerical targets and performance indicators.

## REPORT OF THE DIRECTORS

The Directors of European Islamic Investment Bank plc have pleasure in presenting their annual report, together with the audited financial statements, for the year ended 31 December 2008.

### PRINCIPAL ACTIVITIES

European Islamic Investment Bank plc was incorporated in the United Kingdom on 11 January 2005, and commenced full banking operations in April 2006. The Bank is the first independent Sharia'a compliant Islamic investment bank in the United Kingdom to be regulated by the FSA. The Bank services a market for Sharia'a compliant investment banking services internationally.

### FINANCIAL RESULTS

The financial statements for the reporting year ended 31 December 2008 are shown on pages 20 to 58. The loss for the year after taxation amounts to £14,813,123 (2007: loss £4,476,781).

### DIVIDEND

The Company has no plans to declare a dividend.

### DIRECTORS

The Directors serving at the date of this report are shown on pages 5 and 6, other than those shown below, all served throughout the year.

Zaher Al-Ajjawi who was appointed on 2 July 2008  
 Mohammed Al Sarhan who was appointed on 2 July 2008  
 Subhi Benkhadra who was appointed on 2 July 2008  
 Keith McLeod who was appointed on 2 July 2008

Khalid Al Bassam retired as a director on 17 February 2008; Atif Raza resigned as a director on 22 February 2008; Hatem Abou Said and Mubarak Al Sabah resigned as directors on 8 May 2008; and John Clouting retired as a director on 20 December 2008.

On 20 December 2008, George Morton, who was the senior independent director and is a member of the Audit Committee, was appointed the new chairman of the Audit Committee and Mohammed Al Sarhan was appointed the new Senior Independent Director.

### DIRECTORS' INTERESTS

The Directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of the Bank according to the register of Directors' interests. The table shows the number of shares held and as a percentage of total shares in issue at that time:

Name	Class of share	Interest at end of year		Interest at start of year or date of appointment	
Adnan Yousif	Ordinary 1p	2,000,000	0.11%	2,000,000	0.11%
Abed Alzeera	Ordinary 1p	400,000	0.02%	400,000	0.02%
George Morton	Ordinary 1p	1,000,000	0.05%	1,000,000	0.05%
Shabir Randeree	Ordinary 1p	1,524,783	0.08%	1,524,783	0.08%
John Weguelin	Ordinary 1p	419,836	0.02%	419,836	0.02%
Mohammed Al Sarhan	Ordinary 1p	3,049,567	0.17%	3,049,567	0.17%

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

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Bank were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

## **SHARIA'A SUPERVISORY BOARD MEMBERS**

The Sharia'a Supervisory Board (SSB) members are as follows:

- Dr. Abdul Sattar Abu Ghuddah – Chairman
- Sheikh Nizam Yacouby – Deputy Chairman
- Dr. Abdul Latif M. Al Mahmood

Justice (rtd) Muhammad Taqi Usmani, who was the chairman of the SSB, resigned from the SSB on 31 December 2008. Dr. Abdul Sattar Abu Ghuddah was appointed the new chairman of the SSB with effect from 7 January 2009.

## **ZAKAH**

Zakah is an annual amount to be paid by Muslims to charity out of their savings. The Directors calculate that the zakah contribution payable by shareholders on their share of the Bank's earnings is 0.23p per share or £2.29 per thousand shares held based on the net assets method as detailed in the Accounting, Auditing and Governance Standards 2004-5 of the Accounting and Auditing Organisation for Islamic Financial Institutions.

## **POLITICAL CONTRIBUTIONS AND CHARITABLE DONATIONS**

The Bank made no political contributions or charitable donations during the year.

## **POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The Bank follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers.

The Bank's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Bank to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

## **EVENTS SINCE THE BALANCE SHEET DATE**

The Directors confirm there are no significant events arising since the balance sheet date that should be reported to shareholders.

## **GOING CONCERN**

In approving the financial statements the Directors have reviewed the current and potential future business activities and financial position of the Bank, including an assessment of the capital adequacy and liquidity forecasts. Based upon this they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

## **AUDITORS**

Resolutions concerning the appointment of auditors and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting.

## **DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 5 and 6. Having made enquiries of fellow Directors and of the Bank's auditors, each of the Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of the report of which the Bank's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Bank's auditors are aware of that information.

By order of the Board

A handwritten signature in black ink, appearing to be 'Mohammed Abdul Mohaimin Chowdhury', written over a horizontal line.

Mohammed Abdul Mohaimin Chowdhury  
*Company Secretary*

25 February 2009

Registered Office:  
131 Finsbury Pavement  
London EC2A 1NT

# European Islamic Investment Bank plc

## CORPORATE GOVERNANCE

### COMPLIANCE WITH THE COMBINED CODE

The Board considers that good corporate governance is central to achieving the Bank's objectives and has applied these principles in drawing up the Bank's risk management framework taking into consideration The Combined Code on Corporate Governance June 2006 annexed to the UK Listing Authority rules ("The Combined Code").

### THE BOARD AND ITS COMMITTEES

The Bank is led by a Board comprising non-executive and executive Directors with wide experience of Islamic and conventional banking. The appointment of Directors is considered by the nominations committee and then the Board. Following the provisions in the Articles of Association, all Non-Executive Directors must stand for re-election by the shareholders at the first Annual General Meeting following their appointment and following that meeting must stand for re-election by the shareholders, at least every three years. Executive Directors normally retire at age 65, as required by their service agreements. Non-executive Directors are appointed for three-year renewable terms, which may be terminated by giving three months notice.

The Board is required to meet at least four times a year, in 2008 there were five Board meetings. The Board has a programme designed to enable the Directors to review corporate strategy and the operations and results of the business and to discharge their duties within a framework of prudent and effective controls relating to the assessment and management of risk.

The matters specifically referred to the Board for decision include the approval of the annual report and financial statements; the payment of dividends; the long-term objectives of the Bank; the strategies necessary to achieve these objectives; the Bank's budgets and plans; significant credit exposures; significant capital expenditure items; significant investments and disposals; the organisational structure of the Bank; the arrangements for ensuring that the Bank manages risk effectively; any significant change in accounting policies or practices; the appointment of the Bank's main professional advisers; and the appointment of senior executives within the organisation.

The Board has delegated to the Committees of the Bank the power to make decisions on operational matters, including those relating to credit, liquidity, operational and market risk, within an agreed framework.

All Directors have access to the services of the Company Secretary, and independent professional advice is available to the Directors at the Bank's expense, where they judge it necessary to discharge their duties as Directors.

The Board reviews and approves its composition and charter in order to set the risk management framework of the Bank at least annually. To assist the Board in executing its risk management function, it reviews and approves the composition and charters of the following Board sub-committees:

### AUDIT COMMITTEE

The Audit Committee comprises George Morton (chairman), Yusef Abu Khadra and Zaher Al-Ajjawi. In discharging its duties, the committee is required to review the auditors' remuneration and, in discussion with them, to assess their independence and recommend their re-appointment at the Annual General Meeting. The committee also reviews the financial statements published in the name of the Board and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures; the scope of work of the internal auditor, reports from the internal auditor and the adequacy of their resources; the effectiveness of the systems for internal control, risk management and compliance with financial services legislation and regulations; procedures by which staff may raise concerns in confidence; the results of the external audit and reports from the external auditor and their findings on accounting and internal control systems. The chairman of the committee has held a meeting with the auditors, without executives present, and a meeting with the internal auditor alone.

## **NOMINATION COMMITTEE**

The Nomination Committee, which comprises Salman Abbasi (chairman), Shabir Randeree and Mohammed Al Sarhan, reviews the composition of the Board, taking into account the skills, knowledge and experience of Directors and considers and makes recommendations to the Board on potential candidates for appointment as Directors. The committee also makes recommendations to the Board concerning the re-appointment of any independent non-executive Director by the Board at the conclusion of his or her specified term; the re-election of any Director by the shareholders under the retirement provisions of the Articles of Association; any matters relating to the continuation in office of a Director; and the appointment of any Director to executive or other office, other than the positions of Chairman and Chief Executive Officer, the recommendation for which would be considered at a meeting of the non-executive Directors regarding the position of Chief Executive Officer, and all the Directors regarding the position of Chairman. Neither an external search consultancy nor open advertising were used in the appointment of the non-executive director appointed during the year as all non-executive directors appointed during the year were requisitioned by shareholders at the Annual General Meeting.

The Nomination Committee evaluates, normally at least annually, the performance of the Board, its committees and individual Directors and makes appropriate recommendations to the Board. This is conducted through a self-assessment process that requires each Director to assess and rate the performance of the Board and its committees. The results of the exercise are considered by the Board and appropriate steps agreed and implemented to remedy any areas of deficiency or concern. Given the recent changes to the Board, the evaluation scheduled for 2008 has been postponed to 2009 to allow the new members of the Board to give effective feedback.

## **REMUNERATION COMMITTEE**

The Remuneration Committee, which comprises Shabir Randeree (chairman), Yusef Abu Khadra, Abed Alzeera and Subhi Benkhadra, reviews the remuneration policy for senior management, to ensure that members of the executive are provided with appropriate incentives to encourage them to enhance the performance of the Bank and that they are rewarded for their individual contribution to the success of the organisation. It is also made aware of, and advises on, major changes to employee benefits schemes and agrees the policy for authorising claims for expenses from the Chief Executive Officer and the Chairman. All the non-executive Directors are invited to attend meetings if they wish, and they receive the minutes and have the opportunity to comment and have their views taken into account before the committee's decisions are implemented.

## **BOARD EXECUTIVE COMMITTEE**

The Board Executive Committee ("BEC") comprises Abed Alzeera (chairman), George Morton, Shabir Randeree, Yusef Abu Khadra, Subhi Benkhadra and Mohammed Al Sarhan. The BEC assists the Board in fulfilling its investment risk management responsibilities; these responsibilities include determining the Bank's risk profile and ensuring that management remains within the Board's predetermined risk appetite. Meetings are held at least quarterly and include the Chief Executive Officer and Head of Risk Management by standing invitation. The terms of reference include reviewing capital adequacy, liquidity, credit risk, market risk, operational risk and anti-money laundering assessments and approvals under the Board's delegated authority.

## **EXECUTIVE MANAGEMENT COMMITTEE**

The Bank has an Executive Management Committee to assist the Chief Executive Officer in performing his duties. The Executive Management Committee membership comprises the Chief Executive Officer, Finance Director, the Head of Risk Management, the Managing Director of Treasury and Capital Markets, the Managing Director of Private Equity and Corporate Advisory, the Head of the Bahrain Representative Office, the Head of Human Resources and the Head of Legal and Sharia'a. Specifically, the committee considers the development and implementation of strategy, operational plans, policies and budgets; the monitoring of operating and financial performance; the assessment and control of risk; the prioritisation and allocation of resources; and the monitoring of competitive forces in each area of operation. The committee, assisted by its sub-committees: the risk management, IT, human resources and asset and liability committees, also supports the Chief Executive Officer in ensuring the development, implementation and effectiveness of the Bank's risk management framework and the clear articulation of the Bank's risk policies, and in

reviewing the Bank's aggregate risk exposures and concentrations of risk. The committee may have specific powers delegated to it by the Board from time to time and, following the exercise of these powers, it reports to the Board.

## MEETINGS AND ATTENDANCE

	Main Board	Audit Committee	Remuneration Committee	Nomination Committee	Board Executive Committee
<b>No. of meetings in year</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>9</b>
Adnan Yousif	4				
Shabir Randeree	5		5	1	8
Salman Abbasi	4			1	
Yusef Abu Khadra	4	4	5		8
Zaher Al-Ajjawi (appointed 2 Jul 2008)	2	1			
Mohammed Al Sarhan (appointed 2 Jul 2008)	2				3
Abed Alzeera	5		5		9
Subhi Benkhadra (appointed 2 Jul 2008)	1		2		4
George Morton	4	4			8
John Weguelin	5				
Keith McLeod (appointed 2 July 2008)	2				

## SHAREHOLDERS

Under The Combined Code the Board appoints one of the independent non-executive Directors to be the Senior Independent Director. The Senior Independent Director, Mohammed Al Sarhan, is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Finance Director has failed to resolve or for which such contact is inappropriate. The Board ensures the Directors develop an understanding of the views of major shareholders by encouraging them to meet major shareholders and attend shareholder meetings; making them aware of views and feedback received from shareholders; and providing them with analysts' and brokers' briefings on the Bank.

# European Islamic Investment Bank plc

## REPORT OF THE SHARIA'A SUPERVISORY BOARD

**In the name of Allah, The Beneficent, The Merciful**

To the Shareholders of European Islamic Investment Bank plc ("EIIB")

For the period 1 January 2008 to 31 December 2008 (the "Period")

*Assalamu Alaikum Wa Rahmat Allah Wa Barakatuh*

In compliance with our letters of appointment with EIIB, we are required to submit this report. Through our Sharia'a Audit Committee, we have reviewed the principles and the contracts relating to the transactions conducted by EIIB during the Period. We have conducted our review to form an opinion as to whether EIIB has complied with Sharia'a rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

EIIB's management is responsible for ensuring that EIIB conducts its business in accordance with Sharia'a rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of EIIB, and to report to you.

We conducted our review which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by EIIB for the transaction. We suggested some minor amendments in the procedures for the future to make the record more accurate, they did not affect the validity of the transactions from a Sharia'a point of view. Based on this we are of the opinion that the contracts, transactions and dealings entered into by EIIB during the Period that were reviewed are in compliance with Sharia'a rules and principles.

We beg Allah the Almighty to grant us all success and straight-forwardness.

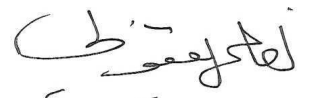
*Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh*

7 January 2009

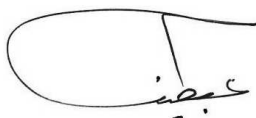
Signed by the Sharia'a Supervisory Board of European Islamic Investment Bank plc

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Dr. Abdul Sattar Abu Ghuddah  
(Chairman)

A handwritten signature in black ink, featuring a large, stylized initial 'N' followed by several loops and a vertical stroke at the end.

Sh. Nizam Yacoub  
(Deputy Chairman)

A handwritten signature in black ink, consisting of a large, sweeping horizontal stroke followed by several loops and a vertical stroke at the end.

Dr. Abdul Latif Al Mahmood  
(Member)

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Bank and the financial performance and cash flows of the Bank for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- state that the Bank has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROPEAN ISLAMIC INVESTMENT BANK PLC**

We have audited the group and bank financial statements (the "financial statements") of European Islamic Investment Bank plc (the "Bank") for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Bank Balance Sheets, the Group and Bank Statements of Changes in Equity, the Group and Bank Cash Flow Statements and the related notes 1 to 33. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the Group and Bank financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Statement, the Operating and Financial Review, the Report of the Directors, and the Corporate Governance Statement. We consider the implications of our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## European Islamic Investment Bank plc

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROPEAN ISLAMIC INVESTMENT BANK PLC

#### Opinion

In our opinion:

- the Group's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Bank's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the Bank's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered auditor  
1 More London Place  
London SE1 2AF

25 February 2009

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	2007 £
<b>Income</b>			
Income from financing and investing activities	4	12,785,855	13,728,894
Returns to financial institutions and customers	5	(2,517,987)	(2,784,333)
Returns related to the property portfolio	31	(2,555,972)	(1,859,148)
<b>Net margin</b>		<b>7,711,896</b>	<b>9,085,413</b>
Foreign exchange gains	6	805,985	219,684
Trading income	7	242,970	335,057
Fees and commissions		787,143	1,114,405
Rental income	31	3,693,527	2,257,494
<b>Total operating income</b>		<b>13,241,521</b>	<b>13,012,053</b>
<b>Expenses</b>			
Provision for impairment of the property portfolio	31	(14,705,914)	(5,080,755)
Provision for impairment of financing arrangements	14	(3,750,000)	-
Staff costs	8	(5,016,059)	(4,764,764)
Depreciation and amortisation	18,19,31	(722,460)	(392,218)
Other operating expenses	9	(2,345,672)	(2,635,274)
Operating expenses of the property portfolio	31	(423,006)	(2,621,528)
<b>Total operating expenses</b>		<b>(26,963,111)</b>	<b>(15,494,539)</b>
<b>Operating loss before tax</b>		<b>(13,721,590)</b>	<b>(2,482,486)</b>
Tax	11	(1,091,533)	(1,994,295)
<b>Loss for the year</b>		<b>(14,813,123)</b>	<b>(4,476,781)</b>
Attributable to equity holders of the Bank		(14,813,123)	(4,476,781)
Earnings per share			
- basic and diluted	12	(0.81p)	(0.25p)

The notes on pages 26 to 58 form an integral part of the financial statements.

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

	Notes	2008 £	2007 £
<b>Assets</b>			
Cash and balances with banks		972,540	644,846
Collateral deposits		-	235,732
Due from financial institutions	13	123,728,897	177,134,119
Financing arrangements	14	49,027,175	45,671,934
Available for sale securities	15	56,559,347	34,320,051
Financial assets designated at fair value	16	4,884,963	-
Fair value of foreign exchange agreements	17	20,012	-
Property portfolio	31	38,699,245	53,699,245
Plant and equipment	18	293,107	409,325
Intangible assets	19	683,261	915,997
Other assets	20	1,975,217	3,719,682
Current tax asset	11	815,076	-
Deferred tax asset	11	-	97,391
<b>Total assets</b>		<b>277,658,840</b>	<b>316,848,322</b>
<b>Liabilities</b>			
Due to financial institutions	21	107,084,431	126,680,992
Due to customers	22	2,728,522	2,771,980
Fair value of foreign exchange agreements	17	1,924,178	734,064
Other liabilities	23	2,504,209	4,592,100
Current tax liability	11	-	1,149,779
Deferred tax liability	11	60,212	-
<b>Total liabilities</b>		<b>114,301,552</b>	<b>135,928,915</b>
<b>Shareholders' equity</b>			
Share capital	28	18,255,625	18,255,625
Share premium account	28	164,229,939	164,229,939
Fair value reserve		(3,228,686)	(446,997)
Retained earnings		(15,899,590)	(1,119,160)
<b>Total equity attributable to the Bank's equity holders</b>		<b>163,357,288</b>	<b>180,919,407</b>
<b>Total equity and liabilities</b>		<b>277,658,840</b>	<b>316,848,322</b>

  
 John Weguelin  
 Chief Executive Officer

  
 Keith McLeod  
 Finance Director

The notes on pages 26 to 58 form an integral part of the financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED  
31 DECEMBER 2008**

	Share capital £	Share premium account £	Fair value reserve £	Retained earnings £	Total £
Balance at 1 January 2007	18,255,625	164,229,939	(12,541)	3,230,954	185,703,977
Share award	-	-	-	126,667	126,667
	<b>18,255,625</b>	<b>164,229,939</b>	<b>(12,541)</b>	<b>3,357,621</b>	<b>185,830,644</b>
Net unrealised loss on available for sale securities			(434,456)	-	(434,456)
Loss for the year			-	(4,476,781)	(4,476,781)
			<b>(434,456)</b>	<b>(4,476,781)</b>	<b>(4,911,237)</b>
<b>Balance at 31 December 2007</b>	<b>18,255,625</b>	<b>164,229,939</b>	<b>(446,997)</b>	<b>(1,119,160)</b>	<b>180,919,407</b>
Balance at 1 January 2008	18,255,625	164,229,939	(446,997)	(1,119,160)	180,919,407
Share award	-	-	-	32,693	32,693
	<b>18,255,625</b>	<b>164,229,939</b>	<b>(446,997)</b>	<b>(1,086,467)</b>	<b>180,952,100</b>
Net unrealised loss on available for sale securities			(2,781,689)	-	(2,781,689)
Loss for the year			-	(14,813,123)	(14,813,123)
			<b>(2,781,689)</b>	<b>(14,813,123)</b>	<b>(17,594,812)</b>
<b>Balance at 31 December 2008</b>	<b>18,255,625</b>	<b>164,229,939</b>	<b>(3,228,686)</b>	<b>(15,899,590)</b>	<b>163,357,288</b>

The above consolidated statement of changes in equity also represents the statement of changes in equity for the Company.

The notes on pages 26 to 58 form an integral part of the financial statements.

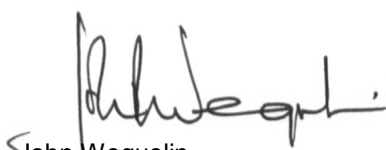
**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	2008 £	2007 £
<b>Cash flows from operating activities</b>			
Operating loss before tax		(13,721,590)	(2,482,486)
Adjusted for:			
Provision for impairment of the property portfolio	31	14,705,914	5,080,755
Provision for impairment of financing arrangements	14	3,750,000	-
Fair value of foreign exchange agreements		1,170,102	3,170,797
Depreciation and amortisation	18,19,31	722,460	392,218
Charges for share awards	8	32,693	126,667
Net (increase)/decrease in operating assets:			
Collateral deposits		235,732	-
Due from financial institutions		53,405,223	(12,237,172)
Financing arrangements		(7,105,241)	(15,089,922)
Available for sale securities		(26,129,769)	(1,497,580)
Financial assets designated at fair value		(4,884,963)	-
Property portfolio	31	-	(58,780,000)
Other assets		1,745,276	(1,283,691)
Net increase/(decrease) in operating liabilities:			
Due to financial institutions		(19,596,561)	79,175,218
Due to customers		(43,458)	1,876,342
Other liabilities		(2,087,890)	3,057,584
Taxation:			
Corporation tax paid		(1,790,000)	(1,387,143)
<b>Net cash inflow from operating activities</b>		<b>407,928</b>	<b>121,587</b>
<b>Cash flow from investing activities</b>			
Purchase of plant and equipment	18	(28,478)	(185,748)
Purchase of intangible assets	19	(51,756)	(102,409)
<b>Net cash outflow from investing activities</b>		<b>(80,234)</b>	<b>(288,157)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>327,694</b>	<b>(166,570)</b>
Cash and cash equivalents at the beginning of the year		644,846	811,416
<b>Cash and cash equivalents at the end of the year</b>		<b>972,540</b>	<b>644,846</b>

The notes on pages 26 to 58 form an integral part of the financial statements.

## COMPANY BALANCE SHEET AT 31 DECEMBER 2008

	Notes	2008 £	2007 £
<b>Assets</b>			
Cash and balances with banks		652,867	561,279
Collateral deposits		-	235,732
Due from financial institutions	13	123,728,897	190,703,335
Financing arrangements	14	49,027,175	45,671,934
Available for sale securities	15	56,559,347	34,320,051
Financial assets designated at fair value	16	4,884,963	-
Fair value of foreign exchange agreements	17	20,012	-
Plant and equipment	18	293,107	409,325
Intangible assets	19	683,261	915,997
Other assets	20	1,515,020	2,399,057
Current tax asset	11	815,076	-
Deferred tax asset	11	-	97,391
<b>Total assets</b>		<b>238,179,725</b>	<b>275,314,101</b>
<b>Liabilities</b>			
Due to financial institutions	21	68,034,431	87,630,992
Due to customers	22	2,728,522	2,771,980
Fair value of foreign exchange agreements	17	1,924,178	734,064
Other liabilities	23	2,075,094	2,107,879
Current tax liability	11	-	1,149,779
Deferred tax liability	11	60,212	-
<b>Total liabilities</b>		<b>74,822,437</b>	<b>94,394,694</b>
<b>Shareholders' equity</b>			
Share capital	28	18,255,625	18,255,625
Share premium account	28	164,229,939	164,229,939
Fair value reserve		(3,228,686)	(446,997)
Retained earnings		(15,899,590)	(1,119,160)
<b>Total equity attributable to the Bank's equity holders</b>		<b>163,357,288</b>	<b>180,919,407</b>
<b>Total equity and liabilities</b>		<b>238,179,725</b>	<b>275,314,101</b>



John Weguelin  
Chief Executive Officer



Keith McLeod  
Finance Director

The notes on pages 26 to 58 form an integral part of the financial statements.

COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	2007 £
<b>Cash flows from operating activities</b>			
Operating loss before tax		(13,721,590)	(2,482,486)
Adjusted for:			
Provision for impairment of the property portfolio	31	14,285,451	5,080,755
Provision for impairment of financing arrangements	14	3,750,000	-
Fair value of foreign exchange agreements		1,170,102	3,170,797
Depreciation and amortisation	18,19	428,374	392,218
Charges for share awards	8	32,693	126,667
Net (increase)/decrease in operating assets:			
Collateral deposits		235,732	-
Due from financial institutions		53,405,223	(30,887,143)
Financing arrangements		(7,105,241)	(15,089,922)
Available for sale securities		(26,129,769)	(1,497,580)
Financial assets designated at fair value		(4,884,963)	
Other assets		692,646	36,934
Net increase/(decrease) in operating liabilities:			
Due to financial institutions		(19,596,561)	40,125,218
Due to customers		(43,458)	1,876,342
Other liabilities		(556,817)	573,363
Taxation:			
Corporation tax paid		(1,790,000)	(1,387,143)
<b>Net cash inflow from operating activities</b>		<b>171,822</b>	<b>38,020</b>
<b>Cash flow from investing activities</b>			
Purchase of plant and equipment	18	(28,478)	(185,748)
Purchase of intangible assets	19	(51,756)	(102,409)
<b>Net cash outflow from investing activities</b>		<b>(80,234)</b>	<b>(288,157)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>91,588</b>	<b>(250,137)</b>
Cash and cash equivalents at the beginning of the year		561,279	811,416
<b>Cash and cash equivalents at the end of the year</b>		<b>652,867</b>	<b>561,279</b>

The notes on pages 26 to 58 form an integral part of the financial statements.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 1 Principal activities, definitions and authorisation of the financial statements

European Islamic Investment Bank plc was incorporated as the first independent, UK based Islamic investment bank managed on a wholly Sharia'a compliant basis. The activities of the Bank are focused on servicing clients in Europe, the Middle East and Asia through the provision of a range of services encompassing trading and investing in Islamic securities, treasury services and structured products (Treasury and Capital Market activities), Private Equity and Corporate Advisory and Real Estate.

The Bank is a company incorporated in the UK which was established on 11 January 2005 and received authorisation from the FSA on 8 March 2006 to carry on activities as an investment bank.

The following terms are used in the financial statements:

**Murabaha** (notes 13, 14 & 21) is a sale of goods at a cost plus an agreed profit mark up under which a party (the seller) purchases goods at cost price from a supplier and sells the goods to another (the buyer) at a cost plus an agreed mark up. Commodity murabaha, whereby commodities are bought and sold are a common form of Islamic financing transaction.

**Sukuk** (note 15) are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activities. Sukuk are usually tradable and yield periodic profit distributions.

**Wakala** (notes 13, 21 & 22) means agency and can be used in an arrangement whereby one party (the principal) places funds with another (the agent) for investment by the agent on the principal's behalf in return for an agreed fee or commission.

The financial statements of European Islamic Investment Bank plc for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 25 February 2009.

### 2 Accounting policies

#### 2.1 Basis of preparation

The financial statements have been prepared under the historical cost accounting convention, except for financial assets and liabilities stated at their fair value comprising: available for sale securities, financial assets designated at fair value and the fair value of foreign exchange agreements.

#### 2.2 Compliance with International Financial Reporting Standards

The consolidated financial statements and the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

#### 2.3 Accounting policy and disclosures

During 2008 management has decided that the investment property portfolio will be held for long term revenue generation and capital appreciation. Accordingly, the carrying value and profits/losses are now recorded under International Accounting Standards ("IAS") 40 *Investment Property* rather than IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*. Prior year comparatives have not been restated as this was the result of a change of strategy rather than a change of accounting policy.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

Except as noted above, the accounting policies adopted are consistent with those of the previous financial year.

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date in 2008 but are not applicable to the Bank and did not have any effect on the financial performance or position of the Bank:

- IFRIC 12 *Service Concession Agreements* (effective 1 January 2008)
- IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective 1 January 2008)

### 2.4 Standards and interpretations issued but not yet effective

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

- IAS 1 *Revised Presentation of Financial Statements* (effective 1 January 2009)
- IAS 23 *Revised Borrowing Costs* (effective 1 January 2009)
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective 1 January 2009)
- IAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* (effective 1 July 2009)
- IFRS 1 (Amendments) *First-time Adoption of International Financial Reporting Standards* and IAS 27 (Amendments) *Consolidated and Separate Financial Statements* (effective 1 January 2009)
- IFRS 2 (Amendments) *Share-Based Payment* (effective 1 January 2009)
- IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements* (effective 1 July 2009)
- IFRS 8 *Operating Segments* (effective 1 January 2009)
- IFRIC 13 *Customer Loyalty Programmes* (effective 1 July 2008)
- IFRIC 15 *Agreement for the Construction of Real Estate* (effective 1 January 2009)
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective 1 October 2008)
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (effective 1 July 2009)

The Bank anticipates that the accounting pronouncements which have not been early adopted will have no material effect on the financial statements.

### 2.5 Basis of consolidation

#### **Subsidiaries**

The consolidated financial statements of the Bank comprise the financial statements of the European Islamic Investment Bank plc and the entities the Bank controls. Control exists where the Bank has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Controlled entities are consolidated from the date on which control is transferred to the Bank and they are deconsolidated from the date the control ceases. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full upon consolidation.

#### **Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 *Investment in Associates*, which requires investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. The Group has no interests in associates through which it carries on its business.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 2.6 Income statement of the parent company

As permitted by section 230 of the Companies Act 1985 the income statement of the parent company is not presented as part of the financial statements. The parent company's loss after tax for the year ended 31 December 2008 was £14,813,123 (2007: loss £4,476,781).

### 2.7 Significant accounting judgements and estimates

In applying accounting policies, management has to exercise its judgement and make estimates in determining the amounts recognised in the financial statements. However, the nature of estimation means that actual outcomes could differ from those estimates. The most significant are set out below.

#### Fair value of financial instruments

All financial instruments are recognised initially at fair value. The fair value of financial instruments is usually the transaction price, that is, the actual consideration paid or received. Following initial recognition fair value is based on quoted prices for instruments traded in active markets. Where the fair value of financial instruments cannot be taken or derived from active markets, valuations will normally be based on one or more of the following:

- Current fair values of other instruments that are substantially the same
- Expected cash flows discounted at rates applicable for similar items
- Recent third party market transactions
- Other valuation models

The Directors consider the fair value of the financial assets and liabilities held at amortised cost to be materially equal to the carrying value of those assets and liabilities in the balance sheet as at 31 December 2008.

#### Provisions for impairment of financial assets

At each reporting date the Bank reviews the carrying values of its financial assets; a financial asset is considered to be impaired if there is objective evidence of events since initial recognition of the asset that will adversely affect the amount or timing of future cash flows from the asset. The amount of the impairment loss will be the difference between the carrying value of the financial asset and the present value of the estimated future cash flows. The amount of the impairment loss will be recognised in the income statement and the carrying value of the financial asset is reduced through the use of impairment allowance accounts. Where subsequent events indicate that the impairment loss allowance is not required, or not required in full, the loss allowance made will be reversed.

#### Provisions for impairment of property values

The Group assesses periodically whether there is any indication that the Investment properties are impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset and the resulting impairment loss. The recoverable amount of an asset is the higher of its fair value less cost to sell, and its value in use. Value in use is the present value of future cash flows from the assets discounted at a rate that reflects market returns adjusted for risks specific to the assets. If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately in income statement.

#### Impairment of non-financial assets

At each reporting date the Bank reviews the carrying values of its non-financial assets, specifically *Plant and equipment* and *Intangible assets*, to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount for *Plant and equipment* and *Intangible assets* is based on the continuing use of the assets in the business.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 2.8 Summary of significant accounting policies

#### 2.8.1 Foreign currency

The financial statements are presented in Sterling, which is the Bank's functional and presentation currency; transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated into Sterling at the effective historical rate used on the date of initial recognition. All differences are taken to the *Foreign exchange gains* in the income statement.

#### 2.8.2 Revenue recognition

##### (a) Murabaha and wakala income and expense

Murabaha and wakala are Islamic financing transactions. Murabaha is a contract for sale or purchase of goods where there is an agreed mark-up and deferred settlement. Wakala derives income and expense in the form of agency fee or commission. Income and expense for these arrangements are recognised on a time-apportioned basis over the periods of the contracts. The calculation of income and expense include any fees and incremental costs that are directly attributable to the financial instrument and are an integral part of the purchase or sale.

##### (b) Trading income

Trading income consists of realised profits and losses on *Available for sale securities*.

##### (c) Fees and commission income

Fees and commissions which are not recognised on an effective yield basis over the life of the financial instrument to which they relate, such as fees for negotiating transactions for third parties and underwriting fees and commission, are recognised in revenue when it is probable that the economic benefit will flow to the Bank. This will normally be from the point at which the act to which the fees and commissions relate has been completed.

##### (d) Rental income

Rental income arising from operating leases on properties held within the property portfolio is recognised on a straight-line basis over the life of the lease.

#### 2.8.3 Cash and cash equivalents

The captions *Cash and cash equivalents* and *Cash and balances with banks* represent cash and current account balances with banks and clearing exchanges, all held in interest-free accounts.

#### 2.8.4 Financial instruments

##### (a) Recognition of financial instruments

Financial instruments are recognised in the balance sheet on the trade date, that is, the date on which the Bank commits to buy or sell the financial instrument. All financial instruments are recognised initially at fair value. In the case of financial instruments not recognised at fair value through the income statement, that value will include direct costs of acquisition or issue. For financial instruments carried at fair value through the income statement, transaction costs are expensed immediately.

##### (b) Foreign exchange commitments

The valuation of forward foreign exchange commitments held at fair value through the income statement is recognised in the balance sheet under *Fair value of foreign exchange agreements* on either the asset or liability side of the balance sheet dependent on whether the valuation is positive or negative respectively. Revaluation gains and losses are included in the income statement under *Foreign exchange gains and losses*.

##### (c) Due from financial institutions, Financing arrangements, Due to financial institutions and Due to customers

Financial assets included within *Due from financial institutions* and *Financing arrangements*, as well as financial liabilities included within *Due to financial institutions* and *Due to customers* comprise non-derivative financial assets

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

with fixed or determinable repayments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designed as 'available for sale securities' or 'financial assets designated at fair value'. Financial assets included under these captions are initially recognised at fair value plus any directly related transaction costs. They are subsequently measured at amortised cost less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the effective rate of return. The amortisation is included in *Income from financing and investing activities* and *Returns to financial institutions and customers* in the income statement.

At each reporting date the Bank reviews the carrying values of its financial assets; a financial asset is considered to be impaired if there is objective evidence of events since initial recognition of the asset that will adversely affect the amount or timing of future cash flows from the asset. The amount of the impairment loss will be the difference between the carrying value of the financial asset and the present value of the estimated future cash flows. The amount of the impairment loss will be recognised in the income statement, and the carrying value of the financial asset will be written down and the impairment loss allowance will be recognised in a reserve for that purpose. Where subsequent events indicate that the impairment loss allowance is not required, or not required in full, the loss allowance made will be reversed.

### (d) Available for sale securities

During 2008 the Bank did not have a trading book, the intent to hold the securities and the illiquid nature of the sukuk market make the designation as available for sale ("AFS") the most appropriate. The Bank disposes of positions from time to time to rebalance the portfolio, to reduce exposures to concentration risk, or where it believes market conditions merit such a sale.

AFS securities are recognised at cost at the point of acquisition. Cost being the fair value of the investment including any acquisition charges. AFS securities are then carried in the balance sheet at fair value. Income accruals on AFS securities are recognised in the income statement. Changes in the fair value are recognised directly in equity in the *Fair value reserve* in the accounting period in which they arise. Where the value of a security is considered to be impaired, the losses are recognised in the income statement; otherwise, the gains and losses previously recognised in equity are recognised through the income statement when the investment matures or is sold; these are included under *Trading income*. Fair value gains and losses are recognised in equity net of any tax effect.

### (e) Financial assets designated at fair value

Private equity investments are managed and evaluated on a fair value basis in accordance with an agreed investment strategy and reported to key personnel on that basis are classified under this category. These assets are recognised initially at fair value and subsequent gains and losses arising from changes in the fair value are recognised directly in the income statement.

Financial assets classified in this category are designated by management on initial recognition given that the financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

## 2.8.5 Investments in controlled entities

The Bank's investments in controlled entities are valued at cost or valuation less any provision for impairment. Such investments are reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred.

## 2.8.6 Property portfolio

Following the initial intention to sell the portfolio in the shorter term in 2007, the properties were accounted under IFRS 5 and carried at fair value less cost to sell, at 31 December 2007. However with the subsequent change of intention to hold the properties in the longer term the accounting basis was shifted to IAS 40. Under IAS 40, the investment properties are reported at original cost (including transaction costs and taxes) less depreciation and at each reporting date the Group assesses whether there is any indication that the Investment properties are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss if any. The

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

recoverable amount of an asset is the higher of its fair value less cost to sell, and its value in use. Value in use is the present value of future cash flows from the assets discounted at a rate that reflects market returns adjusted for risks specific to the assets. If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately in income statement and the carrying value of the asset reduced by the amount of the loss.

### 2.8.7 Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment losses if any. Depreciation is provided on a straight line basis over estimated useful life as follows:

Leasehold improvements	5 years
Fixtures, fittings and office equipment	5 years
Computer hardware	3 years

### 2.8.8 Intangible assets

Intangible assets consist of computer licences and software development costs including capitalised staff costs. Intangible assets are stated at cost less accumulated amortisation and impairment losses if any. Amortisation is provided on a straight line basis over current estimated useful life of five years.

### 2.8.9 Operating leases

Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease. The charge in respect of the premises is after taking into account the rent free period.

### 2.8.10 Pension cost

The Bank operates a defined contribution pension scheme for all staff. The cost of the scheme is equal to the contributions payable to the scheme for the accounting period and is recognised within *Staff costs* in the income statement. The Bank has no further obligation once the contributions have been paid.

### 2.8.11 Share-based payments

EIIB engages in equity settled share based transactions in respect of services received from certain of its employees. The fair value of the services received is measured by reference to the fair value of the shares or the share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that the services are received, which is the vesting period. EIIB operates three share based schemes.

#### (a) Directors and SSB members share based payment scheme

The Bank made a share-based award to non-executive Directors and Sharia'a supervisory board (SSB) members whereby shares were granted in lieu of annual fees. The fair value of the shares allotted is expensed on a straight-line basis over the period of the services received.

#### (b) Employee share incentive plan (ESIP)

ESIP is designed to reward the employees for their current performance and is generally included as a part of the annual incentive payment. The reward may include a matching share element with a vesting period of more than one accounting period, subject to the employee's continuing employment with EIIB. These shares are valued at the date of the grant and amortised over the vesting period.

#### (c) Employee share option plan (ESOP)

The value of options granted under this scheme are determined using option pricing models, which takes into account the exercise price of the option, the current share price, the risk free rate of return, the expected volatility of the share price over the life of the option and other relevant factors.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 2.8.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

#### (a) Current tax

Current tax is provided on taxable profits at the current rate.

#### (b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

### 2.8.13 Segmental reporting

A business segment is a separately distinguishable component of the Bank's activities and is the primary segmental measure used by the Bank, and follows the way in which the business is managed. The secondary segmental breakdown is geographic, based on the location of the Bank's counterparties.

## 2.9 Comparatives

Certain amounts in the 2007 risk disclosures have been restated and reclassified to conform to the current presentation. Such restatement and reclassification did not affect the financial position at 31 December 2007 or cash flow statement nor did it impact the previously reported loss or retained earnings.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 3 Segmental information

The Bank manages its activities primarily by class of business and the risks and returns are affected predominantly by differences in the products and services provided. As set out in the *Operating and Financial Review*, during the course of 2008, management refocused EIIB's business to concentrate on three key areas: Treasury and Capital Markets, Real Estate and Private Equity and Corporate Advisory.

#### Primary reporting segment – Operating businesses

2008	Treasury and Capital Markets £	Real Estate £	Private Equity and Corporate Advisory £	Total £
Revenue from external customers	14,621,953	3,693,527		<b>18,315,480</b>
Returns to external customers	(2,517,987)	(2,555,972)	-	<b>(5,073,959)</b>
Operating income	<u>12,103,966</u>	<u>1,137,555</u>	<u>-</u>	<u><b>13,241,521</b></u>
Profit/(loss) before tax	<u>2,926,301</u>	<u>(15,704,317)</u>	<u>(943,574)</u>	<u><b>(13,721,590)</b></u>
Impairment of assets	(3,750,000)	(14,705,914)	-	<b>(18,455,914)</b>
Depreciation and amortisation	<u>(376,791)</u>	<u>(327,478)</u>	<u>(18,191)</u>	<u><b>(722,460)</b></u>
Segment assets	<u>232,940,220</u>	<u>39,551,255</u>	<u>5,167,365</u>	<u><b>277,658,840</b></u>
Segment liabilities	<u>74,822,437</u>	<u>39,479,115</u>	<u>-</u>	<u><b>114,301,552</b></u>
Capital expenditure				
Plant and equipment	18,061	6,779	3,638	<b>28,478</b>
Intangible assets	46,910	3,205	1,641	<b>51,756</b>

The Treasury and Capital Markets unit became fully active in April 2006 following FSA authorisation. The majority of the cost base, and the assets and liabilities of the Bank have been deployed in support of that business unit. Asset management business transactions held at the end of 2007 were transferred to the Real Estate division after its inception in 2008. Private Equity and Corporate Advisory was launched during 2008 when EIIB recruited the Private Equity team who did their first deal in November 2008.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 3 Segmental information

2007	Treasury and Capital Markets £	Asset Management (Real Estate) £	Corporate Finance & Advisory £	Total £
Revenue from external customers	15,398,040	2,257,494	-	17,655,534
Returns to external customers	(2,784,333)	(1,859,148)	-	(4,643,481)
Inter segment income/(expense)	760,404	(760,404)	-	-
Operating income/(expense)	<u>13,374,111</u>	<u>(362,058)</u>	<u>-</u>	<u>13,012,053</u>
Profit/(loss) before tax	<u>9,308,919</u>	<u>(10,739,000)</u>	<u>(1,052,405)</u>	<u>(2,482,486)</u>
Impairment of assets	-	(5,080,755)	-	(5,080,755)
Depreciation and amortisation	<u>(323,119)</u>	<u>(55,638)</u>	<u>(13,461)</u>	<u>(392,218)</u>
Segment assets	260,837,480	55,612,099	28,098	316,477,677
Unallocated assets				370,645
Total assets				<u>316,848,322</u>
Segment liabilities	131,131,100	2,677,566	-	133,808,666
Unallocated liabilities				2,120,249
Total liabilities				<u>135,928,915</u>
Capital expenditure				
Plant and equipment	60,819	105,554	19,375	185,748
Intangible assets	81,488	19,967	954	102,409

### Secondary reporting segment – Geographical

	Europe £	GCC £	Turkey £	Asia £	Africa £	Total £
<b>2008</b>						
Operating income	<u>5,917,761</u>	<u>6,722,202</u>	<u>109,059</u>	<u>492,499</u>	<u>-</u>	<u>13,241,521</u>
Segment assets	<u>131,886,349</u>	<u>133,050,083</u>	<u>1,168,095</u>	<u>6,669,350</u>	<u>4,884,963</u>	<u>277,658,840</u>
Segment liabilities	<u>54,542,153</u>	<u>52,861,674</u>	<u>-</u>	<u>6,897,725</u>	<u>-</u>	<u>114,301,552</u>
<b>2007</b>						
Operating income	<u>4,172,501</u>	<u>8,532,189</u>	<u>214,630</u>	<u>92,733</u>	<u>-</u>	<u>13,012,053</u>
Segment assets	<u>99,285,203</u>	<u>199,857,789</u>	<u>4,400,736</u>	<u>10,096,461</u>	<u>-</u>	313,640,189
Unallocated assets						3,208,133
Total assets						<u>316,848,322</u>
Segment liabilities	<u>42,561,136</u>	<u>47,172,079</u>	<u>-</u>	<u>40,032,187</u>	<u>-</u>	129,765,402
Unallocated liabilities						6,163,513
Total liabilities						<u>135,928,915</u>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 4 Income from financing and investing activities

	2008 £	2007 £
Due from financial institutions - murabaha and wakala	6,748,945	8,646,209
Financing arrangements - murabaha	3,886,306	3,379,338
Available for sale investments - sukuk	2,150,604	1,703,347
	<u>12,785,855</u>	<u>13,728,894</u>

### 5 Returns to financial institutions and customers

	2008 £	2007 £
Due to financial institutions - murabaha and wakala	2,374,638	2,678,594
Due to customers - murabaha and wakala	143,349	105,739
	<u>2,517,987</u>	<u>2,784,333</u>

### 6 Foreign exchange gains

	2008 £	2007 £
Net gains on translation of balances denominated in foreign currency	1,976,086	3,366,964
Net losses on translation of forward foreign exchange agreements	(1,170,101)	(3,147,280)
	<u>805,985</u>	<u>219,684</u>

### 7 Trading income

	2008 £	2007 £
Available for sale securities - sukuk	<u>242,970</u>	<u>335,057</u>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 8 Staff costs, Directors' emoluments, number of employees and share based payments

	2008	2007
	£	£
<b>Staff costs</b>		
Directors' salaries and fees	786,465	660,045
Directors' pension contributions (note 2.8.10)	27,475	30,500
Staff salaries	2,742,166	2,839,887
Staff pension contributions (note 2.8.10)	145,139	147,771
Share based payments to staff **	75,360	112,000
Incentive payments	364,000	272,376
Social security costs	353,958	364,032
Sharia'a Supervisory Board (SSB) fees	100,352	56,542
Recruitment costs	237,663	92,769
Other staff costs	183,481	188,842
	<b>5,016,059</b>	<b>4,764,764</b>
Included in SSB fees in respect of shares issued to SSB members *	4,444	42,222
<b>Total of Directors' emoluments</b>	<b>878,940</b>	<b>690,545</b>
Included in Directors' emoluments in respect of shares issued to Directors *	8,889	84,445
<b>Amounts in respect of highest paid Director</b>		
Emoluments	210,000	200,000
Pension contributions	23,100	20,000
	<b>233,100</b>	<b>220,000</b>
Number of employees at year end	39	39
Average number of employees	39	42

#### 8.1 Share based payments

##### *Directors and SSB members share based payment scheme \**

In February 2005, 12,000,000 ordinary 1p shares were issued to Directors and other staff at par in lieu of salaries for the 36 months from that point. They are deemed to have been issued at a premium of 7p per share under IFRS 2 *Share-based payment*. The fair value of the shares were amortised over the 36 month vesting period ended February 2008. The amortisation gave rise to a fair value charge in the income statement of £13,333 in 2008 (£126,667 in 2007).

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### **Employee share incentive plan (ESIP) \*\***

A part of the 2007 incentive (£112,000) was distributed during 2008 with 1,904,513 equity shares that would vest in two equal parts, in February 2009 and 2010. An equal amount of matching shares, is offered under the plan and would vest in February 2010 provided certain conditions are satisfied. These shares are valued at the grant price (which is the market value at the date of grant) and the matching element is accrued in financial statements on a time proportion basis. As a result a current year charge of £56,000 is recognised in the income statement.

### **Employee share option plan (ESOP) \*\***

An equity settled ESOP scheme was introduced in April 2008 with the aim to align the interests of executives with the creation of share holder value. This is achieved by setting certain targets that have to be achieved for the awards to vest. The exercise price for the current plans is 7.7p and the options vest in March 2011, 2012 and 2013, a third in each year with a contractual life of 10 years from date of grant. Number of shares subjected to the options granted during the year is 3,116,844. The options are valued using Black-Scholes model. A current year charge of £19,360 is recognised in the income statement.

The Bank has arranged an independent Trust to administer the ESIP and ESOP on behalf of employees and provided funds (released the liability for ESIP and made contributions for ESOP) to purchase a part of the current share obligation. Trust is not consolidated given the value of shares held are not material.

## **9 Other operating expenses**

	<b>2008</b>	2007
	£	£
Legal and professional fees	583,625	708,858
Rent and other occupancy costs	459,043	462,518
Communications & IT costs	398,444	341,503
Advertising and market development	289,910	486,346
Consultancy	120,408	205,176
Board and SSB related expenses	105,998	115,719
Other operating charges	388,244	315,154
	<u><b>2,345,672</b></u>	<u>2,635,274</u>

## **10 Operating loss before tax**

This is stated after charging:

	<b>2008</b>	2007
	£	£
Auditors' remuneration:		
Audit	273,030	214,000
Non-audit services	10,890	38,950
Rentals paid under operating leases	254,184	249,250

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 11 Taxation

	2008 £	2007 £
<b>Tax on loss on ordinary activities charged in the income statement</b>		
<b>Current tax:</b>		
Current tax for the year	1,079,166	1,975,974
Prior years' current tax adjustment	(145,236)	246,812
	<u>933,930</u>	<u>2,222,786</u>
<b>Deferred tax:</b>		
Deferred tax for the year	157,603	(3,091)
Prior years' deferred tax adjustment	-	(225,400)
	<u>157,603</u>	<u>(228,491)</u>
<b>Tax charge in the income statement</b>	<b><u>1,091,533</u></b>	<b><u>1,994,295</u></b>
<b>Reconciliation of the total tax charge</b>		
Loss before tax	(13,721,590)	(2,482,486)
UK corporation tax at the standard rate *	(3,910,653)	(744,746)
Expenses not deductible for tax purposes	6,200,076	3,395,537
Income not subject to UK taxation	(1,052,655)	(677,908)
Adjustments for prior year's tax	(145,235)	21,412
<b>Tax charge in the income statement</b>	<b><u>1,091,533</u></b>	<b><u>1,994,295</u></b>
Current year's tax	293,709	1,335,974
Current tax related to items charged to equity	(1,108,785)	(186,195)
<b>Current tax (asset)/liability</b>	<b><u>(815,076)</u></b>	<b><u>1,149,779</u></b>
Accelerated capital allowances	(60,212)	(113,309)
Share awards	-	210,700
<b>Deferred tax (liability)/asset</b>	<b><u>(60,212)</u></b>	<b><u>97,391</u></b>

*Expenses not deductible for tax purposes and Income not subject to UK taxation* relate principally to the income, expense and impairment provisions of the EIIB Pan-European Islamic Real Estate Fund.

\* As of 1 April 2008 the UK Corporation tax rate reduced to 28% from 30%. Deferred taxation has been recognised at a rate of 28% (2007: 28%).

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 12 Earnings per share

Basic earnings per share is calculated by dividing loss for the year by the weighted average number of ordinary shares outstanding during the year. There are currently no instruments in issue which would materially dilute earnings per share.

	<b>2008</b> thousand	2007 thousand
Weighted average	<u>1,825,562</u>	<u>1,825,562</u>

### 13 Due from financial institutions

	Average Yield	<b>2008</b> £	Average Yield	2007 £
<i>Group</i>				
Murabaha placements	5.16%	110,177,267	5.91%	177,134,119
Wakala placements	3.35%	13,551,630	4.84%	-
	<u>5.12%</u>	<u>123,728,897</u>	<u>5.87%</u>	<u>177,134,119</u>
<i>Company</i>				
Murabaha placements	5.16%	110,177,267	5.95%	190,703,335
Wakala placements	3.35%	13,551,630	4.84%	-
	<u>5.12%</u>	<u>123,728,897</u>	<u>5.87%</u>	<u>190,703,335</u>

There are no due from financial institution facilities that are past due or impaired at 31 December 2008 and 2007.

### 14 Financing arrangements

	Average Yield	<b>2008</b> £	Average Yield	2007 £
<i>Murabaha</i>				
Central governments	4.84%	6,878,998	5.69%	4,988,823
Financial institutions	5.43%	20,636,995	6.30%	21,191,402
Other counterparties	6.27%	25,261,182	8.85%	19,491,709
Impairment provision		(3,750,000)		-
	<u>5.76%</u>	<u>49,027,175</u>	<u>7.30%</u>	<u>45,671,934</u>

Impairment allowance is calculated based on Bank's policy on impairment and charged to the income statement during the relevant period.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 15 Available for sale securities

	Average Yield	2008 £	Average Yield	2007 £
<i>Sukuk</i>				
Central governments	3.41%	12,274,555	5.85%	5,790,538
Financial institutions	3.90%	7,163,548	5.95%	3,446,078
Other counterparties	4.47%	37,121,244	6.45%	25,083,435
	<b>4.17%</b>	<b>56,559,347</b>	<b>6.30%</b>	<b>34,320,051</b>

### 16 Financial assets designated at fair value

	2008 £	2007 £
<b>Private Equity investments</b>		
Opening book value	-	-
Additions	4,884,963	-
Closing book value	<b>4,884,963</b>	-

Private equity investment total represents the Bank's acquisition of 26.1% of a public company during the year. Investments are designated, upon initial recognition, at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. It is Management's intention to realise long term value enhancement from this strategic stake.

### 17 Fair value of foreign exchange agreements

<i>Foreign exchange commitments used for matching currency exposures</i>	Assets £	Liabilities £	Notional amount £
<b>2008</b>			
Maturing in 0-3 months	20,012	1,924,178	50,638,297
Maturing in 3-6 months	-	-	-
	<b>20,012</b>	<b>1,924,178</b>	<b>50,638,297</b>
<b>2007</b>			
Maturing in 0-3 months	-	279,816	13,602,222
Maturing in 3-6 months	-	454,248	12,177,572
	-	<b>734,064</b>	<b>25,779,794</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 18 Plant and equipment

	Leasehold Improvements	Furniture & Fixtures	Computer Hardware	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2008	275,412	152,397	164,293	592,102
Additions	16,377	10,217	1,884	28,478
Disposal	-	-	(1,396)	(1,396)
<b>At 31 December 2008</b>	<b>291,789</b>	<b>162,614</b>	<b>164,781</b>	<b>619,184</b>
<b>Depreciation</b>				
At 1 January 2008	58,315	39,937	84,525	182,777
Charge for the year	57,375	32,188	54,319	143,882
Disposal	-	-	(582)	(582)
<b>At 31 December 2008</b>	<b>115,690</b>	<b>72,125</b>	<b>138,262</b>	<b>326,077</b>
<b>Net Book Value</b>				
<b>At 31 December 2008</b>	<b>176,099</b>	<b>90,489</b>	<b>26,519</b>	<b>293,107</b>
<b>At 31 December 2007</b>	<b>217,097</b>	<b>112,460</b>	<b>79,768</b>	<b>409,325</b>

### 19 Intangible assets

	£
<b>Cost</b>	
At 1 January 2008	1,384,587
Additions	51,756
<b>At 31 December 2008</b>	<b>1,436,343</b>
<b>Amortisation</b>	
At 1 January 2008	468,590
Charge for the year	284,492
<b>At 31 December 2008</b>	<b>753,082</b>
<b>Net Book Value</b>	
<b>At 31 December 2008</b>	<b>683,261</b>
<b>At 31 December 2007</b>	<b>915,997</b>

Intangible assets consist of the costs of computer licences and software development including capitalised staff costs.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 20 Other assets

	2008 £	2007 £
<i>Group</i>		
Accrued income receivable	1,400,438	2,036,854
Sundry debtors	436,258	1,553,418
Prepayments	138,521	129,410
	<b><u>1,975,217</u></b>	<b><u>3,719,682</u></b>
<i>Company</i>		
Accrued income receivable	1,155,455	1,926,435
Sundry debtors	221,044	343,212
Prepayments	138,521	129,410
	<b><u>1,515,020</u></b>	<b><u>2,399,057</u></b>

### 21 Due to financial institutions

	Average Yield	2008 £	Average Yield	2007 £
<i>Group</i>				
Commodity murabahas	4.63%	88,733,239	5.67%	106,261,218
Wakala acceptances	3.97%	18,351,192	4.98%	20,419,774
	<b><u>4.48%</u></b>	<b><u>107,084,431</u></b>	<b><u>5.59%</u></b>	<b><u>126,680,992</u></b>
<i>Company</i>				
Commodity murabahas	3.05%	49,683,239	5.12%	67,211,218
Wakala acceptances	3.97%	18,351,192	4.98%	20,419,774
	<b><u>3.38%</u></b>	<b><u>68,034,431</u></b>	<b><u>5.10%</u></b>	<b><u>87,630,992</u></b>

### 22 Due to customers

	Average Yield	2008 £	Average Yield	2007 £
<i>Group and Company</i>				
Wakala acceptances	4.54%	2,728,522	5.76%	2,771,980
	<b><u>4.54%</u></b>	<b><u>2,728,522</u></b>	<b><u>5.76%</u></b>	<b><u>2,771,980</u></b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 23 Other liabilities

	2008	2007
	£	£
<i>Group</i>		
Accrued expenses	1,030,111	1,222,546
Accrued returns payable	630,740	850,162
Deferred income	321,600	1,340,882
Social security and PAYE payable	103,910	165,711
Sundry creditors	417,848	1,012,799
	<b>2,504,209</b>	<b>4,592,100</b>
<i>Company</i>		
Accrued expenses	1,030,111	992,319
Deferred income	321,600	631,634
Social security and PAYE payable	103,910	165,711
Accrued returns payable	93,008	312,430
Sundry creditors	526,465	5,785
	<b>2,075,094</b>	<b>2,107,879</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 24 Maturity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities analysed between those expected to be recovered or settled within or more than twelve months of the balance sheet date.

<b>2008</b>	<b>Less than 12</b>	<b>More than 12</b>	<b>Total</b>
<i>Group</i>	<b>months</b>	<b>months</b>	
<b>Assets</b>	<b>£</b>	<b>£</b>	<b>£</b>
Cash and balances with banks	972,540	-	972,540
Due from financial institutions	123,728,897	-	123,728,897
Financing arrangements	17,140,180	31,886,995	49,027,175
Available for sale securities	25,883,734	30,783,613	56,667,347
Financial assets designated at fair value	-	4,884,963	4,884,963
Fair value of foreign exchange agreements	20,012	-	20,012
Property portfolio	-	38,699,245	38,699,245
Plant and equipment	-	293,107	293,107
Intangible assets	-	683,261	683,261
Other assets	1,867,217	-	1,867,217
Current tax receivable	815,076	-	815,076
<b>Total assets</b>	<b>170,427,656</b>	<b>107,231,184</b>	<b>277,658,840</b>

<b>Liabilities</b>			
Due to financial institutions	68,034,431	39,050,000	107,084,431
Due to customers	2,728,522	-	2,728,522
Fair value of foreign exchange agreements	1,924,178	-	1,924,178
Other liabilities	2,504,209	-	2,504,209
Deferred taxation	-	60,212	60,212
<b>Total liabilities</b>	<b>75,191,340</b>	<b>39,110,212</b>	<b>114,301,552</b>

<b>2007</b>	<b>Less than 12</b>	<b>More than 12</b>	<b>Total</b>
<i>Group</i>	<b>months</b>	<b>Months</b>	
<b>Assets</b>	<b>£</b>	<b>£</b>	<b>£</b>
Cash and balances with banks	644,846	-	644,846
Collateral deposits	235,732	-	235,732
Due from financial institutions	177,134,119	-	177,134,119
Financing arrangements	8,202,788	37,469,146	45,671,934
Available for sale securities	-	34,320,051	34,320,051
Property portfolio	53,699,245	-	53,699,245
Plant and equipment	-	409,325	409,325
Intangible assets	-	915,997	915,997
Other assets	3,719,682	-	3,719,682
Deferred tax assets	-	97,391	97,391
<b>Total assets</b>	<b>243,636,412</b>	<b>73,211,910</b>	<b>316,848,322</b>

<b>Liabilities</b>			
Due to financial institutions	87,630,992	39,050,000	126,680,992
Due to customers	2,771,980	-	2,771,980
Fair value of foreign exchange agreements	734,064	-	734,064
Other liabilities	4,592,100	-	4,592,100
Current taxation	1,149,779	-	1,149,779
<b>Total liabilities</b>	<b>96,878,915</b>	<b>39,050,000</b>	<b>135,928,915</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

2008 <i>Company</i>	Less than 12 months £	More than 12 months £	Total £
<b>Assets</b>			
Cash and balances with banks	652,867	-	652,867
Due from financial institutions	123,728,897	-	123,728,897
Financing arrangements	17,140,180	31,886,995	49,027,175
Available for sale securities	25,883,734	30,783,613	56,667,347
Financial assets designated at fair value	-	4,884,963	4,884,963
Fair value of foreign exchange agreements	20,012	-	20,012
Plant and equipment	-	293,107	293,107
Intangible assets	-	683,261	683,261
Other assets	1,407,020	-	1,407,020
Current tax receivable	815,076	-	815,076
<b>Total assets</b>	<b>169,647,786</b>	<b>68,531,939</b>	<b>238,179,725</b>
<b>Liabilities</b>			
Due to financial institutions	68,034,431	-	68,034,431
Due to customers	2,728,522	-	2,728,522
Fair value of foreign exchange agreements	1,924,178	-	1,924,178
Other liabilities	2,075,094	-	2,075,094
Deferred taxation	-	60,212	60,212
<b>Total liabilities</b>	<b>74,762,225</b>	<b>60,212</b>	<b>74,822,437</b>
2007 <i>Company</i>	Less than 12 months £	More than 12 months £	Total £
<b>Assets</b>			
Cash and balances with banks	561,279	-	561,279
Collateral deposits	235,732	-	235,732
Due from financial institutions	190,703,335	-	190,703,335
Financing arrangements	8,202,788	37,469,146	45,671,934
Available for sale securities	-	34,320,051	34,320,051
Plant and equipment	409,325	-	409,325
Intangible assets	506,672	409,325	915,997
Other assets	1,483,060	915,997	2,399,057
Deferred tax assets	-	97,391	97,391
<b>Total assets</b>	<b>202,102,191</b>	<b>73,211,910</b>	<b>275,314,101</b>
<b>Liabilities</b>			
Due to financial institutions	87,630,992	-	87,630,992
Due to customers	2,771,980	-	2,771,980
Fair value of foreign exchange agreements	734,064	-	734,064
Other liabilities	2,107,879	-	2,107,879
Current taxation	1,149,779	-	1,149,779
<b>Total liabilities</b>	<b>94,394,694</b>	<b>-</b>	<b>94,394,694</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 25 Pension commitments

The Bank provides a defined contribution scheme for all staff. The assets of the scheme are held separately from those of the Bank in independently administered funds. Unsettled pension expenses at the end of 2007 of £21,454 were included in *Accrued expenses* whereas total cost for 2008 was fully paid by the year end.

### 26 Commitments under operating leases

There is a commitment at the year end under a non-cancellable operating lease for the Bank's main premises at 4<sup>th</sup> Floor, 131 Finsbury Pavement, London EC2A 1NT for a five-year period from 27 December 2005 to 27 December 2010, at an annual rental of £266,313 net of VAT with a fifteen-month rent free period. In addition, there is an agreement under an operating lease for the Bank's premises in Bahrain for a 5 year period from 15 May 2007 to 14 May 2012. For the first three years to 14 May 2010 the lease is irrevocable with rent renewals on semi-annual basis. Future minimum rentals are as follows:

	2008 £	2007 £
Within one year	266,313	253,739
One to five years	428,746	695,059
More than five years	-	-
	<u>695,059</u>	<u>948,798</u>

### 27 Contingent liabilities and commitments

No contingent liabilities or contractually obligatory commitments outstanding as at the balance sheet date and up to the date that these financial statements were approved. In 2007 the Bank had pledged cash collateral of £235,732 as security against rental payments on its premises. This amount is included under *Collateral deposits*.

### 28 Share capital and share premium

Authorised	£		
5,000,000,000 ordinary shares of £0.01 each			<u>50,000,000</u>
Allotted, called up and fully paid	Number of shares	Share capital £	Share premium £
<b>At 31 December 2008</b>	<u>1,825,562,531</u>	<u>18,255,625</u>	<u>164,229,939</u>
At 31 December 2007	<u>1,825,562,531</u>	<u>18,255,625</u>	<u>164,229,939</u>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 29 Assets and liabilities in foreign currency

The Bank manages its exposure to foreign exchange rate fluctuations by matching assets with liabilities in the same currency as far as possible, with similar maturities and the use of appropriate off-balance sheet instruments.

<i>Group</i>	<b>2008</b>	2007
	£	£
Denominated in sterling	165,177,648	201,973,974
Denominated in currencies other than sterling	112,481,192	114,874,348
Total assets	<u><b>277,658,840</b></u>	<u>316,848,322</u>
Denominated in sterling	50,394,193	46,983,007
Denominated in currencies other than sterling	63,907,359	88,945,908
Total liabilities	<u><b>114,301,552</b></u>	<u>135,928,915</u>
 <i>Company</i>	 <b>2008</b>	 2007
	£	£
Denominated in sterling	125,698,533	160,439,753
Denominated in currencies other than sterling	112,481,192	114,874,348
Total assets	<u><b>238,179,725</b></u>	<u>275,314,101</u>
Denominated in sterling	10,915,078	5,448,786
Denominated in currencies other than sterling	63,907,359	88,945,908
Total liabilities	<u><b>74,822,437</b></u>	<u>94,394,694</u>

### 30 Investments in controlled entities

The Bank's controlled entities as at 31 December 2008 are as follows:

Company	Principal Activity	Control %	Country of registration
EIIB Pan-European Islamic Real Estate Fund	Holding company	100	Cayman Islands
The House Limited	Real Estate	100	Cayman Islands

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 31 Property portfolio

The Bank has an interest in an asset management special purpose vehicle, EIIB Pan-European Islamic Real Estate Fund (the Fund), which holds a UK commercial real estate property portfolio through its investment in The House Limited (THL). The Fund was established on 22 November 2006, and the property portfolio was acquired on 18 April 2007. The acquisition of the properties was financed by a financial institution on a murabaha basis and the Bank via a bridging facility. The Bank owns 100% of the management shares in the Fund, there being no other equity shares in issue. In turn the Fund owns 100% of the equity shares of THL, the company which owns the properties. Both the Fund and THL are registered in the Cayman Islands. As a result of the nature of the relationship between the Bank and the Fund, the requirements of IAS 27 and Standard Interpretation Committee (SIC) 12 stipulate that the results of the Fund and the underlying property portfolio should be consolidated with those of the Bank. The property portfolio and the related funding are therefore included in the Bank's consolidated balance sheet.

At acquisition THL had assets of £58,968,092 and liabilities of £50,083,429. The initial intention of the Fund was to sell its property portfolio, and hence it was accounted for in line with the requirements of IFRS 5 and carried at fair value less cost to sell at 31 December 2007 in the Bank's financial statements. The Fund reassessed its intention during 2008, in light of market conditions, and as at 30 June 2008 decided to hold the portfolio for long term revenue generation and capital appreciation. Accordingly the Bank classified the property portfolio as investment properties and accounted for under IAS 40. The Bank has a Real Estate division that assists in the administration of the property portfolio.

The *Operating expenses of the property fund* in 2007 relate principally to the acquisition of the property portfolio and the establishment costs of the Fund.

In accordance with the requirements of IAS 40, the investment properties are carried at original cost less depreciation. At each reporting date an assessment is made of whether there is any indication that the Investment properties are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss if any. The recoverable amount of an asset is the higher of its fair value less cost to sell, and its value in use. Value in use is the present value of future cash flows from the assets discounted at a rate that reflects market returns adjusted for risks specific to the assets. If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss. The value in use of the property portfolio as at 31 December 2008 was £38,699,245.

An external valuation was conducted by CB Richard Ellis Ltd on 20 October 2008 which valued the properties at £38,160,000. Having taken external advice, the Directors are of the view, based on market yields and economic returns of the properties, that the fair value has subsequently declined by a further 5% to £36,252,000 by the end of December 2008.

As the Company has provided junior financing to THL via the Fund, an impairment provision of £14,285,451 (2007: £7,301,737) has been included in the Company's own balance sheet.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

The following items in the income statement and balance sheet relate to the Fund and THL:

	<b>2008</b>	2007
	<b>£</b>	£
Rental income	3,693,527	2,257,494
Returns related to the property portfolio *	(2,555,972)	(1,859,148)
Foreign exchange gains and losses	-	2,200
Operating expenses of the property portfolio	(423,006)	(2,621,528)
Depreciation**	(294,086)	-
Provision for impairment of the property portfolio	(14,705,914)	(5,080,755)
<b>Total loss relating to the property portfolio</b>	<b>(14,285,451)</b>	<b>(7,301,737)</b>

\* Murabaha returns on due to financial institutions.

\*\* Depreciation is calculated on building cost less residual value on a straight-line basis over 15 years

	<b>2008</b>	2007
	<b>£</b>	£
Cost at acquisition	-	58,780,000
Balance brought forward	53,699,245	-
Depreciation	(294,086)	-
Provision for impairment ***	(14,705,914)	(5,080,755)
<b>Balance carried forward</b>	<b>38,699,245</b>	<b>53,699,245</b>

\*\*\* In 2007, the property portfolio was accounted for under IFRS 5. Included in the amount is £255,833 which has been treated as depreciation in line with the requirements of IAS 40.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 32 Related party disclosures

#### 32.1 Compensation of key management personnel

	2008 £	2007 £
Short-term employee benefits and other cash payments	740,076	575,600
Incentive payment	15,000	-
Termination benefits	87,500	-
Post-employment pension	27,475	30,500
Share-based payments	8,889	84,445
	<u>878,940</u>	<u>690,545</u>

#### 32.2 Other Directors' interests

The Bank enters into transactions, arrangements and agreements involving Directors and their related concerns in the ordinary course of business, all such business is conducted on an arms-length basis.

Directors have interests in the following companies with whom EIIB does business. Khalid A Al-Bassam (retired in February 2008) is Chairman of Capital Management House BSC ('CMH') and is Chairman of Bahrain Islamic Bank BSC ('BIB'); Shabir Randeree was a non-executive Director of Islamic Bank of Britain plc until 6 February 2008; Subhi Benkhadra (appointed in July 2008) is Chief Executive of Esterad Investment Company BSC ('Esterad').

The total income from transactions with companies in which the Directors have interests in 2008 was £830,686 which is included under *Income from financing and investing activities*, The total returns to such companies was £691,341, included under *Returns to financial institutions and customers*.

As at 31 December 2008 the Bank had receivables from related parties as follows:

- Under a murabaha agreement with BIB £12,700,000

There is unsettled accrued income of £18,789 under the agreement at year end. No provision has been taken against this exposure.

As at 31 December 2008 the Bank had liabilities to related parties as follows:

- Under a murabaha agreement with BIB £13,414,047
- Under a murabaha agreement with CMH £2,063,699
- A wakala acceptance from Esterad £7,566,898
- A wakala acceptance from Adnan Ahmed Yousif £1,354,709

As at 31 December 2008 the Bank had foreign exchange agreements with related parties as follows:

- Notional amount of foreign exchange agreements with CMH £7,100,000

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 33 Risk management

#### 33.1 Introduction

The Board of Directors have set an overall risk framework in line with risk appetite, documented within a set of risk management policies which are approved by mandated risk committees. Ultimate responsibility for risk resides with the Board of Directors.

The Bank is exposed to credit risk, liquidity risk, market risk and operational risk.

##### (1) Structure

The Board of Directors is ultimately responsible for managing the risk profile of the Bank and ensuring a strong control environment. The Board has mandated a number of committees tasked with managing and monitoring risks within the Bank.

##### (a) Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk appetite, strategies and principles.

##### (b) Board Executive Committee

The Board Executive Committee is a sub-committee of the Board of Directors which assists the Board in fulfilling its risk management responsibilities from day to day. The committee's responsibilities includes determining the Bank's risk profile, ensuring that exposures taken on by management remain within the Board determined risk appetite by assessing, reviewing, and approving all exposures that are within its delegated authority.

##### (c) Risk Management Committee

The Risk Management Committee assists the Executive Management Committee and the Board of Directors in managing and controlling risk in all areas of the Bank, through proactive identification, measurement, control, monitoring, and reporting of:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Anti-Money Laundering risk

##### (d) Asset and Liability Committee

The Asset and Liability Committee ('ALCO') is constituted to assist the Executive Management Committee and the Board in proactively managing the capital, assets and liabilities of the Bank. It is also mandated to manage the risk-reward relationship that exists between solvency, liquidity and profit rate risk.

##### (e) Internal Audit

Internal Audit's primary role is to provide assurance to the Audit Committee and the Board that the risk management, internal control, corporate governance and other key business processes and controls, as appropriate, are operating effectively and meeting the ongoing and changing needs of the Bank. This includes providing management with independent appraisals of systems of internal control and supporting development of a sound control culture throughout the Bank.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### (2) Measurement and reporting

The risks within the Bank are assessed using quantitative and qualitative methodologies. Losses are calculated using assumptions based on consideration of the economic environment in which the Bank operates, stress scenarios and conditions in the Islamic banking market.

Risk is managed by a set of comprehensive limits, triggers and processes. These reflect the business strategy, risk appetite and market environment in which the Bank operates and its overall risk capacity in relation to capital and regulatory requirements set by the UK Financial Services Authority.

Information is compiled by the Risk Management department from all business areas and is then presented to the Executive Management Committee and Board on a monthly basis. The Risk Report includes detailed reporting of credit exposures for internal ratings, geographical regions, industry sectors, asset maturities, liquidity, and market risk exposures for foreign exchange, money and capital market instruments.

Daily reports on credit exposure and position risk are distributed by the Risk Management department to senior management.

### (3) Risk mitigation

The Bank cannot use conventional derivative products to mitigate risk. Consequently as part of its overall risk management framework the Bank utilises Sharia'a compliant products to hedge currency risk and profit rate risk.

### (4) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic regions, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by a change in economic, political or other conditions.

In order to avoid excessive concentration risk the Bank has specific guidelines and limits in place to restrict Group, Obligor, Country and Industry sector exposures.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 33.2 Credit risk

Credit risk is the risk that the Bank's customers, clients or counterparties will not be able or willing to repay capital and/or profit or otherwise not meet their contractual obligations under credit facilities or in respect of other agreements.

The Bank has a rigorous credit quality check for all customers, clients or counterparties and all are assigned an internal risk rating which governs the amount of credit that can be made available. These ratings are subject to regular review and adjusted to reflect changes to the portfolio or expected probabilities of default.

#### (1) Exposure

Exposures by asset class were:

	2008 £	2007 £
Cash and balances with banks	972,540	644,846
Collateral deposits	-	235,732
Due from financial institutions	123,790,156	178,037,573
<i>Wakala</i>	13,552,012	-
<i>Murabaha</i>	110,238,144	178,037,573
Financing arrangements	49,578,660	46,290,877
Available for sale securities	57,102,057	34,724,091
Financial assets designated at fair value	4,884,963	-
Fair value of foreign exchange agreements	20,012	-
<b>Total credit exposure</b>	<b>236,348,388</b>	<b>259,933,119</b>

#### (2) Geographical regions

Exposures by geographical region were:

	2008 £	2007 £
GCC countries	133,050,083	199,849,964
<i>Bahrain</i>	57,555,161	112,854,685
<i>UAE</i>	40,950,257	18,979,546
<i>Kuwait</i>	4,079,000	49,728,860
<i>Saudi Arabia</i>	26,358,878	15,772,475
<i>Qatar</i>	4,106,787	2,514,398
Europe	90,575,897	45,585,958
Turkey	1,168,095	4,400,736
Asia	6,669,350	10,096,461
Africa	4,884,963	-
<b>Total credit exposure</b>	<b>236,348,388</b>	<b>259,933,119</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### (3) Industry Sector

Exposures by industry sector were:

	2008 £	2007 £
Financial services	152,862,752	200,142,053
<i>GCC banks</i>	73,372,388	112,389,059
<i>Europe/Other banks</i>	79,490,364	87,752,994
Manufacturing	25,443,431	18,591,452
Government	19,288,320	10,868,738
Real estate	30,622,128	24,417,006
Other financial	2,078,699	4,215,815
Mining	4,884,963	-
Food	1,168,095	1,698,055
<b>Total credit exposure</b>	<b><u>236,348,388</u></b>	<b><u>259,933,119</u></b>

### (4) Credit quality

The credit quality of financial assets is managed by the Bank using internal credit ratings which are mapped to ECAI's ratings including Fitch, Moody's and Standard & Poor's. The table below shows the credit quality of the portfolio as at 31 December 2008 based on the Bank's credit rating system.

	<i>Investment Grade</i> £	<i>Non- Investment Grade</i> £	<i>Total</i> £
<b>2008</b>			
Cash and balances with banks	972,540	-	972,540
Private Equity Investments	-	4,884,963	4,884,963
Due from Financial Institutions	119,287,515	4,502,641	123,790,156
Financing arrangements	27,812,052	21,766,608	49,578,660
Available for sale securities	40,912,392	16,189,665	57,102,057
Fair Value of foreign exchange agreements	20,012	-	20,012
<b>Total credit exposure</b>	<b><u>189,004,511</u></b>	<b><u>47,343,877</u></b>	<b><u>236,348,388</u></b>
<b>2007</b>			
Cash and balances with banks	644,846	-	644,846
Collateral deposits	-	235,732	235,732
Due from Financial Institutions	165,508,975	12,528,598	178,037,573
Financing arrangements	24,299,538	21,991,339	46,290,877
Available for sale securities	27,269,435	7,454,656	34,724,091
<b>Total credit exposure</b>	<b><u>217,722,794</u></b>	<b><u>42,210,325</u></b>	<b><u>259,933,119</u></b>

### (5) Aged analysis of past due and impaired financial assets

No past due financial assets were evident during 2008. However, in compliance with the Bank's credit policy and IFRS the Bank has made an impairment allowance of £3.75 million during the year.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 33.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due or in stress circumstances. To limit this risk the Bank manages its cash flows on a daily basis and maintains a portfolio of short-term bank deposits. Liquidity risk management is the responsibility of ALCO.

The Bank manages its liquidity within the Financial Services Authority's prudential limits of 0% for 8 days and under and -5% 1 month and under. The ratios at the year end were:

	8 days and under	1 month and under
31 December 2008	20%	48%
31 December 2007	47%	56%

Liquidity is managed based on contractual cash flows. The Bank had the following liquidity profile which includes forward foreign exchange commitments:

#### Liquidity profile

Foreign currency amounts in sterling equivalents.

2008 Liquidity profile (£000)	Cash flow band						
	Total	0-1 month	2-3 months	4-6 months	7-12 months	1-5 years	Over 5 years
<b>GBP</b>							
Assets	174,123	134,238	20,000	-	-	19,885	-
Liabilities	7,179	4,903	621	1,555	100	-	-
<b>Net</b>	<b>166,944</b>	<b>129,335</b>	<b>19,379</b>	<b>(1,555)</b>	<b>(100)</b>	<b>19,885</b>	<b>-</b>
<b>USD</b>							
Assets	111,362	17,026	6,796	6,879	29,348	48,320	2,993
Liabilities	116,127	116,127	-	-	-	-	-
<b>Net</b>	<b>(4,765)</b>	<b>(99,101)</b>	<b>6,796</b>	<b>6,879</b>	<b>29,348</b>	<b>48,320</b>	<b>2,993</b>
<b>Euro</b>							
Assets	7	7	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-
<b>Net</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>							
Assets	285,492	151,271	26,796	6,879	29,348	68,205	2,993
Liabilities	123,306	121,030	621	1,555	100	-	-
<b>Net</b>	<b>162,186</b>	<b>30,241</b>	<b>26,175</b>	<b>5,324</b>	<b>29,248</b>	<b>68,205</b>	<b>2,993</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

2007 Liquidity profile (£000)	Cash flow band						Over 5 years
	Total	0-1 month	2-3 months	4-6 months	7-12 months	1-5 years	
<b>GBP</b>							
<i>Assets</i>	169,693	86,315	38,678	9,700	20,000	15,000	-
<i>Liabilities</i>	2,088	814	1,274	-	-	-	-
<b>Net</b>	<b>167,605</b>	<b>85,501</b>	<b>37,404</b>	<b>9,700</b>	<b>20,000</b>	<b>15,000</b>	-
<b>USD</b>							
<i>Assets</i>	114,067	46,426	5,151	2,500	2,500	54,990	2,500
<i>Liabilities</i>	114,805	87,415	14,752	12,638	-	-	-
<b>Net</b>	<b>(738)</b>	<b>(40,989)</b>	<b>(9,601)</b>	<b>(10,138)</b>	<b>2,500</b>	<b>54,990</b>	<b>2,500</b>
<b>Euro</b>							
<i>Assets</i>	26	26	-	-	-	-	-
<i>Liabilities</i>	-	-	-	-	-	-	-
<b>Net</b>	<b>26</b>	<b>26</b>	-	-	-	-	-
<b>Total</b>							
<i>Assets</i>	283,786	132,767	43,829	12,200	22,500	69,990	2,500
<i>Liabilities</i>	116,893	88,229	16,026	12,638	-	-	-
<b>Net</b>	<b>166,893</b>	<b>44,538</b>	<b>27,803</b>	<b>-438</b>	<b>22,500</b>	<b>69,990</b>	<b>2,500</b>

As at 31 December 2008 and at 31 December 2007, the Bank had no contingent liabilities or other commitments outstanding in financial instruments other than those included above or in note 26.

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### 33.4 Market risk – non-trading

#### (1) Profit Rate Risk

Profit rate risk arises from the possibility that changes in the profit rates will affect future cash flows or the fair value of financial instruments. The Bank manages profit rate risk by using maturity buckets to calculate the net profit rate gap whilst considering variable, fixed and non-sensitive rates of return.

2008		Rate profile band					
Profit rate profile (£000)	Total	0-1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years
<b>Assets</b>							
Fixed Rate Items	134,623	103,729	26,796	-	4,098	-	-
Variable Rate Items	94,692	32,534	22,596	39,562	-	-	-
Non Rate Sensitive	973	973	-	-	-	-	-
<b>Total assets</b>	<b>230,288</b>	<b>137,236</b>	<b>49,392</b>	<b>39,562</b>	<b>4,098</b>	-	-
<b>Liabilities</b>							
Fixed Rate Items	109,814	68,488	621	1,555	100	39,050	-
Variable Rate Items	-	-	-	-	-	-	-
Non Rate Sensitive	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>109,814</b>	<b>68,488</b>	<b>621</b>	<b>1,555</b>	<b>100</b>	<b>39,050</b>	-
<b>Net Gap</b>		<b>68,748</b>	<b>48,771</b>	<b>38,007</b>	<b>3,998</b>	<b>(39,050)</b>	-
<b>Cumulative Gap</b>		<b>68,748</b>	<b>117,519</b>	<b>155,526</b>	<b>159,524</b>	<b>120,474</b>	<b>120,474</b>
2007		Rate profile band					
Profit rate profile (£000)	Total	0-1 month	2-3 months	4-6 months	7-12 months	2-5 Years	Over 5 years
<b>Assets</b>							
Fixed Rate Items	187,097	118,285	41,351	-	22,500	4,961	-
Variable Rate Items	70,029	39,152	10,175	20,702	-	-	-
Non Rate Sensitive	881	881	-	-	-	-	-
<b>Total assets</b>	<b>258,007</b>	<b>158,318</b>	<b>51,526</b>	<b>20,702</b>	<b>22,500</b>	<b>4,961</b>	-
<b>Liabilities</b>							
Fixed Rate Items	129,453	74,377	12,252	3,774	-	39,050	-
Variable Rate Items	-	-	-	-	-	-	-
Non Rate Sensitive	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>129,453</b>	<b>74,377</b>	<b>12,252</b>	<b>3,774</b>	-	<b>39,050</b>	-
<b>Net Gap</b>		<b>83,941</b>	<b>39,274</b>	<b>16,928</b>	<b>22,500</b>	<b>(34,089)</b>	-
<b>Cumulative Gap</b>		<b>83,941</b>	<b>123,215</b>	<b>140,143</b>	<b>162,643</b>	<b>128,554</b>	<b>128,554</b>

# European Islamic Investment Bank plc

## Notes to the Financial Statements

At 31 December 2008

### (2) Sensitivity to market risk

While the Bank does not hold or trade in interest rate products, the fair value of financial instruments held by the Bank will be affected by current market forces including interest rates. The table below sets out the sensitivity of the Bank's income statement for the year to changes in the interest rate environment assuming all other factors remain constant.

#### 2008

Change in rates (Basis points)	-100 bp	-50 bp	-25 bp	+25 bp	+50 bp	+100bp
Effect on net margin £ 000	-1,644	-822	-411	+411	+822	+1,644
% of net margin*	-21	-11	-5	+5	+11	+21

#### 2007

Change in rates (Basis points)	-100 bp	-50 bp	-25 bp	+25 bp	+50 bp	+100bp
Effect on net margin £ 000	-1,676	-838	-419	+419	+838	+1,676
% of net margin*	-18	-9	-5	+5	+9	+18

\*% of net margin represents the impact to the income statement and equity

### (3) Currency Risk

Currency risk is the risk of loss arising from changes in foreign exchange rates. The Board has set limits on positions and these positions are monitored daily to ensure positions are maintained within the established limits.

The Bank does not take significant currency positions as all positions other than the functional currency are covered on a back-to-back basis. Small residual currency exposures remain well within the Board approved limits.

#### 33.5 Market risk – trading

The Bank had no trading portfolio during the years ended 31 December 2008 or 31 December 2007.

#### 33.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed systems, human error and fraud, processes and external events. Operational risks can result in damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank has implemented a robust control framework to significantly mitigate these risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Risk matrices have been developed for each department which form part of a quality self-assessment process.

#### 33.7 Capital management and risk

The primary objective of the management of capital is to ensure that the Bank is able to meet its obligation when due. In addition it must comply with the prudential requirements of the FSA. The minimum regulatory capital required at 31 December 2008 was £24m compared to capital base of £163m. The Bank has complied with FSA prudential capital requirements throughout the year. The current level of capital is considered to be adequate to support future growth.

Capital and risk-reward management are the responsibility of ALCO, which assigns capital and risk limits to the various areas of the Bank's business. Currently capital is not a constraint on growth

# European Islamic Investment Bank plc

Registered No. 5328847

## Bank information

### Directors

Adnan Yousif *Chairman*

Shabir Randeree *Deputy Chairman*

Salman Abbasi

Yousef Abu Khadra

Zaher Al Ajjawi

Mohammed Al Sarhan *Senior Independent Director*

Abed Alzeera

Subhi Benkhadra

George Morton

John Weguelin *Chief Executive Officer*

Keith McLeod *Finance Director*

### Secretary

M A Mohaimin Chowdhury

### Registered office

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### Solicitors

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