AL RAYAN BANK

Pillar 3 Disclosures

31 December 2014

Contents

1. Overview 3
 1.1 Background 3
 1.2 Scope of application 3
 1.3 Basis and frequency of disclosures 3
 1.4 External audit 3
2. Risk Management Framework 4
3. Risk management objectives and policies 8
 3.1 Business objectives and principal risks 8
 3.2 Risk Appetite 9
 3.3 Credit risk 10
 3.4 Market risk 11
 3.5 Operational risk 12
 3.6 Liquidity risk 13
 3.7 Concentration risk 13
 3.8 Sharia Compliance risk 13
4. Capital Resources 15
5. Capital adequacy 16
6. Credit risk measurement and reporting 17
 6.1 Credit risk exposure and minimum capital requirement 17
 6.2 Impairment 20
7. Remuneration Code Disclosures 23

1. Overview

1.1 Background

The European Union Capital Requirements Directive (CRD) came into effect on 1 January 2007. It implemented consistent capital adequacy standards and an associated supervisory framework across the European Union. The Basel III regulatory framework was implemented in Europe through the Capital Requirements Directive IV (CRD IV) package of regulation and is effective from 1 January 2014. The disclosures in this Pillar 3 document relate entirely to the regulatory regime in BIPRU.

The CRD has been implemented in the UK by the Financial Services Authority ('the FSA'), subsequently replaced by the Financial Conduct Authority ('the FCA') and the Prudential Regulatory Authority (the 'PRA'). This framework includes three 'pillars':

Pillar 1	Minimum capital requirements relating to credit, market and operational risks
Pillar 2	Firm's own internal assessment of additional capital requirements relating to specific risks not covered by the Pillar 1 minimum capital requirement. This additional capital requirement is subject to review by the PRA
Pillar 3	Disclosure of information relating to the risk assessment process and resulting capital adequacy

The Pillar 3 Disclosures are designed to promote market discipline through external disclosure of a firm's risk management framework and risk exposures.

1.2 Scope of application

This document contains the Pillar 3 disclosures for Al Rayan Bank PLC (or 'the Bank') only.

1.3 Basis and frequency of disclosures

Unless stated otherwise, all data is as at 31 December 2014. Basel III was implemented in the UK from 1 January 2014, through both the European CRR and the Capital Requirements Directive (CRD IV) and through the PRA's policy statement PS7/13 http://www.bankofengland.co.uk/pra/Pages/publications/implemcrdiv.aspx. The term CRD IV is used throughout these disclosures as a collective term for CRD IV, CRR and the PRA's policy statement. CRD IV (8) includes disclosure requirements

This document will be updated at least annually and will be based on the Bank's most recent audited financial statements. This document should be read in conjunction with the Annual Report and Financial Statements.

1.4 External audit

The disclosures provided in this document have not been subjected to external audit except where they are equivalent to those prepared under accounting standards for inclusion in the Bank's audited financial statements.

2. Risk Management Framework

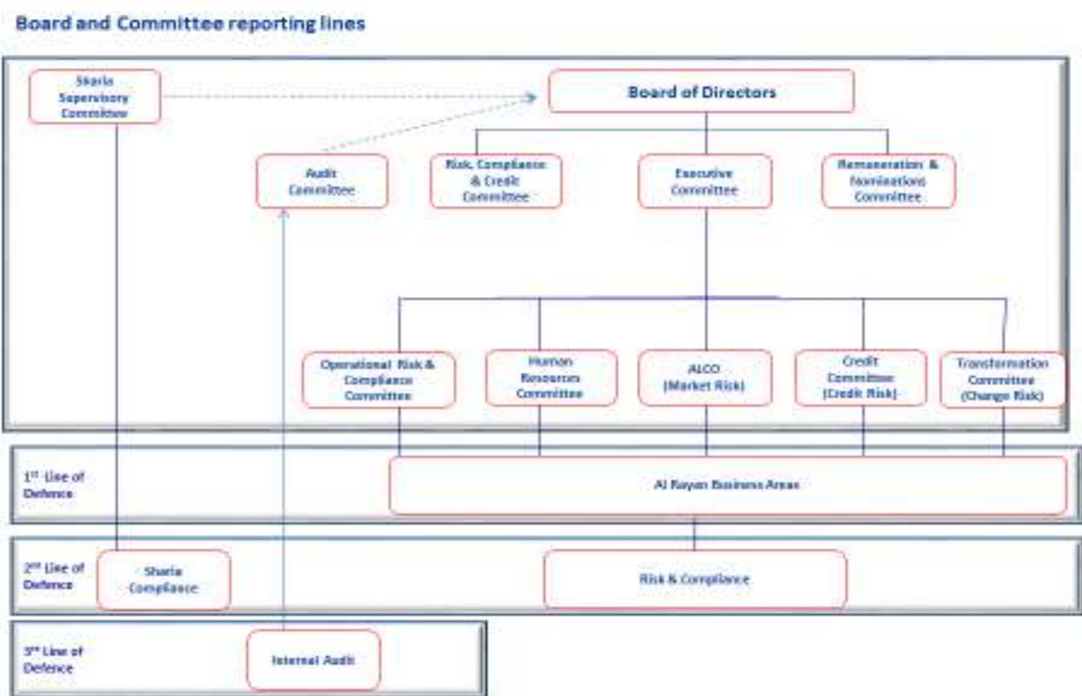
The Bank has established a Risk Management Framework to ensure that risks are appropriately managed throughout the organisation. Key elements of the framework include a risk focused governance structure, a risk appetite approved by the Board for each risk category and an internal control framework to mitigate risk.

The Risk Management Framework is designed to provide a structured approach to appropriately manage risks. This Framework identifies, assesses, manages and mitigates risks that may impair the delivery of the Bank's strategic and business objectives.

The oversight and direction of the Board remains central to the Risk Management Framework. It ensures, through a series of Board sub-committees and Management fora that appropriate policies, procedures and processes are implemented across the business to control and monitor both the actual and potential risk exposures which arise from the Bank's operations.

The Framework includes oversight bodies for the operational roles and responsibilities, both individual and collective, in the risk management process. This ensures risk exposures are aligned to the Risk Appetite of the Board and that any unacceptable risk exposures are identified and where possible mitigated.

In addition to the ongoing assessment of known risk exposures, Management monitors external and emerging risks within its forward-looking Risk Appetite Dashboards. Management fosters an open communication culture that promotes the immediate escalation of actual or emerging risks.



Board of Directors

The responsibility for the overall risk management framework lies with the Board of Directors. The Board is responsible for setting the Bank's strategy and risk appetite and ensuring risk management is appropriate and functioning. These duties also include the responsibility for bringing together, within the risk management framework, the financial disciplines of business planning and capital management in order to assess:

- the significant risks to which it is exposed;
- the adequacy of its risk assessment and management; and
- the capital resources it needs to address its risk exposures over its planning horizon.

In addition, the Board's risk governance is supported through a series of sub-committees, or by Management, operating under delegated mandates, outlined in the diagram above; each has its own terms of reference. Details are set out below.

Board level Committees

Board Risk Compliance and Credit Committee

The Board Risk Compliance and Credit Committee's primary aim is to assist the Board of Directors in monitoring and managing all the risks impacting the Bank. It is mandated to review the consolidated exposure to risk, and the appropriateness of the risk framework in place. On an annual basis, the Committee oversees the calculation and allocation of the Group's capital and liquidity requirements, and recommends to the Board the conclusions of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA). Throughout the year the Committee monitors the impact of changes in the profile of risk on the ICAAP requirements and the Board's stated Risk Appetite. Additionally, standing reports are received on the Bank's Risk Register, external risk indicators and updates on Management actions.

Audit Committee

The Audit Committee is a Board committee comprising two non-executive directors. Its primary responsibilities are to assist the Board in ensuring that the Bank's accounting and reporting systems provide accurate information and that appropriate internal controls reflecting the Bank's risk profile are in place and these are reviewed regularly.

The Remuneration and Nominations Committee (REMNOM)

The REMNOM is a Board committee and is responsible for reviewing and advising on remuneration policies generally for the Bank. It reviews the appropriateness and relevance of the Bank's Remuneration Policy at least annually. The Committee also ensures the Bank complies with the regulatory Remuneration Code and the recommendations and guidance of the UK combined code. It also advises the Board on Nominations for positions at Board and Executive level.

Sharia Supervisory Committee (SSC)

The SSC is an independent committee comprising of three independent leading scholars who are experts in the interpretation of Islamic law and its application within Islamic financial institutions. The primary responsibility of the SSC is to ensure the Bank's activities abide with Islamic principles and rules. The SSC reviews, provides guidance and opines on new products and services, contracts and agreements to ensure the Bank achieves Sharia compliance.

Executive Level Committees

Executive Committee

The Executive Committee is the CEO's committee that oversees the strategic and business performance of the Bank. The committee's main responsibilities are to develop the Bank's business strategy and make recommendations for consideration by the Board; implement the strategy set by the Board and control performance against strategic plans and budgets; implement and maintain the Bank's risk management framework; and to monitor operations and the resources of support functions.

Assets & Liabilities Committee (ALCO)

The ALCO is a management committee that is primarily responsible for monitoring market and liquidity risks. This includes monitoring risks associated with profit rates in the banking book, open foreign exchange positions, the composition of assets and liabilities, funding mismatches, capital adequacy, liquidity, wholesale credit risk and the results of liquidity stress tests and the approval of new products. It is also responsible for the ongoing development and maintenance of the Individual Liquidity Adequacy Assessment (ILAA) and Internal Capital Adequacy Assessment Process (ICAAP), and their annual submission to the Board.

Credit Committee

Credit Committee is a management committee responsible for all aspects of retail credit risk, including the application of credit policies as set by the Board, assessment of all retail credit exposures and concentrations, new counterparties, monitoring of underwriting performance and the appropriateness of credit criteria, monitoring of arrears and collections performance.

Operational Risk and Compliance Committee

The Risk Committee is a management committee that focuses primarily on the management of operational risk. The committee's primary responsibilities are to review, monitor and evaluate the effectiveness of risk assessment and management processes, systems of internal control, and to act as a monitoring mechanism for recording the Bank's assessment of actual exposure to losses compared to the capital allocated for each risk category as per the most recent ICAAP document.

Transformation Committee

Transformation Committee is a management committee responsible for the initial authorisation, on-going oversight and decision making on all significant projects within the Bank. It also monitors the Bank's overall project delivery plan, ensuring sufficient resources are allocated to each project. Day to day accountability for projects is the responsibility of project managers.

The Transformation Committee is also responsible for providing oversight over the Strategic Plan including progress on individual strategic initiatives.

Other responsibilities

While the Board of Directors is ultimately accountable for the risk management framework, everyone in the Bank has responsibility for risk management.

The Bank operates a ‘three lines of defence’ model, as highlighted in the Governance Structure diagram above:

- **First line of defence:** Line management within each business area is responsible for the identification, measurement and management of the risks within the Bank’s risk appetite, ensuring appropriate controls are in place and operating effectively.

- **Second line of defence:** Risk and Compliance functions provide risk management expertise and challenge managers and staff in their performance of risk management activities through independent reviews, monitoring and testing. The remit of the Sharia Compliance Monitoring activities also fall under the second line of defence.

- **Third line of defence:** The Bank’s Internal Audit function is responsible for independently reviewing the effectiveness of the risk management structure and internal controls and to confirm the Bank’s activities are in line with the Board risk appetite or regulatory and legal requirements. The Internal Audit Manager reports directly to the Chairman of the Audit Committee. The Audit Committee approves the work programme of Internal Audit and receives reports of the results of the work performed. The Sharia Compliance department also conduct an independent audit on an annual basis to ensure that the Bank is Sharia compliant in its activities; this report is submitted directly to the SSC.

3. Risk management objectives and policies

3.1 Business objectives and principal risks

The Bank is a producer and retailer of financial products and services comprising secured and unsecured finance, current accounts and both demand and term savings accounts. In addition, the Bank's Treasury function invests surplus funds in liquid Sharia compliant wholesale deposits and Sukuk investments to manage liquidity.

The Bank identifies, assesses and controls risks that arise from the above activities through the Risk Management Framework.

Al Rayan Bank's Risk Language 8 principle risk categories; prudential, market, strategic, credit, people, legal & regulatory, operational and Sharia compliance risk.

Each of the 8 Risk categories has three elements covering the level one, two and three risks and definitions:

- Level 1 – 8 high level categories with a headline definition of the risk,
- Level 2 – divides each of the high level category risks into more descrete risk types and sources; and,
- Level 3 - defines the individual risks associated with the specific process within each department's responsibility.

The first two provide guidance to identifying all the level three risks within the Bank's processes. The level three risks, which form the basis for the departmental Control Performance Indicators are not included in this document. All identified level three risks are included in departmental Control Performance Indicators with applicable metrics.

The Bank has defined a risk language covering 8 Risk categories:

Risk Category	Definition
Prudential & Financial Risk:	The risk of financial failure arising from lack of liquidity, funding or capital, poor management or poor quality / volatile earnings.
Market Risk:	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The risk typically arises from equity, relative asset and liability values and the impact of profit rates and currency values on earnings and economic value.
Strategic Risk:	The risk arising from developing a strategy that does not maximise 'shareholder value' and/or fails to achieve the initiatives in the agreed strategic plan due to changing or flawed assumptions, or from external macro-economic or political events which are outside the control of the Bank.
Credit Risk:	The risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the failure of the party with whom we have contracted to meet its obligations (this may cover both on and off balance sheet).
People Risk:	The risk of reductions in earnings and/ or value, through financial

Risk Category	Definition
	or reputational loss, from inappropriate staff behaviour, resourcing structure or health & safety issues. Loss can also be incurred through failure to recruit, retain, train, reward and incentivise appropriately skilled staff to achieve business objectives and through failure to take appropriate action as a result of staff underperformance.
Legal & Regulatory Risk:	The risk of reductions in earnings and/ or value, through financial or reputational loss, from poor corporate governance, failing to comply with the laws, regulations or codes applicable, frauds carried out against the Bank, and/or theft of the Bank's assets, and other criminal acts.
Operational Risk:	The risk of reductions in earnings and/ or value, through financial or reputational loss, from inadequate or failed internal processes, systems failures and supplier failure.
Sharia Risk :	The risk of reductions in earnings and/ or value, through financial or reputational loss resulting from products and services being non Sharia compliant and in accordance with Islamic law. This will include all contracts and agreements relating to the Bank's products, transactions and any new services that are introduced. This will incorporate loss of business to competitors who offer alternative Sharia products.

Reputational losses are not considered a separate risk category, but the consequences of one of the above risks occurring. The Bank wishes to avoid adverse media coverage and will use every effort to ensure that events that could potentially lead to such coverage are avoided. An escalation process for exceptional incidents has been documented with set triggers concerning customer service and major operational issues. The severity of the incident will drive the timing and level of escalation.

3.2 Risk Appetite

The risk appetite set by the Board is the level of residual risk (i.e. the risk remaining after implementing controls) which is acceptable to the Bank in terms of strategic objectives.

Exceptions outside the risk appetite are reported to Executive Management and the Board, and consideration is given to increasing controls, changing the appetite or introducing additional mitigating action. If controls are increased the cost of the control will be considered against the increased risk. If the appetite is increased the Board will consider whether the risk is worthwhile and manageable for the increased competitive advantage.

The inherent risk before controls and residual risk after controls is managed by Executive management via the Operational Risk and Compliance Committee, Credit Committee, Transformation Committee and ALCO.

The quantified levels are either the acceptable impact on the Bank's strategic objectives or a monetary value and are set at the level of residual risk after compensating management controls. The materiality levels are set as a percentage of equity so that they will increase as the business grows.

3.3 Credit risk

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

Credit policies covering each exposure type are approved by the Board in line with the Bank's risk appetite.

On a monthly basis, the Credit Committee reviews the Bank's exposure to customer credit risk through the review of reports and credit related key performance indicators (KPIs), and ALCO reviews exposure to wholesale counterparties. The KPIs include counterparty rating changes, underwriting decline rates, credit approvals outside policy, product delinquency data and rates, collection recoveries and rates, bad debt provisions and write-offs, and concentration analysis. Minutes of the Credit and ALCO Committee meetings are distributed to the Board.

3.3.1 Treasury assets

The Bank deposits funds with bank counterparties for liquidity management purposes. The Bank's risk appetite is to ensure that a maximum of 20% of wholesale exposures will be placed with counterparties rated less than A- (A minus) by Standard & Poor's, Moody's or Fitch. Investments in the Liquid Asset Buffer portfolio are in accordance with the Regulatory requirements for such assets. Any exceptions to this policy are approved by the Board. All treasury transactions are undertaken on a Sharia compliant basis and, due to the limited number of UK counterparties; this gives rise to credit risk exposures with banks resident within Europe and the Middle East.

New bank counterparties and new, or changes to existing, counterparty, country and regional limits are approved by the Board following due diligence by management. Adherence to these limits is monitored daily.

3.3.2 Secured Home Purchase Plan (HPP) finance

The Bank has adopted conservative underwriting criteria set out in a credit policy approved by the Board. This includes a maximum Finance-To-Value (FTV) of 80% unless supported by the Government's Help to Buy Guarantee Scheme.

3.3.3 Secured Commercial Property Finance (CPF)

The credit policy and attendant guidelines are approved by the Board and incorporate relevant credit criteria.

Banking facilities are available for sole traders, partnerships, limited liability partnerships, limited companies, unincorporated charities, incorporated charities and trusts. Additionally, investment opportunities from GCC based corporates and High Net Worth (HNW) individuals.

A first legal charge over Freehold or Long Leasehold property (minimum unexpired lease period at the end of any finance is 50 years) or Cash or a combination thereof are obtained. Maximum FTV rates are normally capped at 75%.

3.3.4 GCC Home Purchase Plan Finance

The credit policy for the GCC product is approved by the Board and incorporates relevant credit criteria.

This product is specifically designed to meet the requirements of customers from the Gulf Cooperation Council (GCC) countries seeking to finance the purchase of high value properties. The Bank's underwriting criteria set out in a credit policy approved by the Board. This included a maximum Finance-To-Value (FTV) of 70%.

GCC applications are underwritten internally by staff experienced in residential property finance, with specific underwriting mandates approved by the Board.

3.3.5 Buy to Let Purchase Plan (BTLPP)

The credit policy for the product is approved by the Board and incorporates relevant credit criteria. This included a maximum Finance-To-Value (FTV) of 75%.

3.3.6 Unsecured Personal Finance (PF)

The Bank has a small portfolio of Unsecured Personal Finance, which is not actively marketed and is available only to those meeting specific credit criteria. The performance of the remaining portfolio is monitored by the Credit Committee each month.

3.3.7 Credit approval and governance

HPP, CPF, GCC and BTLPP applications are underwritten internally by staff experienced in residential property finance, with specific underwriting mandates approved by the Board. Mandate levels also exist for both of the Credit and Board Risk Compliance and Credit Committees.

For HPP and GCC facilities, the Bank has a system of separate representation for conveyancing work and uses a panel manager to manage the valuations obtained in order to minimise the risk of fraud.

For CPF and BTLPP finance, use is made of specialist valuers and legal advisers and bespoke documentation. Property valuation reports for CPF contain general economic market and local market analysis and these are taken into account as part of the credit underwriting, which includes, inter alia:

- Amount, term and FTV of the finance requested
- Property type and use of property
- Business and financial position of customer, including existing gearing
- Payment cover and payment profile
- Security quality
- Likely exit position

3.4 Market risk

Market risk is the risk of loss of income arising from unfavourable market movements, including foreign exchange rates and profit rates. The ALCO monitors general market risk on a monthly basis and minutes of the monthly ALCO meetings are distributed to the Board. The Bank does not operate a trading book and therefore market risk arises only from the banking book.

3.4.1 Foreign exchange risk

Foreign currency assets and liabilities are either matched or hedged for foreign exchange risk. The ALCO monitors foreign exchange exposures on a monthly basis and minutes of the monthly ALCO meetings are distributed to the Board. As the Bank does not have a trading book and matches its currency exposures through natural hedges, the Board has concluded that zero capital is required under Pillar 1.

3.4.2 Profit Rate Risk in the Banking Book (PRRBB)

PRRBB arises from the different profit rate characteristics, re-pricing dates and maturities of customer finance assets and customer deposits.

Where possible the Bank tries to match fixed and variable rate assets and liabilities to provide a natural hedge against profit rate risk. The availability of Sharia-compliant hedging products which the Bank could use in order to mitigate the risk is increasing and the bank continues to explore opportunities to use them where it would be effective to do so. In order to manage profit rate risk on a day-to-day basis, profit rate gap reports, on both an economic and earning based approach, are prepared showing how the Bank's assets and liabilities contractually re-price or mature over time. Risk limits have been set by the Board for managing PRRBB in line with the Bank's risk appetite under both approaches. ALCO monitors both historic and projected gap reports and the impact arising from stresses in profit rates, on a monthly basis, in order that action can be taken to minimise the risk.

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It includes risks arising from:

- Product and service failures
- Legal and regulatory risks
- Poor customer treatment
- Theft, fraud and other criminal acts
- Impact of change
- People
- Transactions and internal processes
- Outsourcing and use of third party suppliers
- Information technology

Line management within each business area is responsible for the identification, measurement and management of the risks within the Bank's risk appetite, ensuring appropriate controls are in place and operating effectively. The Bank's Risk and Compliance department supports management in fulfilling their risk management responsibilities, providing assistance and guidance to staff, undertaking risk and control reviews and making recommendations for control enhancements, and preparing risk related management information.

The Operational Risk and Compliance Committee is the Bank's principal forum for monitoring Operational Risk and ensuring that appropriate actions are taken and internal controls implemented. The Committee meets on a monthly basis and reviews risk management information including:

- Capital Monitoring
- Key risk indicators

- Conduct risk indicators
- Control performance indicators
- Results of Risk and Compliance department reviews and assessments
- Reports from IT, FCU and Audit
- Bank-wide risk register, indicating risk exposures

The key risk and conduct risk indicators and the bank-wide risk register, along with minutes of the Operational Risk and Compliance Committee meetings, are distributed and reviewed by the Board.

The Bank has adopted the Basic Indicator Approach ('BIA') to operational risk under Pillar 1 of Basel II. Under the BIA, 15% of the average operating income (before provisions and operating expenses) for the last three years is used for actual operational risk costs.

The Bank has used the audited financial results for the years ended 31 December 2012 - 2014 to calculate the initial Pillar 1 capital requirement of £933k at 31 December 2014. This will be updated each year to reflect the audited financial performance of the Bank.

3.6 Liquidity risk

The Bank's cash flows largely relate to retail customer deposits and withdrawals which includes High Net Worth customers and small to medium sized businesses. Liquidity is managed on a daily basis by the Bank's Treasury department. The details of how this is undertaken and the policy approved by the Board are part of a separate Internal Liquidity Adequacy Assessment (ILAA) submission to the PRA.

ALCO monitors the Bank's liquidity position on a monthly basis, including liquidity stress testing under various scenarios. Minutes of the monthly ALCO meetings are distributed to the Board.

3.7 Concentration risk

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

The Board sets counterparty, country and regional limits in respect of asset classes. The Credit Committee monitors both sectorial and geographical concentration for each asset class in relation to the Policy limits.

The Board sets counterparty, country and regional limits in respect of treasury assets and adherence to these limits is monitored on a daily basis. Concentrations exist within the Commercial Property Finance and Home Purchase Plan portfolios due to their current small overall size. As these portfolios grow, such concentrations are expected to reduce.

The Credit Committee monitors both sectoral and geographic concentration for each finance asset class and ALCO regularly reviews counterparty, country and regional limits in respect of treasury assets. The minutes of the Credit Committee and ALCO meetings are distributed to the Board.

3.8 Sharia Compliance risk

Sharia non-Compliance risk is the risk of loss arising from products, services, transactions and counterparty placements not complying with Sharia requirements or being in accordance with

Islamic principles. The Bank's purpose is to provide Sharia compliant banking to Muslim customers. The Sharia compliant nature of each product and service offered is therefore critical to the success of the Bank.

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

4. Capital Resources

As at 31 December 2014 the Bank's capital resources were as follows:

	31-Dec-14 £m
Tier 1 capital	
Total share capital and reserves	103.2
Less intangible assets	(0.4)
	102.8
Tier 2 capital	
Collective allowances for impairment	0.5
Total capital resources	**103.3**

Notes:

- Intangible assets, comprising mainly computer software and licenses, do not qualify as capital for regulatory purposes and so are deducted from tier 1 capital above.
- The proportion of the collective allowance for impairment that qualifies as tier 2 capital is capped at 1.25% of the Bank's risk weighted assets.
- No part of capital resources comprises tier 3 capital.

5. Capital adequacy

The Bank has adopted the standardised approach to credit risk and the basic indicator approach to operational risk since 1 January 2008 to calculate the minimum Pillar 1 capital requirement.

In addition to the risks covered under Pillar 1 (credit, market and operational risks), all other material risks to which the Bank is exposed were assessed as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP). Financial and capital forecasts were prepared covering a five year period incorporating all current and planned strategic initiatives, products and services, enabling the Board to assess the levels of capital required to support both current and future activities.

The ICAAP is undertaken at least annually and more frequently should the Bank's strategic plans, forecasts or risk profile change. The results of the ICAAP indicate the minimum capital required to be maintained by the Bank to support current and future activities. The results are documented and approved by the Board and are assessed by the PRA as part of its supervisory review of the Bank.

The ICAAP is integrated in normal business activities. The impact on capital requirements of new, and changes to existing, business processes, products and services are assessed. Strategic decisions are made following an assessment of their impact on capital, ensuring adequate capital is maintained at all times and that it is efficiently utilised.

Capital adequacy is monitored against the minimum capital requirements by Operational Risk and Compliance Committee, ALCO and by the Board.

6. Credit risk measurement and reporting

6.1 Credit risk exposure and minimum capital requirement

The Bank has adopted the Standardised Approach to credit risk to calculate its minimum capital requirement. Under the Standardised Approach the level of capital required against a given level of exposure to credit risk is calculated as:

Credit risk capital requirement = Exposure value x Risk weighting x 8%

Risk weightings for each exposure class are provided by the PRA. Retail asset risk weightings take into account FTV ratios and security. Wholesale treasury asset risk weightings are dependent on counterparty credit rating and deposit duration.

The primary source for obtaining information on counterparty creditworthiness is external credit assessment institutions, Standard & Poors, Moody's and Fitch.

The table below shows the gross credit risk exposure at 31 December 2014, the average credit risk exposure for the year ended 31 December 2014 and the minimum credit risk capital requirement at 31 December 2014 by exposure class:

Exposure class	Gross credit risk exposure Year ended 31-Dec-14 £m	Average credit risk exposure Year ended 31-Dec-14 £m	Credit risk capital requirement Year ended 31-Dec-14 £m
Treasury assets (bank counterparties)	83.3	138.6	1.4
Investment securities	109.4	73.1	0.9
Home purchase plans	311.6	256.8	8.7
Commercial property finance	138.5	84.5	11.0
Personal finance	0.7	0.7	0.1
Other assets	5.1	3.3	0.3
Total	**648.6**	**557.0**	**22.4**

The geographical distribution of these exposures at 31 December 2014 was as follows:

Exposure class	UK £m	Middle East £m	Rest of the World £m	Total £m
Treasury assets (bank counterparties)	14.9	59.3	9.1	83.3
Investment securities	14.3	89.6	5.5	109.4
Home purchase plans	311.6	-	-	311.6
Commercial property finance	138.5	-	-	138.5
Personal finance	0.7	-	-	0.7
Total	**480.0**	**148.9**	**14.6**	**643.5**

The residual maturity of the exposures at 31 December 2014 was as follows:

Exposure class	Less than 1 year £m	1 – 5 years £m	More than 5 years £m	Total £m
Treasury assets (bank counterparties)	83.3	-	-	83.3
Investment securities	-	51.8	57.6	109.4
Home purchase plans	9.1	42.2	260.3	311.6
Commercial property finance	18.1	75.6	44.8	138.5
Personal finance	0.7	-	-	0.7
Total	**111.2**	**169.6**	**362.7**	**643.5**

6.1.1 Customer finance assets

The geographical distribution of finance exposures to UK customers at 31 December 2014 can further be analysed as follows:

Location	Personal Finance	Commercial Property Finance	Home Purchase Plans	Total
	£m	£m	£m	£m
Greater London	0.2	115.1	157.2	272.5
South East	0.2	1.6	43.8	45.6
East Midlands	0.1	1.8	15.5	17.4
West Midlands	0.1	2.0	29.0	31.1
North West	0.1	6.8	28.4	35.3
Yorkshire	-	2.3	13.5	15.8
Scotland	-	0.4	6.4	6.8
South West	-	1.7	8.2	9.9
Wales	-	6.1	2.7	8.8
East Anglia	-	0.6	5.4	6.0
North	-	0.1	1.5	1.6
Total	0.7	138.5	311.6	450.8

6.1.2 Treasury assets

The credit ratings of treasury asset exposures at 31 December 2014 were as follows:

Credit quality step	Risk Weighting	Moody's rating	Fitch/S&P rating	Exposure value £m
1	20%	Aaa to Aa3	AAA to AA-	27.5
2	20%/50%	A1 to A3	A+ to A-	48.8
3	20%/50%	Baa1 to Baa3	BBB+ to BBB-	0.0

4	50%/100%	Ba1 to Ba3	BB+ to BB-	0.0
	20%/50%	Unrated	Unrated	7.0
Total				**83.3**

6.1.3 Treasury Investments

The credit ratings of treasury investments exposures at 31 December 2014 were as follows:

Credit quality step	**Risk Weighting**	**Moody's rating**	**Fitch/S&P rating**	**Exposure value £m**
1	0%/20%	Aaa to Aa3	AAA to AA-	74.0
2	20%/50%	A1 to A3	A+ to A-	33.5
3	20%/50%	Baa1 to Baa3	BBB+ to BBB-	1.9
4	50%/100%	Ba1 to Ba3	BB+ to BB-	0.0
	20%/50%	Unrated	Unrated	0.0
Total				**109.4**

6.2 Impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Bank considers evidence for impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed by grouping financial assets with similar risk characteristics.

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

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

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

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

The following table details the past due exposures of the Bank at 31 December 2014 and charges to the income statement for the year to 31 December 2014.

	Treasury assets	**Investment securities**	**Personal Finance**	**Commercial Property Finance**	**Home Purchase Plans**	**Total**
	£m		**£m**	**£m**	**£m**	**£m**
Neither past due nor impaired	83.3	109.4	0.1	138.5	311.6	642.9
Past due:						
Up to 3 months	-	-	-	-	-	-
3 to 6 months	-	-	-	-	-	-
6 to 9 months	-	-	-	-	-	-
Over 9 months	-	-	0.6	-	-	0.6
Total exposures	**83.3**	**109.4**	**0.7**	**138.5**	**311.6**	**643.5**
Impairment provisions	-	-	0.6	-	-	0.6
Impairment charge for the year	-	-	-	-	-	-

Past due is defined as an exposure that is one day or more overdue. The amounts shown as past due represent the total amount of the outstanding exposure not just the amount that is overdue.

All past due exposures relate to Personal Finance facilities to customers based in the UK. The movement in impairment provisions for the year ended 31 December 2014 is as follows:

	Specific provision £m	Collective provision £m	Total £m
Balance at 1 January 2014	0.0	0.6	0.6
Charge for the year	0.0	0.0	0.0
Amounts written off during the year	0.0	0.0	0.0
Balance at 31 December 2014	**0.0**	**0.6**	**0.6**

7. Remuneration Code Disclosures

The financial services regulator issued its Policy Statement PS10/20 “Revising the Remuneration Code” (“**the Code**”) in December 2010, which set out their requirements in this regard. The Remuneration Code is set out in SYSC 19A of the FSA Handbook.

Al Rayan Bank PLC qualifies as a Tier 3 firm under the Code. It is required to disclose certain qualitative items and quantitative remuneration items.

This statement sets out the disclosures required under the Code as they apply to Al Rayan.

Al Rayan’s Remuneration and Nomination Committee is responsible for the governance and implementation of the Code and the annual review of adherence to it.

The Remuneration and Nomination Committee comprises of two non-Executive Directors and the Managing Director. The Bank’s Head of Human Resources is a member of the committee acting as secretary, but carries no vote in decision making. The non-Executive Directors are regarded as being independent of Al Rayan and also to possess the necessary skills to exercise the appropriate judgement. The Remuneration and Nomination Committee has recently reviewed and approved Al Rayan’s remuneration policies and the Remuneration Policy Statement (RPS). To ensure compliance with the Code, the recommended RPS template by the financial services regulator has been adopted.

Al Rayan only has one business area which is Retail Banking and employed paid members of staff as at 31 December 2014.

The staff costs were as follows:-

	2014
	£'000
All Staff:	
Total fixed staff employment costs	5,121
Total variable staff costs: bonus awards	458
Total staff costs	**5,579**
Code Staff:	
Code staff fixed costs	1,473
Code staff variable costs: bonus awards	297
Total Code staff costs	**1,770**

The Code requires that banks identify senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm’s risk profile and designate them as “Code Staff”. In total 31 Code Staff have been identified as being employed during the year (23 at year end) and a list is maintained by Human Resources. Additional restrictions apply to the remuneration of Code Staff. All Directors (Executive and Non-Executive) and Senior Managers (three of whom are also FSA Approved Persons) have been identified as Code staff. No Code staff had either variable or total remuneration in excess of £500,000.

Al Rayan has in place a discretionary bonus scheme and whether any awards will be payable will be linked to whether Al Rayan has met its overall business objectives and on affordability based on the end of year financial results. Bonus awards under the schemes qualify as "variable remuneration" as defined in the Code. Al Rayan's performance year runs from 01 January to 31 December. This bonus scheme is in place to reward staff for performance during the current performance year. The purpose of the scheme is to recognise and reward staff for their individual contribution towards Al Rayan achieving its business objectives.

At the beginning of each performance year, objectives are agreed for each individual based on their job role. Objectives for each individual are agreed based on overall company objectives and individual role specific objectives. Performance towards the achievement of these objectives is reviewed periodically throughout the performance year as part of the Bank's performance management process and at the end of the year an assessment is made of each individual's overall performance against the objectives agreed. Whether any awards will be payable at the end of the performance year will depend on the whether the Bank has met its overall business objectives and on the end of year financial results. Any awards that are payable to individuals will be paid as a one-off cash payment where the Code permits. The amount of any such awards will depend on each staff's overall performance.
Guaranteed bonuses are not offered as part of Al Rayan's current performance award arrangements and Al Rayan did not offer any "sign-on" inducements or severance payments during the year.

Al Rayan employed 131 staff as at 31 December 2014. The cost of bonus awards payable in respect of 2014 was £458,114 of which £297,175 was allocated to the Code staff. Staff members in control functions are remunerated independently of the businesses they oversee.

Total staff employment costs (including variable remuneration) in 2014 were £5,579,490 and of which the employment costs of the Code staff were £1,770,518.