AL RAYAN BANK

Pillar 3 Disclosures

31 December 2017

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1 Executive Summary

1.1 Background to the Bank

Al Rayan Bank PLC (the 'Bank' or the 'Company') is a subsidiary of Al Rayan UK Limited, a majority owned subsidiary of Masraf Al Rayan Q.P.S.C (MAR), one of Qatar's most well established and largest banks. MAR acquired the Bank in January 2014.

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

"Banking you can believe in"

Al Rayan Bank PLC is a UK registered bank, and since 2004 has remained the UK's largest wholly Sharia compliant retail bank. It offers an extensive range of banking services and the largest number of Islamic retail financial products in the UK.

The Bank is authorised by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA).

Current products include Home Purchase Plans (HPP), Commercial Property Finance (CPF), current accounts and a range of savings accounts catering for different needs. The Bank has also introduced Sharia compliant business banking to the UK and offers a wide range of institutional and business banking products and services.

The Bank is controlled by an independent Board of Directors and the responsibility for its day to day management has been entrusted to the Chief Executive Officer, Sultan Choudhury.

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 2017. 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 14.6% (2016: 17.1%) and Total Capital ratio of 16.0% (2016: 17.3%).

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. The Bank, nevertheless, 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 6.7% (2016: 8.1%) as profits generated for the period supported the higher exposures, which were driven by increased secured home purchase plan finance, commercial property finance and treasury assets.

At 31 December 2017, the Bank's Liquidity Coverage Ratio (LCR) was 337% (31 December 2016: 502%). This LCR exceeds the UK regulatory minimum requirement for the year ending 31 December 2017 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 2017 ('ARA'), while a summary of the changes in key capital ratios are illustrated on the following pages.

Key metrics

Table 1 Available capital £m

	2017	2016
Total Risk Weighted Assets (RWA)	837.6	680.7
Common Equity Tier 1	122.5	116.3
Total Capital	133.9	117.5

Table 2 Capital ratios as a percentage of RWA

	2017	2016
Common Equity Tier 1 ratio	14.6%	17.1%
Total Regulatory Capital ratio	16.0%	17.3%

Table 3 CRR Leverage ratio (£m/%)

	2017	2016
Total CRR leverage ratio exposure measure	1,817.6	1,428.7
CRR leverage ratio	6.7%	8.1%

2 Introduction

2.1 Background

The Basel III regulatory framework is implemented through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), together referred to as CRD IV. The framework came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA).

The CRD IV 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 2017 or for the year to 31 December 2017. 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 Bank's 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 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.

2.4 Verification

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

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

The Board has overall accountability for ensuring that the bank has an appropriate system of risk management in place to ensure risks in the bank are identified, assessed, managed, mitigated and reported.

The Board considers that, as at 31 December 2017, 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

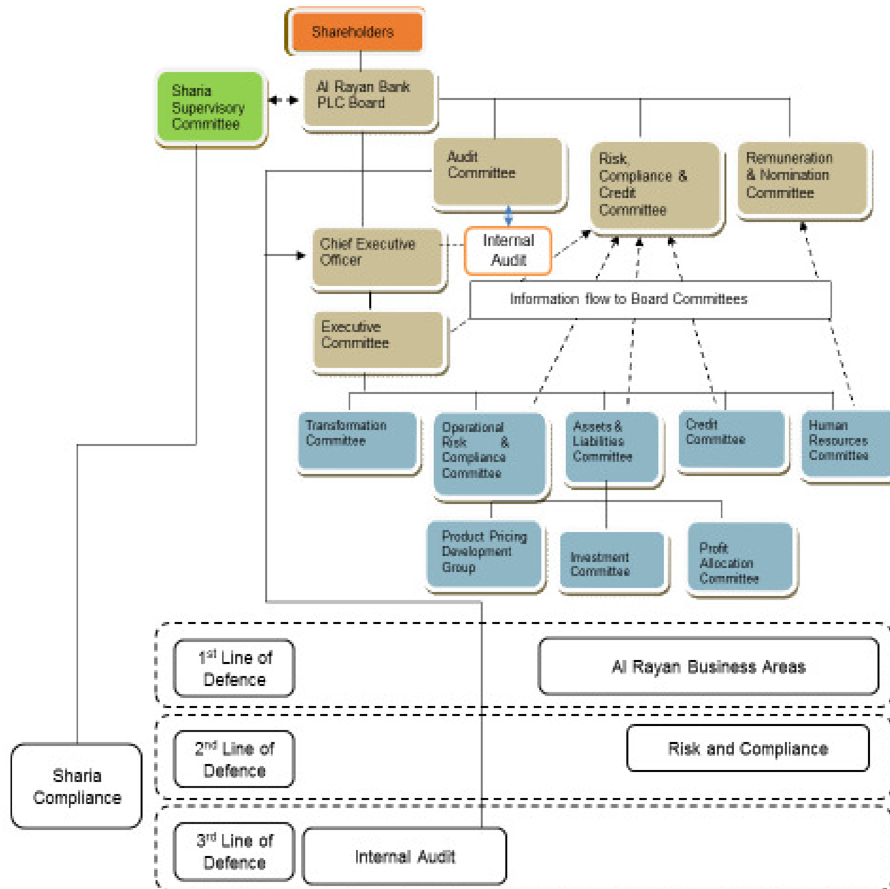
3.1 Governance structure

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 1 Governance structure[1]



[1] The governance structure above is as at 31 December 17, during 2018 the governance structure has changed which will be reflected in the next Pillar 3 publication.

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 Board has overall accountability to ensure that the bank has appropriate system of risk management in place to ensue risks in the bank are identified, assessed, managed, mitigated and reported. The Board is responsible for approving 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 belo*w.*

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 8 times during 2017.

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 4 times in 2017.

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 2 times in 2017.

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 Sharia Supervisory Committee.

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 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 principal risks in 7 categories; strategic, prudential, market, credit, operational, legal and regulatory & conduct. These are defined below:

Table 4 Definition of principal 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 behavior, 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.

Risk category	Definition
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 the Executive 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 funds in Sharia compliant wholesale deposits with bank counterparties.

Management of credit risk

- The Board of Directors has delegated responsibility for the management of credit risk to the Management Credit Committee. A separate Credit department and Credit Risk Committee reporting to the Chief Risk Officer is responsible for oversight of the Bank's credit risk, including:
- Formulating credit policies in consultation with other business units, covering credit assessments, collateral requirements, risk reporting, legal requirements and compliance with regulatory and statutory requirements.
- Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.
- Reviewing and assessing credit risk prior to agreements being entered into with customers.
- Limiting concentrations of exposure to counterparties, countries or sectors and reviewing these limits.
- Ongoing assessment of exposure and implementation of procedures to reduce this exposure.
- Providing advice, guidance and specialist skills to all business areas to promote best practice throughout the Bank in the management of credit risk.

Adherence to country and counterparty limits, for amounts due from other banks, is monitored on an ongoing basis by the Bank's Treasury department, with a detailed review of all limits at least annually. Senior management receive regular reports on the utilisation of these limits.

The following table shows the credit risk exposures and the composition of the Pillar 1 capital requirements for credit risk at 31 December 2017 and 31 December 2016:

Table 5 Pillar 1 capital requirements: credit risk: 31 December 2017

	Credit risk exposure (£m)	Average credit risk exposure (£m)	Risk weighted assets (£m)	Pillar 1 capital required (£m)
Treasury placements and cash balances with banks	228.8	198.8	69.1	5.5
Investment securities	154.2	155.4	9.1	0.7
Home purchase plans	930.4	802.6	327.5	26.2
Commercial property finance	475.8	457.2	367.7	29.4
Consumer finance	0.0	0.1	0.0	0.0
Other assets	17.1	20.0	12.7	1.0
Total	**1,806.3**	**1,634.1**	**786.1**	**62.8**

Table 6 Pillar 1 capital requirements: credit risk: 31 December 2016

	Credit risk exposure (£m)	Average credit risk exposure (£m)	Risk weighted assets (£m)	Pillar 1 capital required (£m)
Treasury placements and cash balances with banks	217.3	185.2	61.9	5.0
Investment securities	168.2	150.8	10.3	0.8
Home purchase plans	638.3	552.6	225.1	18.0
Commercial property finance	394.2	336.9	332.7	26.6
Consumer finance	0.1	0.4	0.4	0.0
Other assets	17.6	17.3	12.6	1.0
Total	**1,435.7**	**1,243.2**	**643.0**	**51.4**

The table below shows movement in credit risk RWAs during 2017.

Table 7 Movements in RWAs for credit risk from 1 January 2016 to 31 December 2017:

Movement in Credit risk RWAs during 2017	**£m**
Increase in treasury assets	7.2
Decrease in investment securities	(1.2)
Increase in home purchase plans	102.4
Increase in commercial property finance	35.0
Decrease in personal finance	(0.4)
Other	0.1
Credit risk RWAs increase for 2017	143.1

Credit concentration risk exposures

The credit concentration risk exposures for the Bank as at 31 December 2017 and 31 December 2016 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 £187.2 million at 31 December 2017 in respect of assets outside the UK (31 December 2016: £181.3 million).

Table 8 Credit risk exposures analysed by exposure class: 31 December 2017

	UK (£m)	Middle East (£m)	Rest of the World (£m)	**Total (£m)**
Treasury placements and cash balances with banks	152.0	76.8	-	**228.8**
Investment securities	45.9	78.2	30.1	**154.2**
Home purchase plans	930.2	-	0.2	**930.4**
Commercial property finance	473.9	-	1.9	**475.8**
Consumer finance	-	-	-	**-**
Total	**1,602.0**	**155.0**	**32.2**	**1,789.2**

Other assets have been excluded from these analyses.

Table 9 Credit risk exposures analysed by exposure class: 31 December 2016

	UK (£m)	Middle East (£m)	Rest of the World (£m)	Total (£m)
Treasury placements and cash balances with banks	157.0	60.3	-	**217.3**
Investment securities	68.7	99.5	-	**168.2**
Home purchase plans	638.1	-	0.2	**638.3**
Commercial property finance	392.1	-	2.1	**394.2**
Consumer finance	0.1	-	-	**0.1**
Total	**1,236.8**	**179.0**	**2.3**	**1,418.1**

Distribution of Credit risk exposures by residual maturity

Table 10 Residual contractual maturity of credit risk exposures: 31 December 2017

	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury placements and cash balances with banks	228.8	-	-	**228.8**
Investment securities	52.5	62.0	39.7	**154.2**
Home purchase plans	31.7	144.1	754.6	**930.4**
Commercial property finance	78.7	328.4	68.7	**475.8**
Consumer finance	-	-	-	**-**
Total	**391.7**	**534.5**	**863.0**	**1,789.2**

Table 11 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 placements and cash balances with banks	217.3	-	-	**217.3**
Investment securities	36.9	71.2	60.1	**168.2**
Home purchase plans	20.0	95.8	522.5	**638.3**
Commercial property finance	64.5	278.3	51.4	**394.2**
Consumer finance	0.1	-	-	**0.1**
Total	**338.8**	**445.3**	**634.0**	**1,418.1**

The maturity of exposures is shown on a contractual basis.

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 as per regulatory guidance on income versus outgoings and stressed profit rates are also made in relation to Home Purchase Plan 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 using stressed profit rates. 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 17 Finance Value (£m)	Collateral value (£m)	Average FTV (%)	31 Dec 16 Finance Value (£m)	Collateral value (£m)	Average FTV (%)
Home finance	930.4	1,709.2	54.4%	640.4	1,201.2	53.3%
Commercial property finance	475.8	967.0	49.2%	399.0	820.4	48.6%

The Bank holds collateral against secured financing made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and are updated on a periodic basis. The estimated fair value of collateral held against financial assets as at 31 December 2017 is £2,676m (2016: £2,031m). None of this amount was held against impaired assets. There were no non-performing exposures in the secured book as at 31 December 2017.

Secured Home Purchase Plan (HPP) finance

The Bank has adopted conservative underwriting criteria set out in a credit policy approved by the Board.

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

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%.

Secured Commercial Property Finance (CPF)

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

Banking facilities are available for sole traders, partnerships, limited liability partnerships, limited companies, unincorporated charities, incorporated charities and trusts. Additionally, commercial 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.

FTV ratios are normally capped at 75%.

Unsecured Personal Finance (PF)

The Bank has a negligible 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 High Quality Liquid Asset 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, thus, due to the limited number of UK counterparties; the Bank has exposures with financial institutions resident within the Middle East.

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 placements and cash balances with banks at 31 December 2016 & 2017:

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2017 (£m)	Exposure value 2016 (£m)
1	Aaa to Aa3	AAA to AA-	48.4	0.3
2	A1 to A3	A+ to A-	80.2	45.7
3	Baa1 to Baa3	BBB+ to BBB-	100.2	171.3
4	Ba1 to Ba3	BB+ to BB-	-	-
Total			**228.8**	**217.3**

Table 14 The credit ratings of treasury investment securities at 31 December 2016 & 2017

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2017 (£m)	Exposure value 2016 (£m)
1	Aaa to Aa3	AAA to AA-	144.6	144.9
2	A1 to A3	A+ to A-	9.6	23.3
3	Baa1 to Baa3	BBB+ to BBB-	-	-
4	Ba1 to Ba3	BB+ to BB-	-	-
Total			**154.2**	**168.2**

As at 31 December 2017 and as at 31 December 2016, 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 2017 in relation to all credit exposures and charges to the income statement for the year to 31 December 2017.

Table 15 Past due exposures and charges to the income statement for the year to 31 December 2017:

	Treasury assets (£m)	Investment securities (£m)	Consumer finance (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	228.8	154.2	-	475.8	907.6	1,766.4
Past due but not impaired:						
Up to 3 months	-	-	-	0.1	22.3	22.4
3 to 6 months	-	-	-	-	0.9	0.9
6 to 9 months	-	-	-	-	-	-
Over 9 months	-	-	-	-	0.8	0.8
Total gross exposure	228.8	154.2	-	475.9	931.6	1790.5
Impairment provisions	-	-	-	0.2	1.2	1.4
Net Impairment charge for the year	-	-	-	-	0.4	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. The Bank will assess exposures to be in stage 2 when the accounts are more than 30 days past due, if they are more than 90 days past due or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry).

The movement in impairment provisions for the year ended 31 December 2017 is as follows:

Table 16 The movement in impairment provisions for the year ended 31 December 2017:

	Specific provisions (£m)	Collective provisions (£m)	Total (£m)
Balance at 1 January 2017	-	1.3	1.3
Charge for the year	-	0.4	0.4
Amounts written off during the year	-	(0.3)	(0.3)
Balance at 31 December 2017	-	1.4	1.4

4.4 Market risk

Market risk is the risk of loss of income arising from unfavourable market movements, including foreign exchange rates, profit rates and basis risk. The objective of market risk management is to manage and control exposures within acceptable parameters, whilst optimising returns. The Bank is not exposed to any material foreign currency risk. Given the Bank's current profile of financial instruments, the principal exposure is the risk of loss arising from fluctuations in the future cash flows or fair values of these financial instruments because of a change in achievable rates. This is managed principally through monitoring gaps between effective profit and rental rates and matching fixed or variable rate assets with liabilities of comparable rate basis and reviewing approved rates and bands at regular re-pricing meetings.

Profit rates for Treasury placements are agreed with the counterparty bank at the time of each transaction and the profit (mark-up) and effective profit rate is consequently fixed (for Murabaha) and maintained (for Wakala) for the duration of the contract. Risk exposure is managed by reviewing the maturity profiles of transactions entered into.

Effective rates applied to new consumer finance transactions are agreed on a monthly basis by ALCO and the profit (mark-up) will then be fixed for each individual transaction for the agreed deferred payment term.

Rentals for longer term Commercial Property Financing and Home Purchase Plans are benchmarked against a market measure, in agreement with the Bank's Sharia Supervisory Committee, subject to maximum rent levels.

Profit rates payable on Mudaraba customer deposit accounts are calculated at each month-end in line with the profit allocation model and the customer terms and conditions. Profit rates payable on Treasury placements and deposits are agreed with the customer at the time of each transaction and the profit (mark-up) and effective profit rate is consequently fixed (for Murabaha) and maintained (for Wakala) for the duration of the contract. Risk exposure is managed by reviewing the maturity profiles of transactions entered into.

All profit rates and re-pricings are reviewed and agreed at ALCO, which is principally responsible for monitoring market risk. ALCO will also review sensitivities of the Bank's assets and liabilities to standard and non-standard changes in achievable effective rates.

Standard scenarios that are considered monthly include a 2.00% rise or fall in effective average rates. The P&L impact is measured by flexing the Bank of England base rate (BBR) and measuring the profits arising from the rate shift (assuming no asymmetrical movement and a constant statement of financial position status) is as follows:

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

2% shift up of the yield curve:	2017 (£m)	2016 (£m)
	7.8	8.2
Average of month end positions reported to ALCO	2.2	5.4

2% shift down of the yield curve:	2017 (£m)	2016 (£m)
	(1.6)	(2.3)
Average of month end positions reported to ALCO	(1.1)	(1.1)

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 2017, the amount of the basis risk sensitivity measure was £0.3 million (31 December 2016: £0.2 million).

4.5 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 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 the Risk Dashboard containing key risk appetite metrics.

The Risk Dashboard, together with minutes of the Operational Risk and Compliance Committee meetings, are distributed and reviewed by BRCC and the Board as appropriate.

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 2017 and 2016

Table 18 Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2017

	£m
RWAs at 1 January 2017	37.7
Increase in revenue generation	13.7
RWAs at 31 December 2017	51.4
Operational risk Pillar 1 capital requirement at 31 December 2017	4.1

Table 19 Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2016

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

The increase in operational risk RWAs is due to the higher revenue generated by the Bank over the three years to 31 December 2017 compared to the three years to 31 December 2016.

4.6 Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its commitments when they fall due or can secure them only at excessive cost. The Bank's approach to managing liquidity is to ensure that it will aim to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Treasury department is responsible for monitoring the liquidity profile of financial assets and liabilities and preparing details of projected cash flows arising from projected future business. The Treasury department maintains a portfolio of Sukuk and short term liquid assets, made up of cash on demand and short term Treasury placements, to ensure that sufficient liquidity is maintained. All liquidity policies and procedures are subject to review and sanction at ALCO and approved by the Board.

The key measure used by the Bank for managing liquidity risk is the comparison of the maturity of assets and customer deposits. This analysis is completed and monitored daily, and reports are submitted each month for review by ALCO. A similar calculation of mismatches is submitted to the Prudential Regulation Authority (PRA) as part of the Bank's quarterly regulatory reporting.

The Bank holds a High Quality Liquid Assets (HQLA) portfolio, which is analysed (post haircut) at 31 December 2017 and at 31 December 2016 as follows.

Table 20 HQLA portfolio

	31 December 2017 (£m)	31 December 2016 (£m)
Central governments	98.4	93.9
Regional governments	28.9	3.9
Multinational development banks	15.9	49.4
Corporates	2.3	7.7
Cash	2.7	2.5
Total	**148.2**	**157.4**

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 2017 was 337% (31 December 2016: 502%). 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 2019 on a phased basis.

Table 21 Analysis of the Bank's average liquidity coverage ratio (LCR)

		Total unweighted value (average) (£m)	Total weighted value (average) (£m)
High-quality liquid assets			
1	Total HQLA		145.1
Cash outflows			
2.0	**Retail deposits and deposits from small business customers, of which:**	**497.0**	**76.7**
3.0	Stable deposits	189.0	9.4
4.0	Less stable deposits	308.0	67.3
5.0	**Unsecured wholesale funding, of which:**	**45.3**	**18.6**
6.0	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3.4	0.8
7.0	Non-operational deposits (all counterparties)	41.9	17.8
8.0	Unsecured debt (finance)	-	-
9.0	**Secured wholesale funding**		-
10.0	**Additional requirements, of which:**	-	-
11.0	Outflows related to derivative exposures and other collateral requirements	-	-
12.0	Outflows related to loss of funding on debt (asset) products	-	-
13.0	Credit and liquidity facilities	30.1	30.1
14.0	**Other contractual funding obligations**	-	-
15.0	**Other contingent funding obligations**	26.3	26.3
16.0	**TOTAL CASH OUTFLOWS**		151.7

Cash inflows			
17.0	**Secured finance (e.g. reverse repos)**	-	-
18.0	**Inflows from fully performing exposures**	197.5	197.5
19.0	Other cash inflows	-	-
20.0	**TOTAL CASH INFLOWS**	197.5	197.5

Total adjusted value			
21	**Total HQLA**		145.1
22	**Total net cash outflows**		37.9*
23	**Liquidity Coverage Ratio (%)**		383%

*As per the Article 33 of Delegated Act: *"Credit institutions shall limit the recognition of liquidity inflows to 75 % of total liquidity outflows as defined in Chapter 2"*

Net Stable Funding Ratio

The Bank's NSFR as at 31 December 2017 was 142% (31 December 2016: 140%) which is in excess of the expected minimum level of 100%.

4.7 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 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 and investment securities. Adherence to the treasury limits is monitored daily. The minutes of the Credit Committee and ALCO meetings are distributed to the Board.

4.8 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 adopts the standardised approach to credit risk and the basic indicator approach to operational risk 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.

The ICAAP is considered by the PRA as part of its Supervisory Review and Evaluation Process (SREP) and is used in part to determine the Individual Capital Requirement (ICR) for the Bank. The Board approved ICAAP will highlight risks faced by the business for which additional capital above Pillar 1 (8.00% of total risk weighted assets) is required. The additional capital will be part of the Bank's Pillar 2A requirement which forms part of the organisations overall ICR requirement. As at 31 December 2017, the Bank's current Pillar 2A requirement equated to 3.9% of risk weighted assets.

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 foreign exchange holding of the Bank is below the 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 2017.

5.2 Total Capital Resources

The following table shows the composition of the Bank's regulatory capital position as at 31 December 2017 and at 31 December 2016.

Table 22 Overview of RWA & Pillar I (calculated using standardised approach)

	31 Dec 17 RWA (£m)	31 Dec 17 Pillar 1 (£m)	31 Dec 16 RWA (£m)	31 Dec 16 Pillar 1 (£m)
Credit risk	786.2	62.9	643.0	51.4
Operational risk	51.4	4.1	37.7	3.0
Total requirement	**837.6**	**67.0**	**680.7**	**54.4**
Capital resources	-	133.9	-	117.5
Capital resources surplus over Pillar 1 requirement	-	66.9	-	63.1

Total capital resources have increased by £16.4 million to £133.9 million (31 December 2016: £117.5 million) during 2017 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) and issuance of Tier 2 capital during the year. Total RWAs increased by £156.9 million reflecting the continued growth of the Bank's balance sheet.

The table below shows movements in regulatory capital during 2017.

Table 23 Movement in regulatory capital during 2017

	£m
Total capital at 01 January 2017	117.5
Profit after tax for the year	8.6
Increase in collective impairment	0.2
Increase in Tier 2 issuance	10.0
Decrease in intangible asset deduction	0.2
Decrease in deferred tax deduction	0.5
Decrease in mark-to-market reserve	(3.1)
Total capital at 31 December 2017	**133.9**

Reconciliation of statutory equity to regulatory capital resources

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

	31-Dec-17 £m	31-Dec-16 £m
Equity per statement of financial position	128.7	123.2
Regulatory adjustments		
Add: collective impairment	1.4	1.3
Add: tier 2 issuance	10.0	-
Less: deferred tax assets	(5.5)	(6.1)
Less: intangible assets	(0.7)	(0.9)
Total capital resources	**133.9**	**117.5**

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 rate of 1.0% to be in place for 2018.

As at 31 December 2017, the Bank has an immaterial institution specific countercyclical buffer, (CCyB), requirement of £3.6k. The buffer requirement is based on the relevant risk weight assets multiplied by the buffer rate for the country and summing the result.

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 2017 is 6.7% (31 December 2016: 8.1%).

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 24 Staff Costs for 2017

All staff	£m
Total fixed staff employment costs	£11.7
Total variable staff costs: bonus awards	£1.3
Total staff costs	**£13.0**
Code Staff:	
Code staff fixed costs	£1.0
Code staff variable costs: bonus awards	£0.3

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 11 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 2017, 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	5
Richard Sommers	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.

8 ANNEX I

EBA Own Funds disclosure template
Disclosure according to Article 5 in Commission implementing regulation (EU) No 1423/2013

		2017 (£m)	2016 (£m)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	176.0	176.0	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Paid up capital	121.2	121.2	EBA list 26 (3)
	of which: Share premium	54.8	54.8	EBA list 26 (3)
2	Retained earnings	-46.2	-54.8	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	-1.1	2.0	26 (1)
6	***Common Equity Tier 1 (CET1) capital before regulatory adjustments***	***128.7***	***123.2***	

EBA Own Funds disclosure template (continued)

Common Equity Tier 1 (CET1) capital: regulatory adjustments

8	Intangible assets (net of related tax liability) (negative amount)	-0.7	-0.9	36 (1) (b), 37, 472 (4)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-5.5	-6.1	36 (1) (c), 38, 472 (5)
28	***Total regulatory adjustments to Common Equity Tier 1 (CET1)***	*-6.2*	*-7.0*	
29	***Common Equity Tier 1 (CET1) capital***	***122.5***	***116.2***	
45	***Tier 1 capital (T1 = CET1 + AT1)***	***122.5***	***116.2***	

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	10.0	-	62, 63
50	Credit risk adjustments	1.4	1.3	62 (c) & (d)
51	***Tier 2 (T2) capital before regulatory adjustment***	***11.4***	***1.3***	

Tier 2 (T2) capital: regulatory adjustments

58	***Tier 2 (T2) capital***	***11.4***	***1.3***	
59	***Total capital (TC = T1 + T2)***	***133.9***	***117.5***	
60	***Total risk-weighted assets***	***837.6***	***680.7***	

EBA Own Funds disclosure template (continued)

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.6%	17.1%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	14.6%	17.1%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	16.0%	17.3%	92 (2) (c)
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	4.1%	5.9%	CRD 128

Applicable caps on the inclusion of provisions in Tier 2 (T2)

76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	1.4	1.3	62

9 ANNEX II

Leverage Ratio – Disclosure Template
Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2017.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, applicable amounts

		2017 (£m)	2016 (£m)
1	Total assets as per published financial statements	1,806.3	1,435.7
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	17.5	-
7	Other adjustments	-6.2	-7.0
8	Total leverage ratio exposure	1,817.6	1,428.7

LRCom: Leverage ratio common disclosure, CRR leverage ratio exposures

		2017 (£m)	2016 (£m)
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,806.3	1,435.7
2	(Asset amounts deducted in determining Tier 1 capital)	-6.2	-7.0
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	1,800.1	1,428.7
17	Off-balance sheet exposures at gross notional amount	135.5	126.8
18	(Adjustments for conversion to credit equivalent amounts)	-118.0	-126.8
19	Other off-balance sheet exposures (sum of lines 17 to 18)	17.5	-
20	Tier 1 capital	122.4	116.2

21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	1,817.6	1,428.7
22	Leverage ratio	6.7%	8.1%

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures), CRR leverage ratio exposures

EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,806.3	1,435.7
EU-3	Banking book exposures, of which:	1,806.3	1,435.7
EU-5	Exposures treated as sovereigns	128.7	94.3
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	20.4	54.0
EU-7	Institutions	102.7	158.7
EU-8	Secured by mortgages of immovable properties	1,345.1	984.6
EU-9	Retail exposures	0.0	0.0
EU-10	Corporate	130.9	79.1
EU-11	Exposures in default	0.8	0.2
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	77.7	64.8

10 ANNEX III

Disclosure on asset encumbrance, as of 31 December 2017

Template A-Assets (£m)

	Carrying amount of encumbered assets	Fair value of encumbered asset	Carrying amount of Unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	-		1,806.3	
Equity instruments	-	-	-	-
Debt securities (asset securities)	-	-	154.2	154.2
Other assets	-		17.1	

Terminologies in brackets in the tables are specific to Islamic Banks and the way Al Rayan Bank operates.