AL RAYAN BANK

Pillar 3 Disclosures

31 December 2016

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1 Executive summary

1.1 Background to the Bank

Al Rayan Bank PLC (the 'Bank' or "Al Rayan Bank") is a subsidiary of Al Rayan (UK) Limited, a majority owned subsidiary of Masraf Al Rayan ('MAR'), the second largest bank in Qatar by market capitalization. MAR acquired the Bank in January 2014.

As part of the MAR Group of companies, Al Rayan Bank has a long-term commitment to Islamic finance, with the credibility and stability to deliver the banking needs for its customers. Its brand strategy is rooted in aspirational and responsible banking, with a strong emphasis on customer experience and service. Al Rayan Bank offers consumers of all faiths a different approach to banking: 'Banking you can believe in'.

Al Rayan Bank is a UK registered Islamic bank, and since 2004 has remained the UK's largest wholly Sharia compliant retail bank. It offers a full range of banking services and the largest range of retail financial products in the UK which are all operated in accordance with Sharia principles.

The Bank is authorised by the Prudential Regulatory Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA'), and possesses a full banking license.

Current products include home purchase plans, current accounts and savings accounts. The Bank has also introduced Sharia compliant business banking to the UK, and now offers a wide range of institutional and business banking products and services, including commercial property finance.

With the 'Al Rayan Bank' brand positioning, new products and services and a supportive shareholder, the Bank is well positioned to achieve significant but manageable growth in the Balance Sheet.

The Bank has an independent Board of Directors for governance and oversight and the responsibility for day to day strategic management of the Bank has been entrusted to the Chief Executive and his Executive Team.

1.2 Purpose of the Pillar 3 Disclosures

This document comprises Al Rayan Bank's Pillar 3 disclosures on Capital and Risk Management as at 31 December 2016. It has two principal purposes:

- To provide useful information on the capital and risk profile of Al Rayan Bank;
- To meet the regulatory disclosure requirements under the Capital Requirements Regulation ("CRR"), Part 8 – Disclosure by institutions and the rules of the PRA set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed, including Remuneration Code disclosures.

1.3 Summary Metrics

Capital ratios have remained in excess of regulatory requirements and Board Risk appetite with a Common Equity Tier 1 (CET1) ratio of 17.1% (2015: 23.2%) and Total Capital ratio of 17.3% (2015: 23.5%).

The strength of the CET1 ratio reflects profit after tax for the period of £9.5 million.

CRD IV requires firms to calculate a leverage ratio which measures the relationship between capital resources and total assets, to supplement risk-based capital requirements. At present, the Bank is not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. However, the Bank maintains a prudent risk appetite limit well above the PRA prescribed minimum leverage ratio requirement for larger institutions.

The CRR leverage ratio is calculated using the same definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure. The CRR leverage ratio remained above regulatory requirements and risk appetite at 8.0% (2015: 10.8%) as profits generated for the period supported the higher exposures, which were driven by increased secured home purchase plan (HPP) finance, commercial property finance (CPF) and treasury assets.

At 31 December 2016, the Bank's Liquidity Coverage Ratio (LCR) was 502% (31 December 2015: 236%). This LCR exceeds the current UK regulatory minimum requirement of 80% and reflects the Bank's strategy of maintaining a strong Liquidity position.

Full details concerning the Bank's overall financial position can be found within the Annual Report and Accounts 2016 ('ARA'), while a summary of the changes in key capital ratios are illustrated on the following pages.

Key metrics

Table 1 Available capital £m

	2016	2015
Common Equity Tier 1	116	108
Total Capital	118	109
Total Risk Weighted Assets (RWA)	681	465

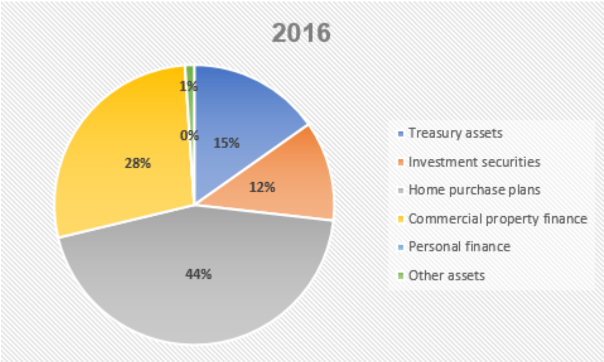
Table 2 Capital ratios as a percentage of RWA

	2016	2015
Common Equity Tier 1 ratio	17.1%	23.2%
Total Regulatory Capital ratio	17.3%	23.5%

Table 3 CRR Leverage ratio (£m/%)

	2016	2015
Total CRR leverage ratio exposure measure	1,455	1,003
CRR leverage ratio	8.0%	10.8%

Figure 1 Regulatory Capital Exposure



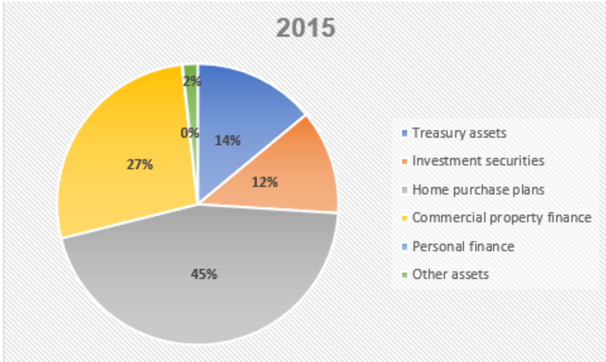
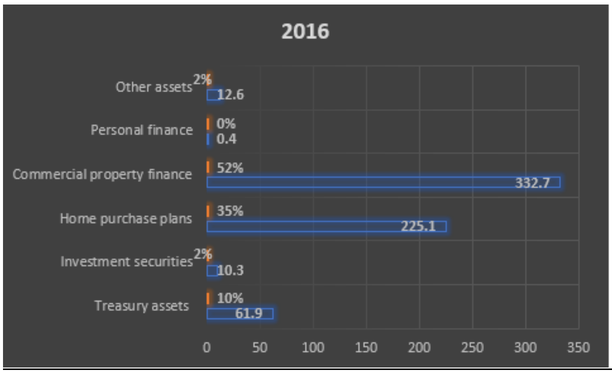


Figure 2 Risk-weighted assets percentage breakdown



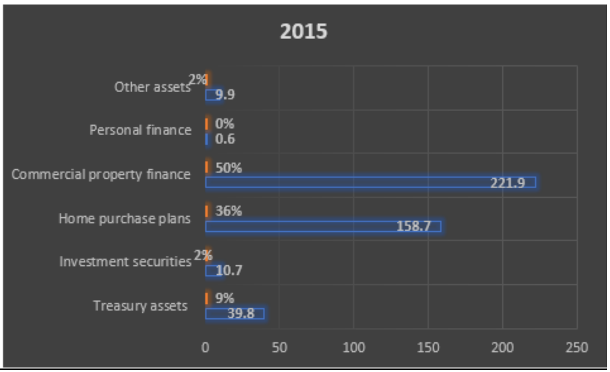
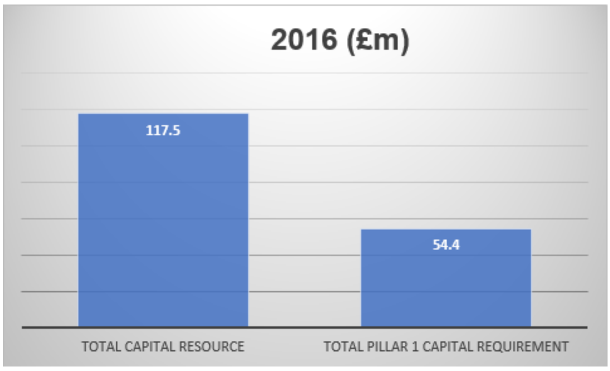
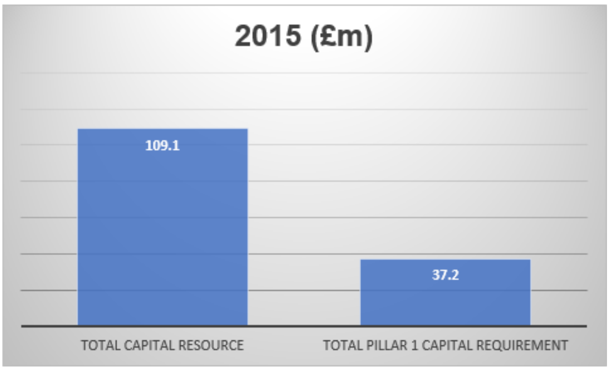


Figure 3 Pillar 1 Capital Surplus





2 Introduction

2.1 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. It came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the PRA.

The CRD 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.

2.2 Scope of application

The Bank has no trading subsidiaries; therefore, this document only contains the Pillar 3 disclosures for Al Rayan Bank PLC.

2.3 Basis and frequency of disclosures

Unless stated otherwise, all data is at 31 December 2016 or for the year to 31 December 2016. The term CRD IV is used throughout these disclosures as a collective term for CRD IV, CRR and the PRA's policy statement. This report is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8). The disclosures may differ from similar information in the ARA which are prepared in accordance with International Financial Reporting Standards ('IFRS'). Therefore, the information in these disclosures may not be directly comparable.

This document will be updated at least annually and will be based on the Bank's most recent audited financial statements.

Both the Annual Report and Financial Statements and the Pillar 3 disclosures can be found on the Bank's website. (https://www.alrayanbank.co.uk/useful-info-tools/investor-relations/regulatory-information/)

2.4 Verification

These disclosures have been reviewed by the Bank's Executive Management Committee and the Board.

2.5 External audit

The disclosures provided in this document have been internally verified but have not been subjected to external audit.

2.6 Board responsibility for risk management

A core objective for the Bank is the effective management of risk. The responsibility for identifying and managing the principal risks rests with the Bank's Board of Directors, who are also responsible for setting the Bank's strategy, risk appetite and control framework.

The Board considers that, as at 31 December 2016, it had in place adequate systems and controls regarding the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined limits for risk exposure throughout the year for all principal risks. The Bank also operated in line with its internal capital targets.

3 Risk management framework

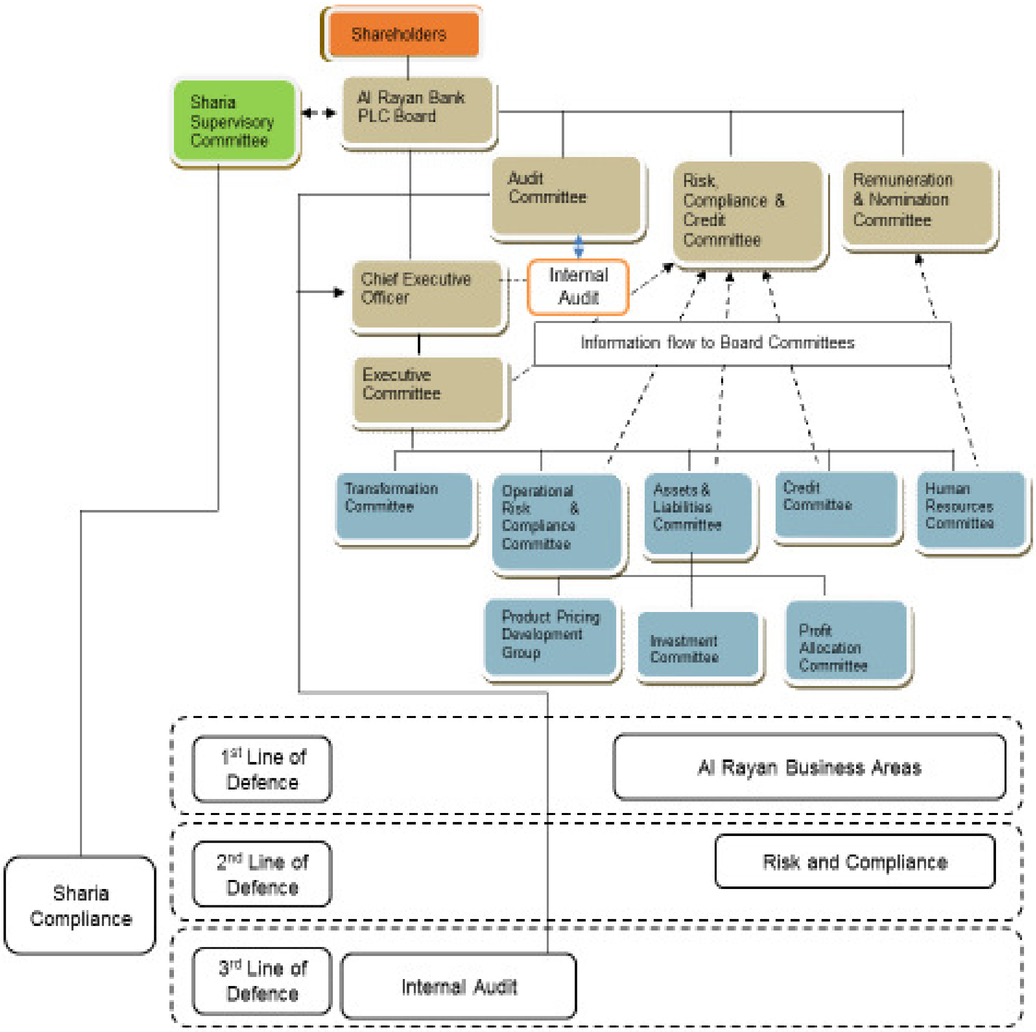
3.1 Governance structure

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.

Figure 4 Governance structure



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.

3.2 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 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.

3.3 Board level committees

The Board operates the following permanent Board committees.

Board Risk, Compliance and Credit Committee (BRCC)

The primary aim of the Risk, Compliance and Credit Committee is to provide oversight and advice to the Board of Directors on the Bank's current and future risk exposures and risk strategy. It reviews the Banks's performance against risk appetite and oversees the effectiveness of key Bank policies. BRCC met 4 times during 2016.

Board Audit Committee (BAC)

The primary aim of the BAC is to assist the Board of Directors in fulfilling its responsibilities to the shareholders in relation to accounting reporting practices. The Committee monitors the integrity of the financial statements of the Bank and any formal announcements relating to the Bank's financial performance; reviewing significant financial reporting judgements contained in them. The BAC also assesses whether a sound system of internal control is maintained and preserves oversight of the performance of the independent auditors and the Bank's Internal Audit function. BAC met 5 times in 2016.

The Remuneration and Nominations Committee (REMNOM)

The objectives of the Remuneration and Nomination Committee are to ensure that Al Rayan Bank has a Board of Directors in place who are suitably qualified, experienced and trained and that effective succession planning is undertaken; all Al Rayan Bank's remuneration policies and practices are compliant with the Remuneration Code, and are designed to attract, retain and motivate the Bank's executive director(s), senior management and employees. REMNOM met 4 times in 2016.

Sharia Supervisory Committee (SSC)

The SSC is an independent committee comprising of three leading scholars who are experts in the interpretation of Islamic law and its application within Islamic financial institutions. The SSC is supported by the Head of Sharia Compliance and Product Development (HSCPD) who is their representative in the Bank. The primary responsibility of both is to ensure the Bank's activities abide by Islamic principles and rules, however the Board and senior management are responsible for implementing Sharia governance and requirements.

The SSC and HSCPD provide guidance and opinion on new products, services, contracts and agreements to ensure the Bank maintains Sharia compliance. The SSC reports to the Shareholders by way of a Sharia audit report in the ARA.

3.4 Executive level committees

Executive Committee (ExCo)

The ExCo is the Chief Executive's forum for major operational decisions and is responsible for assisting the Chief Executive in the performance of his duties, including:

- The development and implementation of strategy, risk appetite, operational plans, policies, procedures and budgets for consideration by the Board;
- The monitoring of operating and financial performance;
- The assessment and control of risk;
- The prioritisation and allocation of resources;
- Monitoring competitive forces in each area of operation.

Assets & Liabilities Committee (ALCO)

The ALCO is a management committee that is primarily responsible for monitoring market, capital 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 Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP), and their annual submission to the Board.

Management Credit Committee (MCC)

MCC is the management committee responsible for all aspects of credit risk, including the application of credit policies as set by the Board, assessment of all 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 (ORCC)

The ORCC is a management committee that focuses primarily on the management of operational risk, regulatory compliance, anti-money laundering (AML) and the prevention of financial crime. The committee's primary responsibilities are to review, monitor and evaluate the effectiveness of risk, AML and compliance assessment and management processes, systems of internal control.

Transformation Committee (TransCo)

TransCo 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.

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

3.5 Three lines of defence

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:

- **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 falls 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, regulatory and legal requirements. The Internal Audit Manager reports directly to the Chairman of the BAC. The BAC 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.

4 Risk management objectives and policies

4.1 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 classifies its principle risk in 7 categories; strategic, prudential, market, credit, operational, legal and regulatory & conduct. These are defined below:

Table 4 Definition of principle risks

Risk category	Definition
Strategic Risk	**Business risk** The risk of failing to achieve the strategic vision and objectives due to internal or external events 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. **Financial risk** The risk of failing to achieve the financial objectives, leading to reduced financial security and sustainability arising from the poor management of or poor quality/volatile earnings and costs.
Prudential Risk	**Capital Risk** The risk of financial failure arising from a lack of capital which may impact the current or future financial stability of the Bank. **Liquidity and funding risk** The risk of financial failure arising from a lack of liquidity which may impact the current or future financial stability of the Bank.
Market Risk	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavorable market movements.
Credit Risk	The risk of financial loss and/or value as a result of the failure of a party with whom the Bank have contracted to meet its obligations or for collateral held to realise its value.
Operational Risk	**Operational risk – Systems** The risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes, people or systems and third-party failure. **Operational risk - People** The risk of reductions in earnings and/or value, through financial 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 and Regulatory Risk	**Sharia non-compliance risk** The risk of a loss in earnings, value or reputation due to products and services or their associated operational systems, conduct and financial processes being non-compliant with Sharia (Islamic law). **Regulatory risk** The risk of financial loss, regulatory censure and/or reputational damage from failing to adhere to applicable laws, regulations and supervisory guidance (including Anti Money Laundering).
Conduct Risk	The risk of treating customers unfairly and delivering inappropriate outcomes that leads to customer detriment or not achieving a positive experience to the customer. The risk may arise from different activities of the Bank including product design and development; sales process; post sales process; and from the overall culture and governance framework.

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.

Each of the 7 risk categories is divided into three levels:

- Level 1 – defines 7 high level categories with a headline definition of the risk,
- Level 2 – divides each of the level 1 risks into more discrete risk types and sources;
- Level 3 - defines the individual risks associated with the specific process within each department's responsibility.

The first two levels provide guidance to identifying all the level three risks within the Bank's processes.

4.2 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 MCC, ORCC, TransCo 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.

4.3 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.

Monthly, the MCC reviews the Bank's exposure to customer credit risk through the review of reports and credit related key risk indicators (KRIs), and ALCO reviews exposure to wholesale counterparties. The KRIs include counterparty rating changes, underwriting decline rates, credit approvals outside policy, product delinquency data and rates, collection recoveries and rates, provision for credit losses and write-offs, and concentration analysis. Minutes of the Credit and ALCO Committee meetings are distributed to the Board.

The following table shows the credit risk exposures and the composition of the minimum capital requirements for credit risk at 31 December 2016 and 31 December 2015:

Table 5 Pillar 1 capital requirements: credit risk - 31 December 2016

Standardised approach	Credit risk exposure (£m)	Average credit risk exposure (£m)	Risk Weighted Assets (£m)	Minimum capital Requirement (£m)
Treasury assets (bank counterparties)	219.4	185.2	61.9	5.0
Investment securities	166.6	150.8	10.3	0.8
Home purchase plans	640.4	552.6	225.1	18.0
Commercial property finance	399.0	336.9	332.7	26.6
Personal finance	0.3	0.4	0.4	0.0
Other assets	15.1	17.3	12.6	1.0
Total	**1,440.8**	**1,243.2**	**643.0**	**51.4**

Table 6 Pillar 1 capital requirements: credit risk - 31 December 2015

	Credit risk exposure (£m)	Average credit risk exposure (£m)	Risk Weighted Assets (£m)	Minimum capital Requirement (£m)
Treasury assets (bank counterparties)	140.6	117.6	39.8	3.2
Investment securities	120.9	114.6	10.7	0.9
Home purchase plans	453.3	382.5	158.7	12.7
Commercial property finance	272.5	210.3	221.9	18.7
Personal finance	0.6	0.7	0.6	0.0
Other assets	17.4	9.3	9.9	1.1
Total	**1,005.3**	**835.0**	**441.6**	**36.6**

The table below shows movement in credit risk RWAs during 2016.

Table 7 Movements in RWAs for credit risk from 1 January 2016 to 31 December 2016:

Movement in Credit Risk RWAs during 2016	£m
Increase in Treasury assets	22.1
Decrease in investment securities	(0.4)
Increase in home purchase plans	66.4
Increase in commercial property finance	110.8
Decrease in personal finance	(0.2)
Other	2.7
Credit Risk RWAs increase for 2016	**201.4**

Credit Concentration Risk exposures

The credit concentration risk exposures for the Bank as at 31 December 2016 and 31 December 2015 are summarised in the following section including analysis by geography, sector and contractual maturity.

Geographic distribution of credit risk exposures

The Bank's credit risk exposures are largely within the UK, except for £181.4 million at 31 December 2016 in respect of assets to the Middle East and Europe (31 December 2015: £136.6 million).

Table 8 Credit risk exposures analysed by exposure class: 31 December 2016

	UK (£m)	Middle East (£m)	Rest of the World (£m)	Total (£m)
Treasury assets (bank counterparties)	159.1	60.3	0.0	219.4
Investment securities	47.9	118.7	0.0	166.6
Home purchase plans	640.2	0.0	0.2	640.4
Commercial property finance	396.9	0.0	2.1	399.0
Personal finance	0.3	0.0	0.0	0.3
Total	**1,244.4**	**179.0**	**2.3**	**1,425.7**

Other assets have been excluded from these analyses.

Table 9 Credit risk exposures analysed by exposure class: 31 December 2015

	UK (£m)	Middle East (£m)	Rest of the World (£m)	Total (£m)
Treasury assets (bank counterparties)	101.6	39.0	0.0	**140.6**
Investment securities	24.5	90.8	5.6	**120.9**
Home purchase plans	452.1	0.0	1.2	**453.3**
Commercial property finance	272.5	0.0	0.0	**272.5**
Personal finance	0.6	0.0	0.0	**0.6**
Total	**851.3**	**129.8**	**6.8**	**987.9**

Distribution of Credit risk exposures by residual maturity

Table 10 Residual contractual maturity of credit risk exposures: 31 December 2016

	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury assets (bank counterparties)	219.4	0.0	0.0	219.4
Investment securities	35.3	71.2	60.1	166.6
Home purchase plans	22.1	95.8	522.5	640.4
Commercial property finance	69.3	278.3	51.4	399.0
Personal finance	0.3	0.0	0.0	0.3
Total	**346.4**	**445.3**	**634.0**	**1,425.7**

Table 11 Residual contractual maturity of credit risk exposures: 31 December 2015

	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury assets (bank counterparties)	140.6	0.0	0.0	140.6
Investment securities	0.0	61.7	59.2	120.9
Home purchase plans	14.6	63.3	375.4	453.3
Commercial property finance	19.7	222.7	30.1	272.5
Personal finance	0.6	0.0	0.0	0.6
Total	**175.2**	**347.7**	**464.7**	**987.9**

The maturity of exposures is shown on a contractual basis rather than on a behavioural basis and therefore, does not include expected redemptions over the life of the exposure. Consequently, actual maturity is likely to be materially shorter.

Credit risk management: Financing to customers

Credit risk is managed in accordance with financing policies, the risk appetite and the Risk Management Framework. Financing policies and performance against risk appetites are reviewed regularly. The Bank seeks to mitigate credit risk by focusing on business sectors where the Bank has specific expertise and through limiting concentrated exposures on larger facilities, certain sectors and other factors which can represent higher risk. The Bank also seeks to obtain security cover, and where appropriate, personal guarantees from applicants/customers. Affordability checks on income versus outgoings are also made in relation to Home Purchase Plan (HPP) to assess an applicant's capacity to meet payments.

The Bank maintains a dynamic approach to credit management and aims to take necessary steps if specific issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to customer, economic or sector-specific weaknesses.

Credit risk mitigation: Financing to customers

The Bank uses a wide range of techniques to reduce the credit risk of its financing activities. The most basic of these is performing an assessment of the ability of a customer to service the proposed level of financing without distress. The risk is further mitigated by obtaining collateral against the financing provided.

The principal indicators used to assess the credit security of performing assets are finance-to-value ratios.

Information on the finance-to-value (FTV) ratios for the Bank's exposures are shown in the tables below:

Table 12 Collateral held in respect of finance to customers, neither past due nor individually impaired

	31 Dec 16 Finance Value (£m)	Value of collateral held (£m)	Average FTV 2016 (£m)	31 Dec 15 Finance Value (£m)	Value of collateral held (£m)	Average FTV 2015 (£m)
Home finance	640.4	1,201.2	53%	453.3	859.2	53%
Commercial property finance	399.0	820.4	49%	272.5	588.4	46%

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.

Secured Commercial Property Finance (CPF)

The credit policy and supplementary 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 Gulf Cooperation Council (GCC) based corporates and High Net Worth (HNW) individuals are also offered.

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%.

Finance for Overseas Customers

The credit policy for overseas customers is approved by the Board and incorporates relevant credit criteria. This includes a maximum FTV of 80%.

This policy applies to all residential finance, for overseas residents who are not members of any country covered by the EEA. Most customers that take advantage of this Policy are from the GCC. It does not apply to European citizens, those with permanent rights to reside in the UK or Expatriate customers, whether covered by Mortgage Conduct of Business (MCOB) / Mortgage Market Review (MMR) or not.

Buy to Let Purchase Plan (BTLPP)

The credit policy for the product is approved by the Board and incorporates relevant credit criteria. This includes a maximum FTV of 75%.

Unsecured Personal Finance (PF)

The Bank has a small portfolio of Unsecured Personal Finance. This product has been withdrawn from the market.

Credit approval and governance

HPP, CPF, Overseas and BTLPP applications are underwritten internally by staff experienced in residential and commercial property finance, with specific underwriting mandates approved by the Board. Mandate levels also exist for both the MCC and the BRCC.

For HPP and Overseas facilities, the Bank has a system of separate representation for conveyancing work and uses a panel manager to manage the valuations obtained 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 considered 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

Treasury assets and investment securities

The Bank deposits funds with bank counterparties for liquidity management purposes. 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; the Bank has exposures with financial institutions resident within the Middle East. All treasury assets have a maturity of less than three months.

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

Information on the credit quality of financial assets held by Treasury is shown in the tables below:

Table 13 The credit ratings of treasury asset exposures at 31 December 2015 & 2016:

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2016 (£m)	Exposure value (£m) 2015
1	Aaa to Aa3	AAA to AA-	0.3	15.0
2	A1 to A3	A+ to A-	45.7	15.2
3	Baa1 to Baa3	BBB+ to BBB-	173.4	110.4
4	Ba1 to Ba3	BB+ to BB-	0.0	0
	Unrated	Unrated	0.0	0
Total			**219.4**	**140.6**

Table 14 The credit ratings of treasury investment exposures at 31 December 2015 & 2016

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2016 (£m)	Exposure value 2015 (£m)
1	Aaa to Aa3	AAA to AA-	143.3	88.0
2	A1 to A3	A+ to A-	23.3	31.0
3	Baa1 to Baa3	BBB+ to BBB-	0.0	1.9
4	Ba1 to Ba3	BB+ to BB-	0.0	0.0
	Unrated	Unrated	0.0	0.0
Total			**166.6**	**120.9**

As at 31 December 2016 and as at 31 December 2015, none of the treasury assets were past due or impaired. Credit rating assessment is based upon the asset and the specific obligor the Bank is exposed to.

Counterparty credit limits are established for authorised counterparties and are updated on a regular basis to take account of any ratings migration and the Bank's assessment of the credit risk for the institution.

Impairment

At each reporting period, 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 2016 in relation to all credit exposures and charges to the income statement for the year to 31 December 2016.

Table 15 Past due exposures and charges to the income statement for the year to 31 December 2016:

	Treasury assets (£m)	Investment securities (£m)	Personal finance (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	219.4	166.6	0.1	399.0	640.4	**1,425.5**
Past due:	0	0	0	0	0	**0**
Up to 3 months	0	0	0	0	0	**0**
3 to 6 months	0	0	0	0	0	**0**
6 to 9 months	0	0	0	0	0	**0**
Over 9 months	0	0	0.2	0	0	**0.2**
Total exposures	219.4	166.6	0.3	399.0	640.4	**1,425.7**
Impairment provisions	0	0	0.2	0.2	0.8	**1.2**
Net Impairment charge for the year	0	0	0	0.1	0.3	**0.4**

Past due is defined as an exposure that is 30 days 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 2016 is as follows:

Table 16 The movement in impairment provisions for the year ended 31 December 2016:

	Specific provisions (£m)	Collective provisions (£m)	Total (£m)
Balance at 1 January 2016	0.0	1.1	**1.1**
Charge for the year	0.0	0.4	**0.4**
Amounts written off during the year	0.0	(0.3)	**(0.3)**
Balance at 31 December 2016	0.0	1.2	**1.2**

Market risk

Market risk is the risk of loss of income arising from unfavorable market movements, including foreign exchange rates and profit rates. The ALCO monitors general market risk monthly 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.

Foreign exchange risk

Foreign currency assets and liabilities are either matched or hedged for foreign exchange risk. The ALCO monitors foreign exchange exposures monthly and minutes of the monthly ALCO meetings are distributed to the Board.

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 to mitigate the risk is increasing and the Bank continues to explore opportunities to use them where it would be effective to do so. 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, monthly, in order that action can be taken to minimise the risk. The impact of a two per cent shift in the profit yield curve for each period are as follows (note: potential losses are shown as negative numbers):

Table 17 The impact of a 2% shift in the profit yield:

2% shift up of the yield curve:	2016 £m	2015 £m
As at year end	8.2	7.4
Average of month end positions reported to ALCO	5.4	1.5

2% shift down of the yield curve:	2016 £m	2015 £m
As at year end	(2.3)	(0.1)
Average of month end positions reported to ALCO	(1.1)	(0.4)

Basis risk

Basis risk is where there is a mismatch in the profit rate reference base for assets and liabilities.

A basis risk exposure is measured via aggregating all other basis risk asset and liabilities against 3 months-LIBOR based exposures. The net exposure is then measured against approved limits. Limits are set based on the widening of basis against the 3 months-LIBOR. The Bank has a market risk policy in place which places limits on the net mismatch between base rate linked assets and liabilities. As at 31 December 2016, the amount of the basis risk sensitivity measure was £0.2 million (31 December 2015: £0.3 million).

4.4 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 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 monthly and reviews risk management information including:

- Key risk indicators
- Conduct risk indicators
- Key performance indicators
- Results of Risk and Compliance department reviews and assessments
- Reports from Information Technology, Information Security, Compliance, Financial Crime, Internal Audit and Customer Care.

The key risk and conduct risk indicators, together 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 tables below show movements in RWAs for operational risk during 2016 and 2015

Table 18 Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2016

	£m
RWAs at 1 January 2016	23.4
Increase in RWA due to revenue generation	14.3
RWAs at 31 December 2016	37.7
Operational risk Pillar 1 capital requirement at 31 December 2016	3.0

Table 19 Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2015

	£m
RWAs at 1 January 2015	5.6
Increase in RWA due to revenue generation	17.8
RWAs at 31 December 2015	23.4
Operational risk Pillar 1 capital requirement at 31 December 2015	1.9

The increase in operational risk RWAs is due to the higher revenue generated by the Bank over the three years to 31 December 2016 compared to the three years to 31 December 2015.

4.5 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 daily 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 Process (ILAAP) submission to the PRA.

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

The Bank holds a liquidity buffer, which is analysed as at 31 December 2016 and at 31 December 2015 as follows. The figures are post "haircut" adjustments and consistent with the quarterly regulatory returns.

Table 20 Liquidity portfolio

	31 December 2016 (£m)	31 December 2015 (£m)
Central governments	93.9	67.4
Regional governments	3.9	3.2
Multinational development banks	49.4	24.6
Corporates	7.7	10.5
Cash	2.5	1.8
Total	157.4	107.5

Liquidity Ratios

The CRR provided for two new liquidity safeguards. The Liquidity Coverage Ratio ("LCR") aims to improve the resilience of banks to liquidity risks over a 30-day period. The Net Stable Funding Ratio ("NSFR") aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one-year period of extended stress.

Liquidity Coverage Ratio

The Bank's LCR as at 31 December 2016 was 502% (31 December 2015: 236%). This is significantly in excess of the minimum standard of 80% mandated by the PRA and effective from 1 October 2015. The PRA's mandated minimum requirement will increase to 100% on 1 January 2018 on a phased basis.

Net Stable Funding Ratio

The Bank's NSFR as at 31 December 2016 was 140% (31 December 2015: 140%) which is in excess of the minimum level of 100% which is expected to apply from 2018 as proposed in the Basel 295 publication (October 2014), pending finalisation of the EU Net Stable Funding Requirement delegated legislation.

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

4.7 Sharia non-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 & Product Development, who is also independent and reports directly to the SSC, 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.

5 Capital requirements and resources

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.

5.1 Pillar 1 Capital

The Bank's overall capital requirement under Pillar 1 is calculated by adding together the capital requirements for credit risk, market risk, and operational risk. However, as per Article 351 of the CRR, the net FX holding of the Bank is de minimis and thus the Bank does not hold Pillar 1 capital for market risk.

The following table shows the Bank's capital requirement and capital surplus under Pillar 1 as at 31 December 2016.

Table 21 Total minimum Pillar 1 capital requirement

	31 December 2016 RWA (£m)	Pillar 1 Capital Requirement (£m)	31 December 2015 RWA (£m)	Pillar 1 Capital Requirement (£m)
Credit risk	643.0	51.4	441.6	35.3
Operational risk	37.7	3.0	23.4	1.9
Total	680.7	54.4	465.0	37.2
Capital Resources		117.5		109.1
Capital resources surplus over pillar 1 requirement		63.1		71.9

5.2 Total Capital Resources

The following table shows the composition of the Bank's regulatory capital position as at 31 December 2016 and at 31 December 2015.

Table 22 Composition of regulatory capital

Common Equity Tier 1	2016 (£m)	2015 (£m)
Share capital	121.2	121.2
Share premium	54.8	54.8
Retained earnings	(54.8)	(64.3)
Mark to market reserve	2.0	1.7
Less: intangible assets	(0.9)	(0.6)
Less: deferred tax	(6.1)	(4.8)
Total Common Equity Tier 1	116.2	108.0
Additional Tier 1 capital	0.0	0.0
Tier 2 capital	0.0	0.0
Collective allowance	1.3	1.1
Total Tier 2 capital	1.3	1.1
Total capital resources	117.5	109.1

Total capital resources have increased by £8.4 million to £117.5 million (31 December 2015: £108 million) during 2016 as a result of the inclusion of the Bank's profit after tax for the year in retained earnings (profit after tax less deferred tax recognized in the period). Total RWAs increased by £216 million reflecting the continued growth of the Bank's balance sheet.

The table below shows movements in regulatory capital during 2016.

Table 23 Movement in regulatory capital during 2016.

	£m
Total Capital at 01 January 2016	109.1
Profit after tax for the year	9.5
Increase in intangible asset deduction	(0.3)
Increase in deferred tax deduction	(1.3)
Other	0.5
Total Capital at 31 December 2016	117.5

Reconciliation of statutory equity to regulatory capital resources

The table below reconciles the Bank's statutory equity shown within the ARA to the total regulatory capital balance shown in table 23.

Table 24: Reconciliation of statutory equity to total regulatory capital resources

	31 December 2016 (£m)	31 December 2015 (£m)
Equity per statement of financial position	123.2	113.4
Regulatory adjustments		
Add: collective impairment	1.3	1.1
Less: deferred tax assets	(6.1)	(4.8)
Less: intangible assets	(0.9)	(0.6)
Total capital resources	**117.5**	**109.1**

Regulatory capital requirement buffers CRD IV buffers

The Bank is subject to a number of CET1 capital buffers over and above the required minimum CET1, Tier 1 and total capital ratios. These capital buffers were implemented under CRD IV. The buffers applicable to the Bank include the capital conservation buffer and the counter-cyclical buffer. The capital conservation buffer phase-in commenced on 1 January 2016 when it was set at 0.625% of RWAs, such that a requirement of 2.5% of RWAs will be fully phased in by 1 January 2019. The UK counter-cyclical buffer is set by the FPC of the Bank of England with a steady state of 1.0% expected over the medium to long term depending on economic conditions. Firms must meet the countercyclical buffer requirement twelve months after it is set.

PRA buffer

The stress testing conducted in the Bank's ICAAP forms the basis for the PRA buffer assessment. Following their review, the PRA sets a PRA buffer, which in combination with the CRD IV combined buffer is held to ensure the Bank can withstand an adverse economic downturn. The PRA buffer must be fully met with CET1 capital by January 2019, subject to a phase-in from 1 January 2016, in line with the phase-in of the conservation buffer.

From 1 January 2016, the PRA buffer represented the excess buffer (expressed as a percentage of total RWAs) required by the PRA in addition to the capital conservation and counter-cyclical buffers. This is set by the PRA and is not disclosed.

5.3 Leverage ratio

The leverage ratio measures the relationship between the capital resources of the Bank and its total assets. The leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items.

The EBA leverage ratio regime comes into force in 2018. At present, the Bank has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. However, the Bank maintains a prudent risk appetite limit well above the minimum leverage ratio requirement.

The Banks Leverage ratio as at 31 December 2016 is 8.0%.

6 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 FCA 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 Bank. The Bank'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 three non-Executive Directors. The Company Secretary or his nominee is secretary of the committee, but carries no vote in decision making. The non-Executive Directors are regarded as being independent of Al Rayan Bank and possess the necessary skills to exercise the appropriate judgement. The Remuneration and Nomination Committee has recently reviewed and approved the Bank'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.

Table 25 Staff Costs for 2016

All staff	**£m**
Total fixed staff employment costs	8.5
Total variable staff costs: bonus awards	0.8
Total staff costs	9.3
Code Staff:	
Code staff fixed costs	2.8
Code staff variable costs: bonus awards	0.5

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 48 Code Staff have been identified as being employed during the year. Additional restrictions apply to the remuneration of Code Staff. All Directors (Executive and Non-Executive) and Senior Managers have been identified as Code staff. No Code staff had either variable or total remuneration in excess of £500,000.

The Bank has in place a discretionary bonus scheme and whether any awards will be payable will be linked to whether the Bank 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. The Bank'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 the Bank 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 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 Bank's current performance award arrangements.

7 Governance

Additional disclosures required under CRD IV in relation to governance arrangements are presented in this section.

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2016, in addition to their roles within the Bank, are detailed below.

Name	Position	Directorships
Robert Sharpe	Chairman	3
Adel Mohammed Tayeb Mustafawi	Non-Executive Director	5
Sultan Choudhury	Executive Director	1
Ahmed Swaleh Abdisheikh	Non-Executive Director	3
Malcolm Brookes	Non-Executive Director	2

The number of directorships shown excludes the Bank and also counts external directorships held within the same group of companies as a single directorship in line with CRD IV. Directorships include non-commercial organisations.

Board recruitment

Appointment of Executive Directors

A new Executive Director would be recruited on terms in accordance with the approved Directors' Remuneration Policy (the "Remuneration Policy") at that time. The Bank's Remuneration Policy balances the need to have appropriate remuneration levels with the ability to attract high-performing individuals to the Bank. With this in mind, the starting point for the Remuneration and Nominations Committee (REMNOM) in setting a remuneration package for a new Executive Director will be to structure a package in accordance with the Remuneration Policy, based on the individual's knowledge and experience.

REMNOM recognises that, when recruiting externally in particular, it may be necessary to compensate an individual to ensure that they are remunerated effectively. The areas where REMNOM may exercise its discretion in order to achieve this are set out in the Remuneration Policy. This may arise in particular in relation to bonus and incentive plans given that variable performance-related pay is widely used in the financial services industry to incentivise senior management.

Appointment of Non-Executive Directors

A new Non-Executive Director would be recruited on terms in accordance with the approved Remuneration Policy at that time. The Board has delegated specific powers and authority to REMNOM to lead the appointments process for nominations to fill Board vacancies. It is also responsible for keeping the size, structure and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary.

REMNOM also formulate succession plans for the Chairman, Non-Executive Directors, and the senior Executives. Before an appointment is made by the Board, REMNOM evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, REMNOM will:

- use open advertising or the services of external advisers to facilitate the search;
- consider candidates from a wide range of backgrounds; and
- consider candidates on merit and against objective criteria, including reference to the Financial Conduct Authority ("FCA") and PRA's "fit and proper" test and the competence and capability criteria set out as part of their approach to approving individuals. Care is also taken to ensure appointees have enough time available to devote to the position on an ongoing basis.

Responsibility for determining the individual remuneration and benefits package of each of the Bank's Executive Directors and the Chairman lies with the REMNOM.

The remuneration of Non-Executive Directors is set by the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

Board diversity

The Bank is committed to diversity and ensuring that all of Al Rayan Bank's people are offered equal opportunities throughout their career. Further, the Bank ensures that employees are not discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board. The Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. However, the Board does not have a measurable target for gender representation on the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.