Al Rayan Bank PLC

Annual Report and Financial Statements

Registered number 4483430

For the year ended 31 December 2015

Contents

Chairman's statement

The Board and I thank our customers, Sharia Supervisory Committee scholars, employees and shareholders for the continued support of Al Rayan Bank PLC ('Al Rayan Bank' or the 'Bank').

With nearly 7,000 new customers choosing to Bank with us last year, Al Rayan Bank currently serves over 65,000 customers of all faiths. They choose us because of our ethical, Sharia compliant values, our developing product range and our reputation for good customer service.

These customers have enabled the most successful financial performance in the Bank's eleven year history. The decision to change name and rebrand to Al Rayan Bank, has been well received, and together with the new flagship Knightsbridge branch, in central London, has helped the Bank to appeal to a new audience, particularly those from Gulf Cooperation Council countries (GCC), where the brand of Al Rayan Bank's parent company, Masraf Al Rayan Q.S.C (MAR) has an extremely strong presence and is very well regarded.

The Bank is driving towards its strategic objectives to ensure that its robust and steady growth is maintained, and strong profitability is sustained. Key strategic initiatives include:

- A continuing focus on the Bank's product portfolio and high service standards. The introduction of additional products which meet customers' needs and help make the Bank competitive,
- A commitment to building excellent direct channels of interaction through the Bank's website, mobile application and on-boarding systems for customers who wish to transact with the Bank online,
- Developing and retaining the Bank's employees and recruiting talented individuals who will support the Bank's growth aspirations,
- An emphasis on enhancing the whole end to end customer experience

Operating and financial performance

As reported in last year's financial statements, the shareholders subscribed to additional shares in Al Rayan Bank to increase its available regulatory capital to approximately £100m. This capital injection had a transformational impact on the Bank's financial performance last year and it continues to do so today.

Al Rayan Bank is growing at a rapid, but manageable and well controlled pace. This impressive growth is being delivered from within a framework of a robust risk management culture and is carefully fostered in an environment where everyone, within the Bank, is responsible for risk.

Al Rayan Bank has enjoyed its most profitable year ever in 2015, delivering a post-tax profit of £10.3m (2014: £1.2m), which includes a deferred tax asset of £4.1m (2014: £0.7m) being recognised in the period.

The increasingly healthy balance sheet position and a continuing improvement in the UK economy has allowed the Bank to take advantage of improving consumer confidence, the sustained strength of the housing market and opportunities to provide finance to the SME sector. Also, as anticipated, the Bank has benefitted from the mobility of GCC wealth as political and economic instability in some other parts of the world allows Middle Eastern investors, looking for a potential 'safe haven' for their capital, to continue to invest in the higher end of the London property market. These factors have enabled the Bank to grow its balance sheet size during 2015.

- Customer financing has increased by 61% which includes;
  - Home Purchase Plan ("HPP") financing, which increased by 46% to £455m;
  - Commercial Property Finance increasing 97% to £273m;
- A growth in retail deposits of 43% to over £731m and wholesale deposits 391% to £156m; and
- The Bank's investments in Sukuks (principally for its Liquid Asset Buffer) has increased to £121m.

Chairman's statement (continued)

Outlook

The Bank has a clear strategy to increase assets in its current product range and customer segments. Deposit growth will be a key driver for funding asset targets and the Al Rayan Bank Board and management are focussed on delivering a balanced wholesale and retail funding plan. The Bank will continue to focus on balancing risk and return to deliver profitable growth. Al Rayan Bank will maintain a prudent and disciplined approach to risk management.

Set against an increasingly uncertain global economy, the UK appears to be one of the more resilient locations with continuing growth, reducing unemployment, low inflation and any increase in interest rates being unlikely until 2018. The Board of the Bank are mindful of Brexit and will plan for all eventualities arising from the referendum in June.

Recent regulatory changes in tax relief and stamp duty together with a consultation paper issued by the Basel Committee on Banking Supervision could affect one of the Bank's key product sectors – Buy to Let. However, demand for privately rented housing remains strong today and is likely to remain so with an additional 1.1m households expected to require rented accommodation by 2021.

To date, none of these external factors have had an impact on Al Rayan Bank, and it continues to work closely with MAR to develop business opportunities and benefit from operating and capital expenditure synergies.

With a growing customer base and balance sheet, a strong capital position and a relatively benign credit environment, the Board believes that shareholders, customers and employees have good reason to be optimistic about Al Rayan Bank's future in 2016 and beyond.

31 March 2016

Robert Sharpe
Chairman

Report of the Sharia Supervisory Committee

بسم الله الرحمن الرحيم

(In the name of Allah, the Most Gracious, the Most Merciful)

To the Members of Al Rayan Bank PLC

For the period from 1 January 2015 to 31 December 2015

السلام عليكم ورحمة الله و بركاته

The management of Al Rayan Bank PLC is responsible for ensuring that the Bank conducts its business in accordance with the principles of the Sharia. It is the responsibility of the Sharia Supervisory Committee to form an independent opinion, based on the review of the operations, agreements and transactions conducted by the Bank. It is the responsibility of the Bank's management to implement the decisions of the Sharia Supervisory Committee.

In compliance with the Terms of Reference of the Bank's Sharia Supervisory Committee, we submit the following report:

We have reviewed the documentation relating to the products and transactions entered into by Al Rayan Bank PLC for the period from 1 January 2015 to 31 December 2015.

According to the management, the Head of Sharia Compliance of the Bank (our representative in the Bank) and documents evidencing the facts, the Bank's funds were raised and invested during this period on the basis of agreements approved by us. During this Sharia Compliance audit review which is conducted by our representative in the Bank, the Head of Sharia Compliance, we found 2 Sharia compliance audit issues rated as B and 8 Sharia compliance audit issues rated as C. All the Sharia compliance audit issues found during this audit review occurred due to human error or misjudgement by the Bank's staff and were minor issues; all issues found have been fully addressed with the management of the Bank. Thus, the overall Sharia compliance rating of Al Rayan Bank, for the period from 1 January 2015 to 31 December 2015, was Satisfactory.

Therefore, based on the Sharia Compliance Audit Report of our representative and representations received from the management, in our opinion, the transactions and the products entered into or offered by the Bank during the period from 1 January 2015 to 31 December 2015 were in compliance with the rules and principles of Sharia and fulfil the specific directives, rulings and guidelines issued by us.

The Bank does not pay zakat on behalf of its shareholders and it is the sole responsibility of the individual shareholders to make their zakat payments.

We ask Allah the Almighty to grant us all the success and straightforwardness.

و السلام عليكم ورحمة الله و بركاته

Skh. Nizam Yaqoobi
Vice Chairman of the Sharia Supervisory Committee

17 March 2016

Strategic report

Principal activities

The Bank offers a range of Sharia compliant banking solutions for both individual and business customers including current accounts, savings accounts, Home Purchase Plans and Commercial Property financing. These are delivered through the Bank's network of branches and agencies, which is complemented by internet, telephone and postal banking channels. In order to widen the access to potential customers and improve its reach in the market, these products are also offered through independent brokers.

Business review and financial results

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements for the year ended 31 December 2015 are shown on pages 10 to 40. The profit after tax for the year amounts to £10,271,783 (Profit in 2014: £1,215,147). Details of the Company's performance, developments and prospects are given within the Chairman's statement on pages 1 and 2.

Principal risks and uncertainties

The Bank regards the monitoring and controlling of risks as a fundamental part of the management process. Senior management are involved in the development of risk management policies and in monitoring their application.

The principal risks inherent in the Bank's business are credit, liquidity, market, Sharia non-compliance, operational, concentration, and regulatory and legal risk.

Risk	Mitigation
• **Credit risk** is the risk of loss arising from a failure of a customer or counterparty to meet their contractual obligations.	The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee. A separate Credit department, reporting to the Credit Committee is responsible for oversight of the Company's credit risk.
• **Liquidity risk** is the risk that the Company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company'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 Sukuks and short-term liquid assets, made up of cash on demand and short term Commodity Murabaha and Wakala transactions, to ensure that sufficient liquidity is maintained. All liquidity policies and procedures are subject to review and approval by ALCO.
• **Market risk** is the risk of loss of income arising from unfavourable market movements, including foreign exchange rates and profit rates. The objective of market risk management is to manage and control exposures within acceptable parameters, whilst optimising returns.	The Company is not exposed to any material foreign currency risk. Given the Company's current profile of financial instruments, the principle 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 reviewing approved rates and bands at regular re-pricing meetings.

Strategic report (continued)

• **Sharia non-compliance risk** is the risk of loss arising from products and services not complying with Sharia requirements or in accordance with Islamic principles. The Company's purpose is to provide Sharia compliant banking to customers. The Sharia compliant nature of each product and service offered is therefore critical to the success of the Company.	The Sharia compliance of each product and service offered is achieved via the Sharia Supervisory Committee (SSC), which seeks to ensure that the Company's operations are in compliance with Islamic law. The SSC is comprised of experts in the interpretation of Islamic law and its application to modern day Islamic financial institutions. The SSC meets on a regular basis to review all material contracts and agreements relating to the Bank's transactions, certifying every product and service offered. On a day-to-day basis, the Bank's Head of Sharia Compliance oversees the adherence of transactions, processes and procedures to ensure that all are operated in accordance with Sharia requirements.
• **Operational risk** is the risk of loss arising from inadequate or failed internal processes, people and systems or from external factors other than credit, liquidity and market risks.	The Company's objective in managing operational risk is to implement an integrated internal control structure that supports process efficiency and customer needs, whilst effectively reducing the risk of error and financial loss in a cost effective manner. The overall operational risk framework is set by the Board of Directors. Primary responsibility for the development and implementation of internal controls is assigned to senior management within each business department, with the assistance of the Risk department. Adherence to operational risk policies and procedures is monitored regularly by the Risk Committee, through the use of key risk indicators, control related metrics and reports from the Risk department.
• **Concentration risk** is the risk of loss arising from inadequate diversification of credit risk across sectors. The risk arises due to exposure to specific geographical locations, industry sectors or particular customers or institutions.	The Board sets counterparty, country and regional limits in respect of treasury assets and adherence to these limits is monitored on a daily basis. Concentrations exist within the Commercial Property Finance and Home Purchase Plans portfolios due to their current small overall size. As these portfolios grow, such concentrations are expected to reduce. The Credit Committee monitors both sectoral and geographic concentration for each finance asset class and regularly reviews counterparty, country and regional limits in respect of treasury assets.
• **Regulatory and legal risk** is the risk that the Bank does not meet the changing regulatory and legal environment requirements, this may impact the Bank's reputation and objectives which may have the potential to impact profitability. The bank will be at risk of being non-complaint with the relevant bodies.	The Bank seeks to mitigate these risks by continued investment in people, processes, training and development to ensure expertise that will meet the requirements. Further, engagement with the relevant authorities and industry bodies and external consultants are undertaken to ensure regulatory changes are monitored and applied accordingly.

Signed on behalf of the Board

Al Rayan Bank PLC
44 Hans Crescent
Knightsbridge
London
SW1X 0LZ

Sultan Choudhury
Chief Executive Officer

31 March 2016

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2015.

Directors and Directors' interests

The Directors who held office during the year ended 31 December 2015 and subsequently are as follows:

Robert Sharpe (Chairman) (b) (c)

Adel Mohd Tayeb Mustafawi (b) (c)

Sultan Choudhury (c)

Ahmed Swaleh Abdisheikh (a) (b) (c)

Malcolm Brookes (a)

(a) Denotes member of Audit Committee
(b) Denotes member of Remuneration and Nomination Committee
(c) Denotes member of Risk, Compliance and Credit Committee

Mr Mustafawi and Mr Abdisheikh have a current association with Masraf Al Rayan Q.S.C and are, therefore, not considered independent.

No Director had any interest in the ordinary shares of the Company in the current or preceding year according to the register of Directors' interests.

Significant Shareholders

The following shareholders had interests in the ordinary shares of the Company in excess of 3% as at 31 December 2015:

	2015 (%)	**2014 (%)**
Al Rayan (UK) Ltd	**98.34**	**98.34**

On 3 February 2014, Al Rayan (UK) Ltd acquired 4,345,789,979 ordinary shares of £0.01 each of the Company. This represented approximately 95.59% of the existing share capital of the Company. On 3 February 2014 Al Rayan (UK) Ltd subscribed to an additional allotment of 7,575,400,000 ordinary shares of £0.01 each taking its effective shareholding to 98.34%.

Sharia Supervisory Committee members

The Sharia Supervisory Committee members during the year were as follows:

Dr. Abdul Sattar Abu Ghuddah (Chairman)
Sheikh Nizam Yaqoobi
Mufti Abdul Kadir Barkatullah

The report of the Sharia Supervisory Committee is set out on page 3.

Directors' report (continued)

Dividends

The Directors do not recommend the payment of a dividend (2014: £nil).

Political contributions

The Company made no political contributions during the year (2014: £nil).

Employees

The Bank recognises the importance of effective communication with staff. Communication includes employee feedback and is encouraged through a variety of methods. It is the Bank's policy to ensure that all employees and applicants for employment are afforded equal opportunity in line with UK employment law.

Going Concern

Based on the forecasts prepared, the Directors consider that at the date of approving the financial statements the Company has adequate resources to continue operational business for at least the next 12 months and therefore to adopt the going concern basis in preparing the financial statements.

Disclosure of information to the auditor

The Directors confirm that, so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Board has re-appointed KPMG LLP as auditor and a resolution for the appointment will be proposed to the forthcoming Annual General Meeting of the Company in accordance with Section 489 of the Companies Act 2006.

By order of the Board

Sultan Choudhury
Chief Executive Officer

Al Rayan Bank PLC
44 Hans Crescent
Knightsbridge
London
SW1X 0LZ

31 March 2016

Statement of Directors' responsibilities in respect of the Strategic Report and the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the Members of Al Rayan Bank PLC

We have audited the financial statements of Al Rayan Bank PLC for the year ended 31 December 2015 set out on pages 10 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

31 March 2016

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Statement of comprehensive income

For the year ended 31 December 2015

	Note	**2015** **£**	2014 £
Income receivable from Islamic financing transactions	*6*	**28,795,617**	16,930,826
Returns payable to customers and banks	*6*	**(8,003,744)**	(5,320,150)
Net income from Islamic financing transactions	*6*	**20,791,873**	11,610,676
Fee and commission income	*7*	**548,291**	241,628
Fee and commission expense	*7*	**(87,983)**	(53,066)
Net fee and commission income	*7*	**460,308**	188,562
Operating income		**21,252,181**	11,799,238
Net (impairment) / credit on financial assets	*14*	**(556,822)**	14,248
Personnel expenses	*9*	**(7,242,481)**	(5,579,490)
General and administrative expenses		**(6,668,197)**	(5,196,838)
Depreciation	*16*	**(356,659)**	(348,620)
Amortisation	*17*	**(223,934)**	(186,255)
Total operating expenses		**(15,048,093)**	(11,296,955)
Profit before income tax		**6,204,088**	502,283
Income tax credit	*11*	**4,067,695**	712,864
Profit for the year		**10,271,783**	1,215,147
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in fair value of investment securities taken to equity		**73,565**	1,659,072
Other comprehensive income for the year		**73,565**	1,659,072
Total comprehensive income for the year		**10,345,348**	2,874,219

The notes on pages 14 to 40 are an integral part of these financial statements.

An amount of £519,137 has been reclassified in 2014 from fee and commission income to Income receivable from Islamic financing transactions. There is no impact on profit for the year.

Statement of financial position

As at 31 December 2015

	Note	**2015** **£**	2014 £
Assets			
Cash		**1,807,193**	803,780
Commodity Murabaha and Wakala receivables and other advances to banks	*13*	**140,572,709**	83,285,338
Consumer finance accounts and other advances to customers	*14*	**95,050**	143,308
Net investment in Home Purchase Plans	*14*	**452,787,226**	311,574,308
Net investment in Commercial Property Finance	*14*	**272,511,006**	138,465,310
Investment securities – Sukuks	*15*	**120,933,669**	109,360,094
Property and equipment	*16*	**5,990,019**	261,209
Intangible assets	*17*	**622,308**	357,466
Other assets	*18*	**4,219,863**	3,009,660
Deferred tax asset	*28*	**4,780,559**	712,864
Total assets		**1,004,319,602**	647,973,337
Liabilities and equity			
Liabilities			
Deposits from banks	*19*	**155,716,546**	31,728,248
Deposits from customers	*20*	**730,713,039**	509,802,583
Other liabilities	*21*	**4,433,124**	3,330,961
Total liabilities		**890,862,709**	544,861,792
Equity			
Called up share capital	*23*	**121,218,700**	121,218,700
Share premium		**54,806,652**	54,806,652
Fair value reserve		**1,653,578**	1,580,013
Retained deficit		**(64,299,011)**	(74,545,440)
Profit stabilisation reserve		**76,974**	51,620
Total equity		**113,456,893**	103,111,545
Total equity and liabilities		**1,004,319,602**	647,973,337

The notes on pages 14 to 40 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2016 and were signed on its behalf by:

Sultan Choudhury
Chief Executive Officer

Al Rayan Bank PLC
Registration number: 4483430

Statement of changes in equity

For the year ended 31 December 2015

	Share capital £	Share premium account £	Fair value reserve £	Retained deficit £	Profit stabilisation Reserve £	Total £
Balance at 1 January 2014	45,464,700	54,806,652	(79,059)	(75,760,084)	51,117	24,483,326
Profit for the year	-	-	-	1,215,147	-	1,215,147
Other comprehensive income	-	-	1,659,072	-	-	1,659,072
Transfer to profit stabilisation reserve	-	-	-	(503)	503	-
Issue of ordinary share capital	75,754,000	-	-	-	-	75,754,000
Balance at 31 December 2014	121,218,700	54,806,652	1,580,013	(74,545,440)	51,620	103,111,545
Balance at 1 January 2015	**121,218,700**	**54,806,652**	**1,580,013**	**(74,545,440)**	**51,620**	**103,111,545**
Profit for the year	-	-	-	**10,271,783**	-	**10,271,783**
Other comprehensive income	-	-	**73,565**	-	-	**73,565**
Transfer to profit stabilisation reserve	-	-	-	**(25,354)**	**25,354**	-
Issue of ordinary share capital	-	-	-	-	-	-
Balance at 31 December 2015	**121,218,700**	**54,806,652**	**1,653,578**	**(64,299,011)**	**76,974**	**113,456,893**

The notes on pages 14 to 40 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2015

	Note	**2015** **£**	2014 £
Cash flows from operating activities			
Profit for the year		**10,271,783**	1,215,147
Adjustments for:			
Depreciation	*16*	**356,659**	348,620
Amortisation	*17*	**223,934**	186,255
Impairment charge/(credit) on financial assets	*14*	**556,822**	(14,248)
Change in Commodity Murabaha and Wakala receivables		**32,021,207**	31,489,142
Change in consumer finance accounts and other advances to customers		**55,250**	69,275
Change in investment in Home Purchase Plans		**(141,755,409)**	(104,482,902)
Change in investment in Commercial Property Finance		**(134,067,017)**	(104,139,349)
Change in other assets		**(1,210,203)**	(1,980,158)
Change in deposits from banks		**123,988,298**	11,067,093
Change in deposits from customers		**220,910,456**	189,429,551
Change in other liabilities		**1,102,163**	862,827
Change in deferred tax assets		**(4,067,695)**	(712,864)
Net cash used in operating activities		**108,386,248**	23,338,389
Cash flows from investing activities			
Purchase of investment securities - Sukuks		**(11,500,011)**	(88,702,582)
Purchase of property and equipment	*16*	**(6,085,469)**	(206,734)
Purchase of intangible assets	*17*	**(488,776)**	(117,262)
Net cash used in investing activities		**(18,074,256)**	(89,026,578)
Cash flows from financing activities			
Issue of ordinary share capital		-	75,754,000
Net cash generated from financing activities		-	75,754,000
Net change in cash and cash equivalents		**90,311,992**	10,065,811
Foreign exchange gains		**9,833**	18,180
Cash and cash equivalents at 1 January		**12,164,610**	2,080,619
Cash and cash equivalents at 31 December	*12*	**102,486,435**	12,164,610

The notes on pages 14 to 40 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Al Rayan Bank PLC (the 'Company' or the 'Bank') is a company domiciled in the UK. The address of the Company's registered office is 44 Hans Crescent, Knightsbridge, London, SW1X 0LZ. The financial statements of the Company are presented as at and for the year ended 31 December 2015. The Company is a retail bank offering Sharia compliant banking products and services.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and approved by the Directors.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(b) Basis of measurement

The financial statements of the Company have been prepared on the going concern basis. In making the going concern assessment, the Directors have prepared detailed financial forecasts for the Company, including its funding and capital position, for the twelve months from the date of approval of these financial statements.

The Directors have considered the effect upon the Company of more pessimistic scenarios on its business, in particular the worsening of the economic environment and the Company's ability to withstand such a situation based on available capital.

Based on the forecasts, the Directors are confident that the Company has adequate resources to continue in operational existence and will continue to comply with all relevant regulatory requirements for a period of at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements have been prepared on the historical cost basis except for investment securities which are stated at their fair value.

(c) Functional and presentation currency

The financial statements are presented in Sterling, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 5.

Notes to the financial statements

3 Significant accounting policies

(a) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the statement of comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful life of each part of an item of property and equipment as follows:

Computer equipment	3	Years
Fixtures, fittings and office equipment	5	Years
Leasehold improvements	10	Years or over the life of the lease whichever is shorter
Land and Buildings	100	Years or over the life of the lease whichever is shorter

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(b) Intangible assets

Software and computer licences acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its estimated useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets and computer licences is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure on software or computer licences is expensed as incurred.

Amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful life of the software or the licence term, from the date that it becomes available for use. The estimated useful life of software is three years.

Notes to the financial statements

3 Significant accounting policies (continued)

(c) Commodity Murabaha and Wakala receivables and other advances to banks

Commodity Murabaha is an Islamic financing transaction, which represents an agreement whereby the Company buys a commodity and sells it to a counterparty based on a promise received from that counterparty to buy the commodity according to specific terms and conditions. The selling price comprises of the cost of the commodity and a pre-agreed profit margin.

Wakala is an Islamic financing transaction, which represents an agreement whereby the Company provides a certain sum of money to an agent, who invests it according to specific conditions in order to achieve an expected specified return. The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Commodity Murabaha receivables are recognized upon the sale of the commodity to the counterparty. Wakala receivables are recognized upon placement of funds with other institutions.

Income on both Commodity Murabaha and Wakala receivables is recognised on an effective yield basis. The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the receivable. The effective yield is established on initial recognition of the asset and is not revised subsequently.

The calculation of the effective yield rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Commodity Murabaha and Wakala receivables are initially recorded at fair value and are subsequently measured at amortised cost using the effective yield method, less impairment losses. The accrued income receivable is classified under other assets.

Other advances to banks are stated at cost and are non-return bearing.

(d) Consumer finance accounts

Islamic consumer financing transactions represent an agreement whereby the Company buys a commodity or goods and then sells it to the customer with an agreed profit (mark-up) with settlement of the sale price being deferred for an agreed period. The customer may subsequently sell the commodity purchased to generate cash.

Consumer finance assets will be recognised on the date that the commodity or good is sold by the Company. Consumer finance account balances are initially recorded at fair value and are subsequently measured at amortised cost. The amortised cost is the amount at which the asset is measured at initial recognition, minus repayments received relating to the initial recognised amount, plus the cumulative amortisation using an effective yield method of any difference between the initial amounts recognised and the agreed sales price to the customer, minus any reduction for impairment.

Income is recognised on an effective yield basis over the period of the contract. The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the receivable. The effective yield is established on initial recognition of the asset and is not revised subsequently.

The calculation of the effective yield rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Notes to the financial statements

3 Significant accounting policies (continued)

(e) Commercial Property Finance and Home Purchase Plans

Commercial Property Finance is provided using the Diminishing Musharaka (reducing partnership) and Murabaha principles of Islamic financing. Home Purchase Plan finance is provided using the Diminishing Musharaka principle. The Company will enter into an agreement to jointly purchase a property and rental income will be received by the Company relating to that proportion of the property owned by the Company at any point in time. The other party to the agreement will make separate payments to purchase additional proportions of the property from the Company, thereby reducing the Company's effective share.

The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction. Where initial direct costs are incurred by the Company such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging the transaction, these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced. Rental income is recognised to provide a constant periodic rate of return on the Company's net investment.

(f) Investment securities (available-for-sale financial assets)

Investment securities are non-derivative financial assets that are designated as available-for-sale ("AFS") and are not classified into the categories described above. The assets are intended to be held for an indefinite period of time, but may be sold in response to liquidity requirements or changes in profit rates or exchange rates. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in the fair value of AFS financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised within equity is transferred to the statement of comprehensive income.

Available-for-sale financial assets solely comprise of quoted Sukuks.

(g) Deposits from customers

Profit sharing accounts are based on the principle of Mudaraba whereby the Company and the customer share an agreed percentage of any profit earned on the customer's deposit. The customer's share of profit is paid in accordance with the terms and conditions of the account. The profit calculation is undertaken at the end of each calendar month.

Customer Murabaha deposits consist of an Islamic financing transaction involving the Company arranging the purchase of an asset on behalf of the customer and the purchase thereof from the same customer by the Company at cost plus an agreed profit (mark-up) with settlement on a deferred payment basis. Customer Murabaha deposit balances are included in the statement of financial position under deposits from customers and the accrued returns payable to the customer are classified under other liabilities. Returns payable on customer Murabaha deposits are recognised on an effective yield basis over the period of the contract.

Customer Wakala deposits consist of an Islamic financing transaction, which represents an agreement whereby the customer appoints the Company as agent to invest a certain sum of money, according to specific conditions in order to achieve an expected specified return. The Company, as agent, is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(h) Profit stabilisation reserve

The profit stabilisation reserve is used to maintain returns payable to customers on Mudaraba based savings accounts. Returns payable on these profit sharing accounts are credited to customers in accordance with the terms and conditions of the account. Any surplus returns arising from the investment of funds are then credited to this reserve. In the case of inadequate returns generated by these funds, the Company will maintain the return to depositors by utilising this reserve.

Notes to the financial statements

3 Significant accounting policies (continued)

(i) Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards or ownership of the financial asset are transferred. Any remaining interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or have expired.

(j) Impairment of financial assets

At each statement of financial position reporting date the Company 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 estimated reliably.

The Company considers evidence of impairment at both a specific asset 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 for impairment by grouping together financial assets (carried at amortised cost) 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 Company 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 statement of comprehensive income 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 statement of comprehensive income.

(k) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to resell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements

3 Significant accounting policies (continued)

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of cost of funds and, where appropriate, the risks specific to the liability. Provisions are split between individual and collective provisions

(m) Fees and commissions

Fee and commission income that relates mainly to transaction and service fees are recognised as the related services are performed. Fees and commission expenses that relate mainly to transaction and service fees are expensed as incurred.

Arrangement fees for Commercial Property Finance deals and Home Purchase Plans are calculated using an effective payment plan methodology. The Effective Profit Rate approach calculates fees using a model. EPR model is a method of allocating income and expense over the relevant life of the product. The model includes legal fees paid on arrangement of Home Purchase Plan contracts and deferred arrangement fee on maturity for CPF contracts. The Bank will continue to evolve the model and associated assumptions as the bank gains more experience

(n) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Lease payments made

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

(p) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income when they are due.

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period for which employees have provided services. Bonuses are recognised to the extent that the Company has a present obligation to its employees that can be measured reliably.

Notes to the financial statements

3 Significant accounting policies (continued)

(q) Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Commodity Murabaha and Wakala transactions, used by the Company for investment purposes, are not included within cash and cash equivalents. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(r) Other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

(s) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period and the amortised cost in foreign currency translated at the exchange rate ruling at the end of the period. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

(t) New standards and interpretations effective in 2015

- Amendments to IAS16 and IAS 38 'Clarification of acceptable methods of depreciation and amortisation. (effective 1 February 2016) and not yet endorsed by the EU. The amendments introduce a rebuttable presumption that the use of revenue-base amortisation methods for intangible assets is inappropriate. The presumptions can be overcome only when revenue and the consumptions of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets. The company intends to adopt the standard on the date it becomes effective
- IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018) and not yet endorsed by the EU. The standard replaces IAS11, IAS18, IFRIC13, IFRIC15 IFRIC18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based-5-step analysis of transactions to determine whether, how much, and when revenue is recognised.

The above changes did not have any material impact on the Company's financial statements.

(u) New standards and interpretations not yet effective and not yet adopted

A number of new standards, amendments to standards and interpretations relevant to the Company have been issued, but are not yet effective within the EU and have not been applied in preparing these financial statements.

- IFRS 9 'Financial instruments' (effective 1 January 2015 with early adoption permitted). IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairments on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Notes to the financial statements

4 Financial risk management

The Company has exposure to the following risks arising from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (unaudited)
- Concentration risk (unaudited)
- Capital Management (unaudited)

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing these risks, and its management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has established the Asset & Liability (ALCO), Credit and Risk Committees, which are responsible for developing and monitoring risk management policies in their specific areas.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk management controls and procedures are reviewed by Internal Audit, both as part of the regular audit review programme and through ad-hoc reviews. The results of these reviews are reported to the Audit Committee.

(a) 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 Company's secured and unsecured finance provided to customers and the investment of surplus funds in Sharia compliant wholesale deposits with bank counterparties.

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee. A separate Credit department, reporting to the Credit Committee is responsible for oversight of the Company'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 Company in the management of credit risk.

Notes to the financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

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

(ii) Exposure to credit risk

	Note	Commodity Murabaha and Wakala receivables and other advances to banks	Investment securities - Sukuks	Net Consumer finance accounts and other advances to customers	Net investment in Commercial Property Finance	Net investment in Home Purchase Plans	Total
		£	£	£	£	£	£
2015							
Investment grade financial assets	*13/15*	**101,569,149**	**120,933,669**	-	-	-	**222,502,818**
Below investment grade	*13*	-	-	-	-	-	-
Unrated financial assets	*13/14*	**39,003,560**	-	**649,965**	**272,532,326**	**453,329,717**	**765,515,568**
Specific allowances for impairment	*14*	-	-	**(33,413)**	-	**(1,190)**	**(34,603)**
Collective allowances for impairment	*14*	-	-	**(521,502)**	**(21,320)**	**(541,301)**	**(1,084,123)**
Carrying amount		**140,572,709**	**120,933,669**	**95,050**	**272,511,006**	**452,787,226**	**986,899,660**
2014							
Investment grade financial assets	*13/15*	76,247,090	109,360,094	-	-	-	185,607,184
Below investment grade	*13*	-	-	-	-	-	-
Unrated financial assets	*13/14*	7,038,248	-	709,649	138,465,310	311,574,308	457,787,515
Specific allowances for impairment	*14*	-	-	(34,995)	-	-	(34,995)
Collective allowances for impairment	*14*	-	-	(531,346)	-	-	(531,346)
Carrying amount		83,285,338	109,360,094	143,308	138,465,310	311,574,308	642,828,358

Investment grade financial assets have a minimum rating of BBB. As at 31 December 2015, the amount of unimpaired balances stood at £988,111,401 (2014: £642,800,762). The maximum exposure to credit risk is the carrying amount of the financial asset receivable balances as at 31 December 2015 and 31 December 2014.

(iii) Write-off policy

The Company writes off a balance (and any related allowances for impairment) when the Credit department determines that the balance is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iv) Collateral

The Company holds collateral against secured advances 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 2015 is £726.0m (2014: £451.2m). None of this amount was held against impaired assets.

Notes to the financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

(v) Concentration of credit risk

The Company monitors concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk at the reporting date is shown below.

	Commodity Murabaha and Wakala receivables and other advances to banks		Investment securities		Consumer finance accounts and other advances to customers		Net investment in Commercial Property Finance		Net investment in Home Purchase Plans	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	£	£	**£**	£	**£**	£	**£**	£	**£**	£
Concentration by sector:										
Individuals	**-**	-	**-**	-	**95,050**	143,308	**26,461,222**	17,372,438	**452,787,226**	311,574,308
Corporate	**-**	-	**20,914,432**	20,314,210	**-**	-	**246,049,784**	121,092,872	**-**	-
Bank	**140,572,709**	83,285,338	**100,019,237**	89,045,884	**-**	-	**-**	-	**-**	-
	140,572,709	83,285,338	**120,933,669**	109,360,094	95,050	143,308	**272,511,006**	138,465,310	**452,787,226**	311,574,308
Concentration by location:										
UK	**101,569,099**	14,941,464	**24,558,569**	14,313,544	**95,000**	143,308	**272,511,006**	138,465,310	**452,787,226**	311,574,308
Europe	**-**	-	**-**	-	5	-	-	-	**-**	-
Asia	**-**	9,100,000	**5,570,788**	5,473,394	5	-	-	-	**-**	-
Middle East	**39,003,610**	59,243,874	**90,804,312**	89,573,156	40	-	-	-	**-**	-
	140,572,709	83,285,338	**120,933,669**	109,360,094	95,050	143,308	**272,511,006**	138,465,310	**452,787,226**	311,574,308

The asset quality underlying the Commercial Property Finance and Home Purchase Plans portfolios is high, with financing decisions based on clear affordability assessments and prudent finance-to-value (FTV) ratios. As at 31 December 2015, thirteen of the facilities within the secured finance portfolios were in arrears.

(b) Liquidity risk (unaudited)

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company'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 Sukuks and short-term liquid assets, made up of cash on demand and short term Commodity Murabaha and Wakala transactions, to ensure that sufficient liquidity is maintained. All liquidity policies and procedures are subject to review and approval by ALCO.

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

Notes to the financial statements

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Residual contractual maturities of financial liabilities (audited)

The following table shows the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. However, based on behavioural experience demand deposits from customers are expected to maintain an increasing balance.

	Note	Carrying amount	Gross maturity outflow	Less than 1 month	1 - 3 months	3 months - 1 year	1 year – 2 years	2 years – 3 years
2015		£	£	£	£	£	£	£
Deposits from banks	*19*	**155,716,546**	**156,154,998**	**88,341,489**	**67,813,509**	-	-	-
Deposits from customers	*20*	**730,713,039**	**736,574,932**	**541,362,181**	**74,594,908**	**39,293,161**	**68,020,470**	**13,304,212**
		886,429,585	**892,729,930**	**629,703,670**	**142,408,417**	**39,293,161**	**68,020,470**	**13,304,212**
2014								
Deposits from banks	*19*	31,728,248	31,739,102	31,739,102	-	-	-	-
Deposits from customers	*20*	509,802,583	512,584,453	413,844,848	33,433,120	29,861,288	35,445,197	-
		541,530,831	544,323,555	445,583,950	33,433,120	29,861,288	35,445,197	-

A breakdown of the Company's Commodity Murabaha and Wakala receivables by maturity date is shown in note 13.

(c) Market risk (unaudited)

Market risk is the risk of loss of income arising from unfavourable market movements, including foreign exchange rates and profit rates. The objective of market risk management is to manage and control exposures within acceptable parameters, whilst optimising returns. The Company is not exposed to any material foreign currency risk. Given the Company's current profile of financial instruments, the principle 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 reviewing approved rates and bands at regular re-pricing meetings:

- Profit rates for Commodity Murabaha and Wakala receivables are agreed with the counterparty bank at the time of each transaction and the profit (mark-up) and effective yield 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 Company'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 Murabaha and Wakala deposits are agreed with the customer at the time of each transaction and the profit (mark-up) and effective yield 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.

Notes to the financial statements

(c) Market risk unaudited (continued)

Earnings Based Approach:

All profit and finance 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 Company's assets and liabilities to standard and non-standard changes in achievable effective rates. Standard scenarios that are considered on a monthly basis include a 2.00% or 0.50% rise or fall in effective average rates. An analysis of the Company's statement of comprehensive income sensitivity to an increase or decrease in effective rates (assuming no asymmetrical movement and a constant statement of financial position status) is as follows:

	2.00% parallel increase £	2.00% parallel decrease £	0.50% parallel increase £	0.50% parallel decrease £
31 December 2015	**1,700,571**	**(1,675,989)**	**419,627**	**(419,627)**
31 December 2014	807,645	(659,352)	164,779	(164,779)

(d) Concentration risk (unaudited)

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

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

The Credit Committee monitors both sectoral and geographic concentration for each finance asset class and regularly reviews counterparty, country and regional limits in respect of treasury assets.

(e) Capital management (unaudited)

In accordance with the EU's Capital Requirements Directive (CRD) and the guidance provided in the FCA Handbook (BIPRU 2.2), the Company's Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Company. The ICAAP is reviewed on an annual basis as part of the Company's strategic planning process and more frequently if business requirements demand.

The Company's capital requirements are set by the PRA and monitored by the Board. Regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium and retained earnings, less intangible assets.
- Tier 2 capital, which includes collective impairment allowances, restricted to a maximum amount.

The level of total capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets. The Company has put in place processes to monitor and manage capital adequacy.

The PRA has reviewed and evaluated the ICAAP, and has provided Individual Capital Guidance (ICG) to the Company. The PRA sets out ICG for all banks operating in the United Kingdom by reference to its Capital Resources Requirement. The PRA's approach is to monitor the available capital resources in relation to the ICG requirement.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company has complied with all externally imposed capital requirements throughout the period.

Notes to the financial statements

(e) Capital management unaudited (continued)

The Company's regulatory capital position as at 31 December was as follows:

	2015 £	2014 £
Tier 1 capital		
Total equity	**113,456,893**	103,111,545
Less intangible assets	**(622,308)**	(357,466)
Less deferred tax	**(4,780,559)**	(712,864)
	108,054,026	102,041,215
Tier 2 capital		
Collective allowances for impairment	**1,084,123**	531,346
Total regulatory capital	**109,138,149**	102,572,561

5 Key judgements and uncertainties

Management discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies and estimates, and the application of these policies and estimates. The critical accounting judgements are set out below.

(a) Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3(j).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the estimates of cash flows considered recoverable are approved by the Credit function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

Management performed sensitivity analysis on the provision model. An increase / (decrease) in the probabilities of default by 10%, resulted in an increase / (decrease) of £48k net income.

(b) Determining fair values

Fair values of financial assets and financial liabilities are based on quoted market prices. If the market is not active the Bank establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

Notes to the financial statements

5 Key judgements and uncertainties (continued)

(b) Determining fair values (continued)

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

The table overleaf summarises the carrying amounts and estimated fair values of financial assets and liabilities.

	Financing and receivables	Available-for-sale financial assets	Other liabilities at amortised cost	Total carrying amount	Fair Value
	£	£	£	£	£
At 31 December 2015					
Cash	**1,807,193**	-	-	**1,807,193**	**1,807,193**
Commodity Murabaha and Wakala receivables and other advances to banks	**140,572,709**	-	-	**140,572,709**	**140,572,709**
Consumer finance accounts and other advances to customers	**95,050**	-	-	**95,050**	**95,050**
Net investment in Home Purchase Plans	**452,787,226**	-	-	**452,787,226**	**486,014,955**
Net investment in Commercial Property Finance	**272,511,006**	-	-	**272,511,006**	**282,591,191**
Investment securities - Sukuks	-	**120,933,669**	-	**120,933,669**	**120,933,669**
	867,773,184	**120,933,669**	-	**988,706,853**	**1,032,014,767**
Deposits from banks	-	-	**155,716,546**	**155,716,546**	**155,716,546**
Deposits from customers	-	-	**730,713,039**	**730,713,039**	**730,713,039**
	-	-	**886,429,585**	**886,429,585**	**886,429,585**
At 31 December 2014					
Cash	803,780	-	-	803,780	803,780
Commodity Murabaha and Wakala receivables and other advances to banks	83,285,338	-	-	83,285,338	83,285,338
Consumer finance accounts and other advances to customers	143,308	-	-	143,308	143,308
Net investment in Home Purchase Plans	311,574,308	-	-	311,574,308	311,574,308
Net investment in Commercial Property Finance	138,465,310	-	-	138,465,310	138,465,310
Investment securities - Sukuks	-	109,360,094	-	109,360,094	109,360,094
	534,272,045	109,360,094	-	643,632,139	642,632,139
Deposits from banks	-	-	31,728,248	31,728,248	31,728,248
Deposits from customers	-	-	509,802,583	509,802,583	509,802,583
	-	-	541,530,831	541,530,831	541,530,831

Notes to the financial statements

5 Key judgements and uncertainties (continued)

(b) Determining fair values (continued)

Fair value hierarchy

The table below analyses financial instruments measured at fair value into a fair value hierarchy:

At 31 December 2015	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets				
Cash	**1,807,193**	-	-	**1,807,193**
Commodity Murabaha and Wakala receivables and other advances to banks	-	-	**140,572,709**	**140,572,709**
Consumer finance accounts and other advances to customers	-	-	**95,050**	**95,050**
Net investment in Home Purchase Plans	-	-	**486,014,955**	**486,014,955**
Net investment in Commercial Property Finance	-	-	**282,591,191**	**282,591,191**
Investment securities - Sukuks	**120,933,669**	-	-	**120,933,669**
	122,740,862		**909,273,905**	**1,032,014,767**
Financial liabilities				
Amortised cost	-	**886,429,585**	-	**886,529,585**
	-	**886,429,585**	-	**886,429,585**

At 31 December 2014	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets				
Cash	803,780	-	-	803,780
Commodity Murabaha and Wakala receivables and other advances to banks	-	-	83,285,338	83,285,338
Consumer finance accounts and other advances to customers	-	-	143,308	143,308
Net investment in Home Purchase Plans	-	-	311,574,308	311,574,308
Net investment in Commercial Property Finance	-	-	138,465,310	138,465,310
Investment securities - Sukuks	109,360,094	-	-	109,360,094
	110,163,874	-	533,468,265	643,632,139
Financial liabilities				
Amortised cost	-	541,530,831	-	541,530,831
	-	541,530,831	-	541,530,831

Notes to the financial statements

5 Key judgements and uncertainties (continued)

(c) Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers, the Bank pays levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy consists of two parts: a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

	2015	2014
	£	£
Balance at 1 January	**152,632**	88,804
Utilised during the year	**(152,632)**	(88,804)
Increase in provision during the year	**195,482**	152,632
Balance at 31 December	**195,482**	152,632

(d) Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2015 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which it can be utilised. In arriving at this conclusion the Directors have estimated the future profit performance for the bank which is subject to a number of variables. If forecast profit reduces by 10% the Directors would still deem recognition of the deferred tax asset as appropriate. The Directors are satisfied the calculation of the Deferred Tax asset will be utilised with future taxable profits.

Management performed sensitivity analysis on the provision for deferred tax where there are changes in the tax rates. An increase / (decrease) of 1% in the tax rates will result in deferred tax balance increase / (decrease) of £48k (2014: £7k)

(e) Effective Profit rate (EPR)

IAS 39 requires profit earned from finance to be measured under the effective profit rate model. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. Management reviews the expected life on a segmental basis, whereby products of a similar nature are grouped together that represents behavioural attributes.

The key assumptions applied by management in the EPR methodology are behavioural life of the assets. The expected behavioural life are subjected to changes in internal and external factors and may result in adjustments to the carrying value of finances which must be recognized to the statement of Profit and Loss. Management has limited historical experience of customer behaviours due to the relative immaturity of the portfolios and, therefore models expected behaviour based on historical experience of the portfolio. The actual behaviour of the portfolios are compared to the modelled behaviour and where there are any differences from the modelled behaviour, adjustments were recognised to the Statement of Profit and Loss.

Management performed sensitivity analysis on the EPR models applied on HPP and CPF. An increase in the behavioural life of the financing assets by 10% would result in the net income decrease of £56k and a decrease in the behavioural life of the financing assets by 10% will result in a net income increase of £14k.

Notes to the financial statements

6 Net income from Islamic financing transactions

	2015 £	2014 £
Income receivable		
Commodity Murabaha and Wakala transactions	**298,407**	532,357
Consumer finance	**6,466**	11,605
Commercial Property Finance	**9,832,823**	3,633,365
Home Purchase Plans	**15,730,588**	11,045,106
Investment securities - Sukuks	**2,927,333**	1,708,393
Total income receivable from Islamic financing transactions	**28,795,617**	16,930,826
Returns payable		
Deposits from banks	**(617,486)**	(27,339)
Deposits from customers	**(7,386,258)**	(5,292,811)
Total returns payable to customers and banks	**(8,003,744)**	(5,320,150)
Net income from Islamic financing transactions	**20,791,873**	11,610,676

An amount of £519,137 has been reclassified in 2014 from fee and commission income to Income receivable from Islamic financing transactions. There is no impact on profit for the year.

7 Net fee and commission income

	2015 £	2014 £
Fee and commission income		
Retail customer banking fees	**166,485**	166,127
ATM commission	**59,155**	41,141
Other	**322,651**	34,360
Total fee and commission income	**548,291**	241,628
Fee and commission expense		
ATM interchange fees	**(30,303)**	(32,493)
Electronic transaction fees	**(57,680)**	(20,573)
Total fee and commission expense	**(87,983)**	(53,066)
Net fee and commission income	**460,308**	188,562

An amount of £519,137 has been reclassified in 2014 from fee and commission income to Income receivable from Islamic financing transactions. There is no impact on profit for the year.

8 Auditor's remuneration

Included within operating expenses are the following amounts payable to the auditor (excluding VAT):

	2015 £	2014 £
Audit of these financial statements	**91,000**	79,000
Quarterly review fees	**26,000**	26,000
Services relating to taxation	**6,500**	6,580
Total	**123,500**	111,580

In addition the Bank paid audit fees of £2,500 (2014: £2,500) for the audit on behalf of Al Rayan UK Limited.

Notes to the financial statements

9 Personnel expenses

	2015	2014
	£	£
Wages and salaries	**6,295,002**	4,807,301
Social security costs	**485,824**	413,929
Contributions to defined contribution pension plans	**439,191**	332,719
Other staff costs	**22,464**	25,541
Total	**7,242,481**	5,579,490

The following table summarises the average number of employees within the company during the year:

	2015			2014		
	Consumer Banking	**Support Services**	**Total**	Consumer Banking	Support Services	Total
Average for the Period	**72**	**63**	**135**	61	56	117

10 Directors' emoluments

The emoluments of the Directors who served during the year were as follows:
Remuneration of Non-Executive Directors

	2015				2014			
	Salary	**Fees**	**Benefits in Kind**	**Total**	Salary	Fees	Benefits in Kind	Total
	£	**£**	**£**	**£**	£	£	£	£
K. M.A. Al-Kuwari	-	-	-	-	1,500	-	-	1,500
R Owen	-	-	-	-	20,469	-	-	20,469
A M T Mustafawi	**15,000**	**11,500**	-	**26,500**	15,000	9,000	-	24,000
J A Al-Jamal	-	-	-	-	750	-	-	750
A S Abdisheikh	**15,000**	**15,000**	-	**30,000**	14,154	10,000	-	24,154
M Brookes	**27,500**	**19,000**	-	**46,500**	4,385	4,000	-	8,385
R Sharpe	**60,000**	**16,000**	-	**76,000**	5,000	-	-	5,000
	117,500	**61,500**	-	**179,000**	61,258	23,000	-	84,258

Remuneration of the Executive Director

	2015				
	Salary	**Bonus**	**Benefits in Kind**	**Pension Contributions**	**Total**
	£	**£**	**£**	**£**	**£**
S Choudhury	**119,250**	**85,000**	**2,637**	**27,414**	**234,301**
	119,250	**85,000**	**2,637**	**27,414**	**234,301**

	2014				
	Salary	Bonus	Benefits in Kind	Pension Contributions	Total
	£	£	£	£	£
S Choudhury	100,670	60,000	1,134	24,664	186,468
	100,670	60,000	1,134	24,664	186,468

The Executive Director has the option to sacrifice part of his salary in exchange for the Bank making additional pension contributions on his behalf. During 2014 and 2015, the Executive Director exercised this option.

Notes to the financial statements

11 Income tax expense

	2015 £	2014 £
Current tax expense:		
Current Year	-	-
Deferred Tax:		
Recognition of previously unrecognised losses	**(4,067,695)**	(712,864)
Total income tax credit	**(4,067,695)**	(712,864)

	2015 £	2014 £
Reconciliation of effective tax rate:		
Profit before tax	**6,204,088**	502,283
Income tax at UK corporation tax rate 20.25% (2014: 21.50%)	**1,256,328**	107,991
Non-deductible expenses	**1,550**	632
Recognition of tax losses and other timing differences	**(5,325,573)**	(821,487)
Income tax credit	**(4,067,695)**	(712,864)

Unrecognised deferred tax assets:

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Company can use the benefits

	2015	2014
Capital allowances	**559,878**	657,789
Tax losses *(see note 28)*	**6,687,439**	13,085,569
	7,247,317	13,743,358

Further information about deferred tax is presented in note 28.

Reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated using the applicable rates enacted at the balance sheet date

12 Cash and cash equivalents

	2015 £	2014 £
Cash	**1,807,193**	803,780
Other advances to banks	**100,679,242**	11,360,830
Total cash and cash equivalents	**102,486,435**	12,164,610

Notes to the financial statements

13 Commodity Murabaha and Wakala receivables and other advances to banks

	2015 £	2014 £
Repayable on demand	**100,679,240**	11,360,830
3 months or less but not repayable on demand	**39,003,560**	71,077,213
1 year or less but over 3 months	**889,909**	847,295
Total Commodity Murabaha and Wakala receivables and other advances to banks	**140,572,709**	83,285,338

A breakdown of Commodity Murabaha and Wakala receivables and other advances to banks by geographic regions is shown in note 4. Balances maturing in 1 year or less but over 3 months include a balance of £889,909 (2014: £847,295) representing repayable security deposits held by banks that have issued a guarantee to cover the Company's future customer card transactions with MasterCard. These deposits do not earn a return.

14 Advances to customers

	Gross amount 2015	**Impairment allowance 2015**	**Carrying amount 2015**	Gross amount 2014	Impairment allowance 2014	Carrying amount 2014
Retail customers:	**£**	**£**	**£**	£	£	£
Consumer finance accounts and other advances to customers	**649,965**	**(554,915)**	**95,050**	709,649	(566,341)	143,308
Total consumer finance accounts and other advances to customers	**649,965**	**(554,915)**	**95,050**	709,649	(566,341)	143,308
Net investment in Commercial Property Finance	**272,532,326**	**(21,320)**	**272,511,006**	138,465,310	-	138,465,310
Net investment in Home Purchase Plans	**453,329,717**	**(542,491)**	**452,787,226**	311,574,308	-	311,574,308

	2015 £	2014 £
Specific allowances for impairment		
Balance at 1 January	**34,995**	36,260
(Credit) for the year	**(392)**	(1,265)
Amounts written off during the year	**-**	-
Balance at 31 December	**34,603**	34,995
Collective allowances for impairment		
Balance at 1 January	**531,346**	548,187
Charge / (credit) for the year	**557,214**	(12,983)
Amounts written off during the year	**(4,437)**	(3,858)
Balance at 31 December	**1,084,123**	531,346
Total allowances for impairment		
Balance at 1 January	**566,341**	584,447
Charge / (credit) for the year	**556,822**	(14,248)
Amounts written off during the year	**(4,437)**	(3,858)
Balance at 31 December	**1,118,726**	566,341

This impairment allowance relates to consumer finance accounts, Home Purchase Plan and Commercial Property finance

Notes to the financial statements

14 Advances to customers (continued)

The gross investment in Commercial Property Finance comprises:

	2015 £	2014 £
Less than one year	**27,519,103**	24,121,271
Between one and five years	**247,261,805**	90,394,820
More than five years	**66,246,681**	61,088,785
Total gross investment in Commercial Property Finance	**341,027,589**	175,604,876
Unearned future rental on Commercial Property Finance	**(68,495,263)**	(37,139,566)
Impairment allowance	**(21,320)**	-
Net investment in Commercial Property Finance	**272,511,006**	138,465,310

The net investment in Commercial Property Finance comprises:

	2015 £	2014 £
Less than one year	**15,894,373**	18,406,164
Between one and five years	**206,726,643**	73,074,778
More than five years	**49,911,310**	46,984,368
Impairment allowance	**(21,320)**	-
Net investment in Commercial Property Finance	**272,511,006**	138,465,310

The gross investment in Home Purchase Plans comprises:

	2015 £	2014 £
Less than one year	**35,435,410**	22,081,306
Between one and five years	**129,835,698**	88,634,977
More than five years	**553,811,873**	383,285,726
Total gross investment in Home Purchase Plans	**719,082,981**	494,002,009
Unearned future rental on Home Purchase Plans	**(265,753,264)**	(182,427,701)
Impairment allowance	**(542,491)**	-
Net investment in Home Purchase Plans	**452,787,226**	311,574,308

The net investment in Home Purchase Plans comprises:

	2015 £	2014 £
Less than one year	**16,703,547**	3,794,790
Between one and five years	**59,545,882**	41,706,456
More than five years	**377,080,288**	266,073,062
Impairment allowance	**(542,491)**	-
Net investment in Home Purchase Plans	**452,787,226**	311,574,308

Notes to the financial statements

15 Investment securities

	2015	2014
	£	£
Quoted Sukuks	**120,933,669**	109,360,094
	120,933,669	109,360,094

All Sukuks conform to the Sharia principles of Islamic finance and have been approved by the Sharia Supervisory Committee.

16 Property and equipment

	Computer Equipment	Office Equipment	Leasehold Improvements	Fixtures & Fittings	Land & Buildings	Total
	£	£	£	£	£	£
Cost						
Balance at 1 January 2015	2,279,002	142,918	3,025,445	285,400	37,060	5,769,825
Additions	539,586	16,147	1,634,265	292,546	3,602,925	6,085,469
Disposals	-	(2,649)	(340,916)	(29,932)	-	(373,497)
Balance at 31 December 2015	**2,818,588**	**156,416**	**4,318,794**	**548,014**	**3,639,985**	**11,481,797**
Depreciation						
Balance at 1 January 2015	2,194,823	133,938	2,908,063	271,792	-	5,508,616
Depreciation charge for the year	139,917	5,117	181,649	25,316	4,660	356,659
Disposals	-	(2,649)	(340,916)	(29,932)	-	(373,497)
Balance at 31 December 2015	**2,334,740**	**136,406**	**2,748,796**	**267,176**	**4,660**	**5,491,778**
Net book value						
At 31 December 2015	**483,848**	**20,010**	**1,569,998**	**280,838**	**3,635,325**	**5,990,019**

	Computer Equipment	Office Equipment	Leasehold Improvements	Fixtures & Fittings	Land & Buildings	Total
Cost						
Balance at 1 January 2014	2,181,973	141,278	2,955,080	284,760	-	5,563,091
Additions	97,029	1,640	70,365	640	37,060	206,734
Balance at 31 December 2014	**2,279,002**	**142,918**	**3,025,445**	**285,400**	**37,060**	**5,769,825**
Depreciation						
Balance at 1 January 2014	2,086,938	128,815	2,677,952	266,291	-	5,159,996
Depreciation charge for the year	107,885	5,123	230,111	5,501	-	348,620
Balance at 31 December 2014	**2,194,823**	**133,938**	**2,908,063**	**271,792**	-	**5,508,616**
Net book value						
At 31 December 2014	**84,179**	**8,980**	**117,382**	**13,608**	**37,060**	**261,209**

During the year, the Company acquired land and buildings at a cost of £3.6m. The Company leases its branch premises under operating leases. The leases typically run for 10 years, with options to renew the lease after that date. Lease payments are reviewed after periods stipulated in the agreements to reflect market rentals.

Notes to the financial statements

17 Intangible assets

	Computer licences	Purchased & developed software	Total
Cost	**£**	**£**	**£**
Balance at 1 January 2015	1,120,396	4,706,138	5,826,534
Additions	141,585	347,191	488,776
Balance at 31 December 2015	1,261,981	5,053,329	6,315,310
Amortisation			
Balance at 1 January 2015	953,086	4,515,982	5,469,068
Amortisation charge for the year	66,524	157,410	223,934
Balance at 31 December 2015	1,019,610	4,673,392	5,693,002
Net book value			
At 31 December 2015	**242,371**	**379,937**	**622,308**
Cost			
Balance at 1 January 2014	1,083,682	4,625,590	5,709,272
Additions	36,714	80,548	117,262
Balance at 31 December 2014	1,120,396	4,706,138	5,826,534
Amortisation			
Balance at 1 January 2014	908,620	4,374,193	5,282,813
Amortisation charge for the year	44,466	141,789	186,255
Balance at 31 December 2014	953,086	4,515,982	5,469,068
Net book value			
At 31 December 2014	**167,310**	**190,156**	**357,466**

18 Other assets

	2015	2014
	£	£
Accrued income	**2,354,414**	2,161,371
Prepayments	**1,100,449**	848,289
Other receivables	**765,000**	-
Total	**4,219,863**	3,009,660

There are no receivables within other assets that are expected to be recovered in more than 12 months (2014: £nil). Other receivables include deferred arrangement fees that is receivable on the settlement of the finance.

Notes to the financial statements

19 Deposits from banks

	2015 £	2014 £
Repayable on demand	**4,365,504**	180,730
3 months or less but not repayable on demand	**151,351,042**	31,547,518
Total deposits from banks	**155,716,546**	31,728,248
Comprising:		
Non profit sharing accounts	**4,365,504**	180,730
Profit sharing / paying accounts	**151,351,042**	31,547,518
Total deposits from banks	**155,716,546**	31,728,248

20 Deposits from customers

	2015 £	2014 £
Repayable on demand	**240,108,090**	153,078,874
3 months or less but not repayable on demand	**159,084,053**	72,638,505
1 year or less but over 3 months	**253,884,153**	249,966,863
2 years or less but over 1 year	**65,291,311**	34,118,341
3 years or less but over 2 years	**12,345,432**	-
Total deposits from customers	**730,713,039**	509,802,583
Comprising:		
Non profit sharing	**148,248,429**	67,198,224
Profit sharing / paying accounts	**582,464,610**	442,604,359
Total deposits from customers	**730,713,039**	509,802,583

21 Other liabilities

	2015 £	2014 £
Returns payable to customers	**1,661,963**	754,337
Trade payables	**356,488**	300,672
Social security and income tax	**155,800**	116,167
Accruals	**2,074,429**	2,073,531
Other creditors	**184,444**	86,254
Total	**4,433,124**	3,330,961

Notes to the financial statements

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2015 £	2014 £
Less than one year	**774,996**	713,196
Between one and five years	**2,989,157**	2,669,042
More than five years	**2,760,001**	3,000,000
Total	**6,524,154**	6,382,238

During the year £1,085,058 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2014: £530,236).

23 Called up share capital

	2015 £	2014 £
Allotted, called up and fully paid		
Issued ordinary share capital (ordinary shares of £0.01 each)	**121,218,700**	121,218,700

24 Related parties

At 31 December 2015, Directors of the Company and their immediate relatives have no shareholding in the Company (2014: Nil).

Transactions with key management personnel

Key management of the Company are the Board of Directors and senior management. The compensation of key management personnel including the Directors is as follows:

	2015 £	2014 £
Key management emoluments including social security costs	**1,956,963**	1,796,040
Company contributions to pension plans	**207,891**	168,003
Total	**2,164,854**	1,964,043

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £1,652,726 as at 31 December 2015 (2014: £595,444). The highest balance during the year was £875,000 (2014: £712,576). Total returns paid on these accounts during the year were £2,832 (2014: £2,750).

Outstanding consumer finance and Home Purchase Plan balances relating to key management personnel and immediate relatives totalled £786,419 as at 31 December 2015 (2014: £947,309). The amount of the provision relating to these finances is £nil (2014: £nil). Returns recognised during the year for these accounts were £19,553 (2014: £24,615). All consumer finance account facilities taken by key management personnel and staff were offered in line with standard customer terms and conditions.

Notes to the financial statements

24 Related parties (continued)

Ultimate parent company

The Company's ultimate parent company is Masraf Al Rayan Q.S.C, a company registered in Doha, Qatar. Masraf Al Rayan Q.S.C owns 100% of Al Rayan (UK) Ltd, which in turn owns 98.34% of the Company

25 Capital commitments

The Company had no outstanding capital commitments at 31 December 2015 (2014: £nil).

26 Segmental reporting

The Company measures and reports on the financial performance of the business to the chief operating decision maker as a whole and so has only one operating segment. All business is conducted from the United Kingdom.

A split of the Income receivable from Islamic financing transactions revenue by the geographic location in which the revenue was generated is provided below:

	2015	2014
	£	£
United Kingdom	**26,067,040**	14,944,039
Europe	**20,610**	77,354
Asia	**206,255**	145,785
Middle East	**2,501,712**	1,763,648
Total	**28,795,617**	16,930,826

The Company does not have any non-current assets located outside the United Kingdom and no single external customer accounts for more than 10% of total income.

An amount of £519,137 has been reclassified in 2014 from fee and commission income to Income receivable from Islamic financing transactions. There is no impact on profit for the year.

27 Assets and liabilities denominated in foreign currency

As at 31 December 2015, assets equivalent to £235,937,236 were denominated in US Dollars and are included within Commodity Murabaha and Wakala receivables, Sukuks and other advances to banks (2014: £96,583,653). At 31 December 2015 assets equivalent to £43,056,701 were denominated in Euros and are included within Commodity Murabaha and Wakala receivables and other advances to banks (2014: £2,673,083).

Deposits from banks and customers of £234,647,895 were denominated in US Dollars (2014: £96,036,676) and £42,942,400 were denominated in Euros (2014: £2,668,080).

Notes to the financial statements

28 Deferred tax asset

The movement on the deferred tax account is as follows:

	2015	2014
	£	£
At beginning of year	**712,864**	-
Current year income statement credit/ charge	**4,067,695**	712,864
At end of year	**4,780,559**	712,864

Deferred Tax Asset

Accelerated tax depreciation	-	-
Carried forward tax losses	**4,780,559**	712,864
	4,780,559	712,864

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable within the next year.

The deferred tax asset balances attributable to carried forward losses are expected to be recoverable against future taxable profits (as projected in the latest Strategic Plan). The assumptions surrounding future expected credit losses and increases in the Bank Base Rate represent the most subjective areas of judgment in management's projections of future taxable profits. The deferred tax assets have not been discounted.

Deferred tax assets have been calculated at 20%, being the rate substantively enacted at the Statement of Financial Position date.