Annual Report and Financial Statements

For the year ended 31 December 2016

Al Rayan Bank PLC

Registered number 4483430

AL RAYAN BANK

Contents

Chairman's Statement

Despite political uncertainty, market volatility and regulatory changes, 2016 was another year of progress for Al Rayan Bank, both in respect of financial performance and strategically.

The Bank has again delivered a set of results which reflects the success of our strategy, our focus on customer needs and our excellent people. The Bank has seen improved profitability to record the highest ever annual pre-tax profit.

2016 also saw the Bank attract new customers in record numbers and open more accounts than ever before, as well as achieving the largest ever growth in customer deposits. This was achieved while we strengthened the management team and continued to execute a transformational business strategy, designed to ensure that the Bank maintains its steady growth and sustained profitability in the years ahead.

We have built upon the tremendous success of 2015 and continued the improved profitability trajectory that was set in motion when the Bank was acquired by Masraf Al Rayan, Q.P.S.C (MAR) in 2014. Pre-tax profits for 2016 rose by 32% to £8.2million, and the Bank's balance sheet exceeded £1.44bn, an increase of 43% on the previous year.

We have enhanced our employee base with a 23% increase in skilled headcount, meaning that Al Rayan Bank's workforce is now 204 strong. The Bank also appointed a new Chief Operating Officer to oversee the Bank's business expansion and ensure it is appropriately evaluated and challenged at all stages.

CUSTOMER-CENTRIC VISION

Despite 2016 being an exciting period of expansion and growth the Bank has not lost sight of its customer-centric vision, and we continued to deliver excellent service to our customers, whether they chose to deal with us face to face at one of our retail outlets, or through our digital and direct channels.

- The Bank's customer base grew by 18%, and consequently nearly 77,000 customers now benefit from Al Rayan Bank's Sharia compliant, responsible products and services.
- 16,000 new accounts were opened in 2016, an average of nearly 44 accounts every single day of the year, bringing the total number of accounts at the Bank to 110,782.
- Customer deposits also enjoyed a similarly impressive increase, rising by 67% to reach £1.2billion; a growth that was achieved through successfully appealing to a wider customer base wishing to deposit funds with an ethical bank.
- At a time when high street banks are closing branches, Al Rayan Bank expanded its footprint throughout the UK in 2016, opening two new offices in Bradford and Glasgow – the Bank's first physical presence in Scotland.

A UNIQUE AND IMPORTANT ROLE

The Bank continues to play a unique and important role in the UK retail banking landscape: not only enabling Muslims to bank without having to compromise their faith, but also providing a credible alternative for customers looking for an ethical and responsible approach to finance. Alignment with the MAR brand has also facilitated banking services to new customers from the Gulf Cooperation Council (GCC) region. These customers predominantly use our private banking offering, which is based at our flagship Knightsbridge branch in central London.

Through a deep understanding of this diverse customer base, the Bank continued to innovate by introducing new products and services in 2016. These included a Buy-to-Let Home Purchase Plan (HPP) for the Scottish market, and a unique Charities Notice Savings Account that provides charities with the flexibility to respond to emergencies, while still enabling them to earn a return on their funds.

The Bank continued its efforts to make Sharia compliant finance more accessible by announcing its lowest ever rental rates on HPPs, and strategic partnerships with intermediary partners deVere Mortgages and John Charcol. This resulted in unprecedented demand for HPPs in 2016.

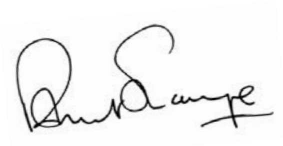
THE OUTLOOK

Al Rayan Bank will continue to focus on its core franchise offering of Retail, Private and Commercial Real Estate, and execute on a clear strategy to increase assets in its current product range and customer segments. In 2017, funding will continue to keep pace with the Bank's asset growth. The Bank will supplement the funding cycle with diversified, lower cost funding through access to the wholesale capital markets. We will continue to focus on balancing risk and return to deliver profitable growth, while maintaining its prudent and disciplined approach to risk management.

We will also diversify the Bank's retail funding by continuing to build on its deep customer relationships, providing short term, medium term and current account funding.

Al Rayan Bank has enhanced its Risk framework to ensure it is fit for the size of the Bank in the future. Finally, the Bank continues to re-engineer its processes to drive more efficient servicing and administration to keep costs disproportionately lower when compared to the Bank's growth.

In conclusion, as I look back on the remarkable achievements of 2016, I find it hard to believe that Al Rayan Bank has only been operating for 12 years. I thank our customers, Sharia Supervisory Committee scholars, employees, the Executive team, shareholders and Masraf Al Rayan for their continued support of the Bank and their dedication, professionalism and determination to succeed. In the year ahead, we will continue to build on the very solid foundations we have put in place to deliver on our commitments to our customers, colleagues and shareholders.



Robert Sharpe
Chairman

29 March 2017

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 2016 to 31 December 2016

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 2016 to 31 December 2016.

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 1 Sharia compliance audit issue rated as A, 6 Sharia compliance audit issues rated as B and 21 Sharia compliance audit issues rated as C. All the Sharia compliance audit issues found during this audit review occurred due to human errors or misjudgement by the Bank's staff and did not have any material effects on the Bank's overall compliance with Sharia; 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 2016 to 31 December 2016, was room for improvement.

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 2016 to 31 December 2016 were in compliance with the rules and principles of Sharia and fulfil the specific directives, rulings and guidelines issued by us. However, we note that there is room for improvement, based on the findings of the Sharia compliance audit report, in implementing the Sharia guidance and minimising any potential errors.

The Bank does not pay zakat on behalf of its shareholders and it is the sole responsibility of the individual shareholder(s) 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

Dr. Abdul Sattar Abu Ghuddah
Chairman of the Sharia Supervisory Committe

20 March 2017

Strategic Report

ABOUT AL RAYAN BANK PLC

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

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

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

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

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

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

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

ACHIEVEMENTS

Over the past 12 years the Bank has successfully proven the validity of the concept of a wholly Sharia compliant retail bank in the UK. It has introduced a range of products to the market that have been well received by its customers – be they Muslims wanting to bank in accordance with their faith, or non-Muslims, drawn by its responsible and ethical finance approach and attractive profit rates.

The Bank has built a thriving branch and office network throughout the UK, including the addition of a Premier branch in Knightsbridge, which has helped it reach High Net Worth Individuals, particularly from the Gulf Cooperation Council countries (GCC) region where the brand of its parent company, Masraf Al Rayan Q.P.S.C (MAR) is very well regarded.

It prides itself in delivering excellent customer service, be it face to face, or through its digital channels.

VISION AND VALUES

The Bank's vision and values guide its decision-making process, and approach to its customers, performance and growth. They are as follows:

Sharia compliant

Everything the Bank does will be in line with its values. Following Sharia, it will conduct its activity in a fair, ethical and socially responsible manner.

Pioneering

It will be a dynamic, inspiring and pioneering organisation, which offers unique solutions to its customers.

Dedicated

It will build strong, enduring relationships, delivering an experience that delights its customers.

Aspirational

It is dedicated to providing excellent products and services, and for maintaining a climate of respect for its customers, its industry and its employees.

The Bank is realising this vision through its deep understanding of its customers and by creating appropriate products and services to meet their needs, while supporting the Bank's aim to maintain its robust and steady growth with sustained profitability.

Every month for the past three years, one of its savings accounts has topped the Best Buy Tables compiled by Moneyfacts - the UK's leading personal finance data provider.

THE STRATEGIC PLAN

The Bank's strategic intent is to demonstrate sustained profitability through excellent customer service at a lower cost income ratio. This strategic intent is underpinned by five key imperatives which are fully integrated into the Bank's transformation plan and risk management framework. This enables the Bank to make better, risk-informed, strategic business decisions on a day to day basis:

It serves both as a guide to Al Rayan Bank employees on the future development of the Bank and as a blueprint for its external stakeholders, to inform them about its work and the strategic priorities it has established for the coming years.

The Key Imperatives are as follows:

- Capital efficient asset growth
- Increase fee income
- Lower cost diversified funding
- Robust risk management capability
- Drive service quality and efficiency across the Bank

The Bank's strategic focus for the coming years is:

- To remain the number one Sharia Compliant Bank in Europe
- To increase its exposure in the Commercial Property Finance (CPF) market
- To deliver the transformation plans outlined in the business plan
- To ensure appropriate resource availability in line with proposed asset growth
- To increase its High Net Worth customer base
- To continue to lobby the government to create a level playing field for Islamic finance in the UK
- To establish a cutting edge digital banking service
- To establish steady asset growth
- To manage conduct risk

AN OMNICHANNEL STRATEGY

The Bank aims to provide its customers with a seamless experience, be it face to face, or through its digital channels.

Branch and Office Network

Knightsbridge, London
Personalised, bespoke premier banking services and a comprehensive range of Sharia compliant retail and commercial financial solutions are provided to High Net Worth customers, primarily from the GCC region.

National Branch and Office Network:
Provide retail and commercial customers with a counter/cashiering service, and access to Al Rayan Bank's range of personal and SME products.

Branches:
Birmingham; Leicester, Manchester; Edgware Road, London; and Whitechapel, London. A counter/cashiering service is provided for customers as well as sales of the Bank's range of personal and SME products.

Offices:
Glasgow, Blackburn; Bradford/Leeds; Birmingham; Luton; Greater London (namely Ilford, Wembley and Tooting).

BDMs

Field-based Business Development Managers (BDMs) facilitate Home Purchase Plan (HPP) sales.

Intermediaries

Intermediaries provide an efficient and effective route for marketing products including Home Purchase Plan (HPP) and Commercial Property Finance (CPF), with future scope for Business Finance and Leasing.

Voice

A dedicated and highly trained Contact Centre team and an HPP sales team are based at the Bank's operational headquarters in Birmingham.

Digital

The Bank's telephone service is delivered via an Interactive Voice Response system (IVR).

Al Rayan Bank's online service facilitates account opening, money transmission and information searches.

The in-branch self-service element includes automated kiosks and ATMs.

Post

Fulfilment is completed in the Operations department located in the Bank's operational headquarters in Birmingham. All customer related correspondence is scanned and filed upon receipt, and subsequently digitized copies are sent to the relevant department.

OUR MARKET & COMPETITION

Al Rayan Bank is uniquely positioned to shape the future of responsible finance. The Bank enjoys distinct competitive advantages:

- It is the leading provider of a full range of Sharia compliant retail products in the UK, and the main provider of HPPs in the country. It is increasing its market share of Sharia compliant financing for GCC and CPF markets.
- In Masraf Al Rayan it has an established and successful sponsor with the skills, experience and expertise to help it to achieve its growth ambitions. Alignment with the MAR brand has enabled the Bank to attract customers from the GCC region and build a compelling proposition for High Net Worth customers.
- It provides a credible alternative to traditional banking. Its Islamic finance model is responsible and fair, and its savings products consistently deliver competitive rates of return.
- It has established a loyal customer base amongst Muslims and non-Muslims alike demonstrating the popularity of ethical banking across all faiths.
- It possesses a strategically located branch network which has assisted in maximising the Bank's exposure within the UK.
- Its staff are dedicated and passionate about working for the Bank, appreciating the culture and environment of a Sharia compliant, ethical organisation.
- Its growth has remained robust and is agile enough to embrace change.

The Bank systematically undertakes competitor analysis to understand the evolving landscape, and to make informed strategic decisions.

Business Line Competitors: Commercial

- The Sharia compliant commercial property finance market is more competitive that the residential property market. It is expected that this will continue to be the case over the coming years owing to new entrants particularly from within the Middle East.
- Although at present non-Sharia compliant banks are providing Sharia compliant property finance, their focus remains on transactions driven by size rather than relationship. Al Rayan Bank's focus has always been to maintain market share through developing new and existing relationships.
- The expertise of the senior management team expands across all sectors including specialists in Islamic Finance.
- Although there is evidence of a demand to extend the Bank's finance offerings to Malaysia, Indonesia and South Africa, there are no short-term plans to expand in to these markets.

Business Line Competitors: Retail

Recent years have seen an increase in the number of challenger banks entering the market, driven largely by advances in technology and changes in government policy.

- FinTech companies will continue to expand their offerings and will pose competition to established Financial Institutions.
- Although such companies have succeeded in offering an online savings product, they are yet to deliver an online home financing product which is far more complex and costly. Such barriers will limit what these providers can offer.
- Cheaper funding options have been provided by HM Treasury increasing competition. Should the government decide to limit or remove the options, smaller competitors will suffer.

Business Line Competitors: Private Banking

- Recent trend has seen an increase in investment from the Middle East into the UK and Europe resulting in banks extending their offering to cater for this.
- Although larger institutions have ventured in to the private banking market, many have failed to attract the number of clients they had hoped largely due to lack of in-house talent with the correct expertise to deliver.
- Given the appeal of this market competition is high and thus it is imperative to establish a solid strategy for success.
- The Bank possesses a growing and diverse workforce, 59% of which is customer focussed. To achieve the Bank's growth strategy, HR has devised a roadmap to ensure maximum retention and continued development of skills across all of the Bank's existing employees as well as continue to attract and source new talent.

LIQUIDITY AND FUNDING

Liquidity

The Bank has a low liquidity risk appetite. One of the key objectives of the Bank is to ensure that it retains sufficient liquid resources in line with regulatory liquidity requirements.

The Bank has developed a plan to outline future asset growth in line with liquidity requirements.

Funding

- Retail funding

  The strategy for funding is underpinned by acquisition of stable funding via retail liabilities, which are closely managed with well-priced products and new facilities.

  Branches continue to be an important source of stable retail funding. Rates will be monitored and managed to attract longer term behavioural funding. As such, the Bank's funding strategy targets a longer behavioural weighted average life to match the asset that is being underwritten, thus minimising the risk of maturity transformation.

- Wholesale funding

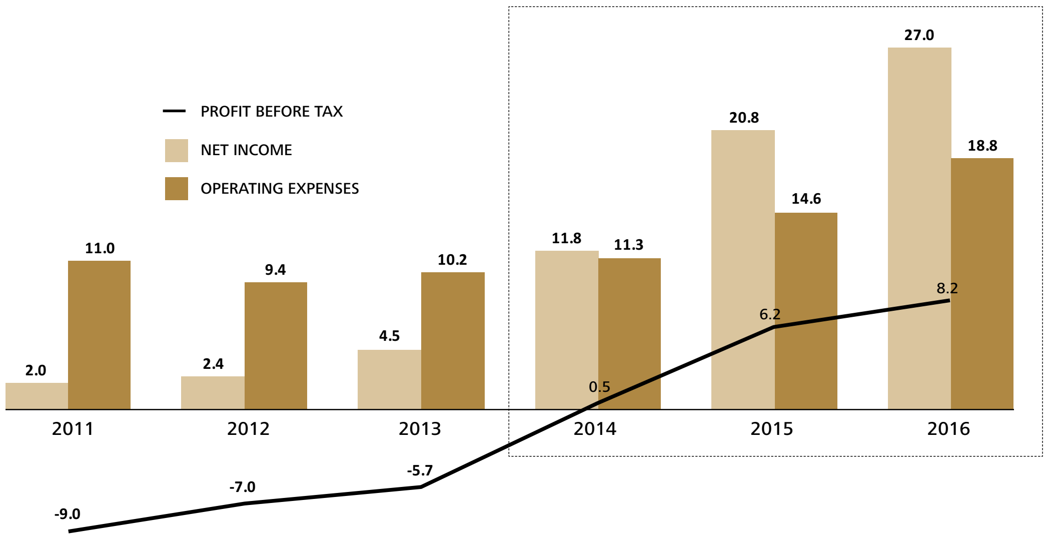
  Wholesale funding has predominantly been sourced from prominent GCC counterparties, with significant behavioural-term funding. The bank continues to diversify its wholesale funding mix.

BUSINESS REVIEW AND FINANCIAL RESULTS

Financial Achievements

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

The financial statements for the year ended 31 December 2016 are shown on pages 16 to 45. The profit before tax for the year amounts to £8,184,528 (Profit in 2015: £6,204,087)[1]. Details of the Bank's performance, developments and prospects are given within the Chairman's Statement on page 3.



Profit before tax, net income and operating expenses, 2011-16 (£m)

The bank continued its growing trend, with a year on year increase in profits[2] before tax by 32%.

The profit before tax has experienced a strong growth, the profit after tax year on year is marginally lower than 2015 (2015: £10.27m, 2016: £9.50m[3]). The Bank has accumulated unused tax losses, these are utilised as deferred tax asset which in turn gives a credit to drive profit after tax.

The reduction in profit after tax is attributable to changes in tax legislation, which took effect in April 2016. The changes restrict banking loss relief allowance, it restricts the unrestricted loss relief from 100% to 50% and the restricted loss relief from 50% to 25%.

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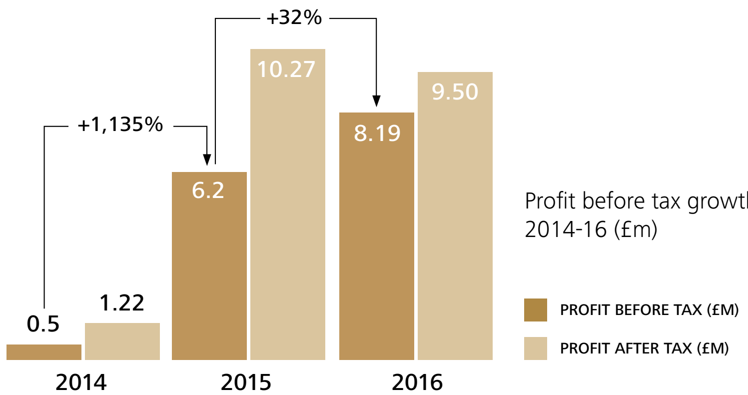
[1] Pre-tax profit Ref; Annual Report and Financial Statement 2016, page 16

[2] Pre-tax profits for 2016 rose by 32%. Ref; Chairman's Statement, Annual Report and Financial Statement 2016, page 3, page 16

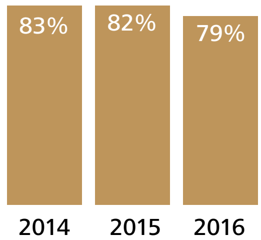
[3] Statement of Comprehensive Income reference: Annual Report and Financial Statement, page 16

There is now sustained profitability on a monthly basis, based on the recurring income from cumulative asset levels. The Balance Sheet for 2016 showed constant monthly growth in the asset levels, and increased by 43% year on year as at 31 December (2015: £1,004m, 2016: £1,436m[4]).

Along with positive growth in net income from Islamic financing transactions[5], the increase in profitability reflects a reduction in the cost to income ratio to 70% as at 31 December 2016 (72% in 2015).



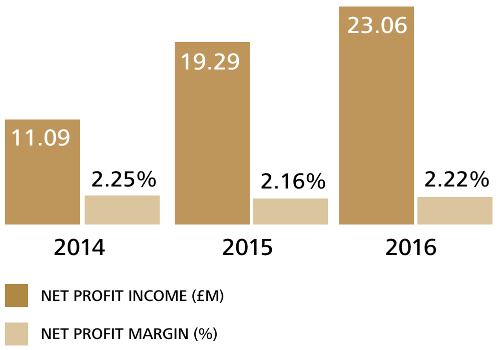
Profit before tax growth, 2014-16 (£m)

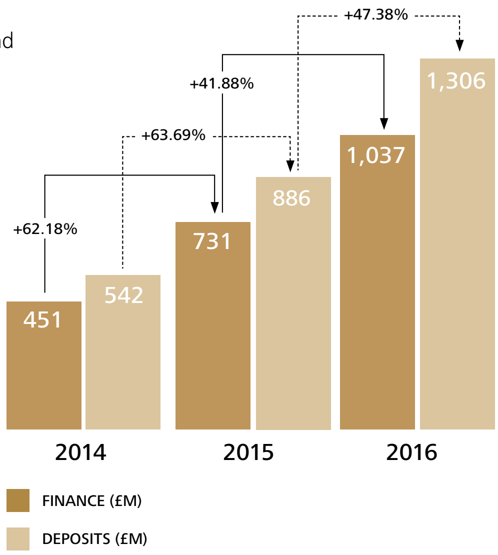


Customer financing to deposit ratio, 2014-16

Net Profit Income is growing in line with the growth of the Bank and the Bank is continually looking to improve its margin capability.

Net profit income and margin, 2014-16





Customer financing and deposits, 2014-16

Non-financial achievements

2016 was another successful year in terms of strengthening the Bank's infrastructure to deliver growth, cost reduction and greater profitability going forwards.

- **Strengthened Leadership Team**
  The Bank welcomed its new Chief Operating Officer (COO).
- **Improved IT infrastructure**
  Significant investment has been made in the business which will be paying off in later years as efficiencies start to materialise. There were a number of upgrades notably within IT, Finance and Treasury.
- **New Offices**
  Al Rayan Bank expanded its footprint throughout the UK, opening two new offices in Bradford and Glasgow – the Bank's first physical presence in Scotland[6].

[4] Statement of Financial Position reference: Annual Report and Financial Statement, page 17
[5] Growth in Islamic Financing transactions reference: Annual Report and Financial Statement 2016, page 16
[6] New offices. Ref. Chairman Statement, page 3

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 Bank's Risk Management Framework (RMF) is mature and was enhanced during 2016. The key risks which the Bank is exposed to and the potential mitigation for each are detailed below.

The RMF underpins the enterprise-wide governance, risk and compliance structure within the Bank to conform to the FCA and PRA regulatory requirements of the Senior Management Arrangements, Systems and Controls (SYSC), FCA and PRA Handbooks. The RMF not only enables the Bank to better identify, assess, monitor and control risk, but also to ensure that this insight informs corporate strategy, reporting, and day-to-day business decisions.

The Bank reviews the RMF on a periodic basis to ensure that it is relevant to its strategic direction and appropriately sets the risk appetite for the level and type of business it is forecasting to undertake.

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

RISK CATEGORY	DEFINITION
STRATEGIC RISK	**Business Risk** The risk of failing to achieve the strategic vision and objectives due to internal or external events arising from developing a strategy that does not maximise 'shareholder value' and/or fails to achieve the initiatives in the agreed strategic plan due to changing or flawed assumptions, or from external macro-economic or political events which are outside the control of the Bank. **Financial Risk** The risk of failing to achieve the financial objectives, leading to reduced financial security and sustainability arising from the poor management of or poor quality/volatile earnings and costs.
PRUDENTIAL RISK	**Capital Risk** The risk of financial failure arising from a lack of capital which may impact the current or future financial stability of the Bank. **Liquidity and funding risk** The risk of financial failure arising from liquidity impact the current or future financial stability of the Bank.
MARKET RISK	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements.
CREDIT RISK	The risk of financial loss and/or value as a result of the failure of a party with whom we have contracted to meet its obligations or for collateral held to realise its value.
OPERATIONAL RISK	**Operational Risk – Systems** The risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes, people or systems and third party failure. **Operational Risk - People** The risk of reductions in earnings and/or value, through financial or reputational loss, from inappropriate staff behaviour, resourcing structure or health & safety issues. Loss can also be incurred through failure to recruit, retain, train, reward and incentivise appropriately skilled staff to achieve business objectives and through failure to take appropriate action as a result of staff underperformance.
LEGAL AND REGULATORY RISK	**Sharia Risk** The risk of a loss in earnings, value or reputation due to products and services being non-compliant with Sharia and Islamic law. **Regulatory Risk** The risk of financial loss, regulatory censure and/or reputational damage from failing to adhere to applicable laws, regulations and supervisory guidance (including Anti Money Laundering).
CONDUCT RISK	The risk of treating customers unfairly and delivering inappropriate outcomes that leads to customer detriment or not achieving a positive experience to the customer. The risk may arise from different activities of the Bank including product design and development; sales process; post sales process; and from the overall culture and governance framework.

Consideration of Economic Outlook

Undoubtedly Brexit has been a cause of uncertainty in 2016. However, it does appear clear that the major turmoil predicted by some in the run-up to the vote has not materialised.

The financial services industry constitutes around 7% of UK GDP. The UK based financial services sector, together with the related professional services sector, plays a critical role in the UK economy. Research suggests that approximately half the sector's revenues in the UK are from international and wholesale businesses.

The impact of the UK's exit from the EU on the financial services sector in the UK will partly be determined by the agreements between governments and regulators on many pieces of legislation, and how firms respond to this shifting landscape.

The government has made it their key priority to ensure that there is an adequate transition period, avoiding a 'cliff edge' both at the moment of withdrawal following the Article 50 process and as the UK and the EU move towards a new relationship.

The Bank's current exposure to the EU is negligible, with limited EU exposures or operations outside the UK. Its customer base and activities are primarily focused in the UK. Due to current uncertainties, it is difficult to ascertain a quantitative assessment of any impact due to Brexit on Al Rayan Bank.

Management is regularly engaged in stress testing and assessing risks based on PRA defined stresses and management's most severe stress scenarios. It is considered that no additional specific stress tests are required to take account of any Brexit-related risks as the relevant risk drivers that might be impacted by the next stages of Brexit are those that have already been covered under the stress scenarios identified by the Bank's management.

Signed on behalf of the Board

Sultan Choudhury
Chief Executive Officer

29 March 2017

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

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2016.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the year ended 31 December 2016 and subsequently are as follows:

- Robert Sharpe (Chairman) (b) (c)
- Adel Mohammed 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 QPSC and are, therefore, not considered independent.

No Director had any interest in the ordinary shares of the Bank 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 Bank in excess of 3% as at 31 December 2016:

SHAREHOLDER INTERESTS IN EXCESS OF 3% AS AT 31 DECEMBER 2016	2016 %	2015 %
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 Bank. This represented approximately 95.59% of the existing share capital of the Bank. 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%.

Masraf Al Rayan Q.P.S.C has a 70% shareholding (2015: 100% holding in Al Rayan (UK) Ltd) and Qatar Holding LLC owns a 30% holding (2015: 0% holding in Al Rayan (UK) Ltd) in Al Rayan (UK) Ltd which in turn owns 98.34% of the bank. The remaining 1.66% is owned by minority shareholders.

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 4.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2015: £nil).

POLITICAL CONTRIBUTIONS

The Bank made no political contributions during the year (2015: £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

Accounting standards require the directors to assess the Bank's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on the Going Concern Basis Accounting and Reporting on Solvency and Liquidity Risks' published by the Financial Reporting Council in April 2016.

In order to assess the appropriateness of the going concern basis the directors considered the Bank's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and the potential risks affecting them. The Bank continues to be supported by capital injections from its parent, which include an amount of £10m received on 24 March 2017. Further amounts are due to be received later in 2017 and 2018.

After performing this assessment, the directors concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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 Bank'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 Bank's auditor is aware of that information.

AUDITOR

During 2017 the Board invited applicants to tender for the Bank's audit. As a result, the Board recommended that Deloitte LLP be appointed as the Bank's auditors. A resolution for their appointment will be proposed at the Annual General Meeting.

By order of the Board

Sultan Choudhury
Chief Executive Officer

29 March 2017

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

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 bank and of the profit or loss of the bank 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 2016 set out on pages 16-45. 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 bank'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 bank'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 bank and the bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 14, 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 2016 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 is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006

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.
- The Directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report

Simon Clark
Senior Statutory Auditor for and on behalf of KPMG LLP

29 March 2017

KPMG LLP
Statutory Auditor, Chartered Accountants
One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTE	2016 £'000s	2015 £'000s
Income receivable from Islamic financing transactions	6	**41,081**	28,762
Returns payable to customers and banks	6	**(15,672)**	(8,004)
Net income from Islamic financing transactions	**6**	**25,409**	20,758
Fee and commission income	7	**693**	548
Fee and commission expense	7	**(117)**	(88)
Net fee and commission income	**7**	**576**	460
Gain on Sukuk disposal	6	**880**	34
Foreign exchange income	6	**393**	10
		1,273	44
Operating income		**27,258**	21,262
Net (impairment) / credit on financial assets	14	**(449)**	(557)
Personnel expenses	9	**(9,308)**	(7,242)
General and administrative expenses		**(8,229)**	(6,678)
Depreciation	16	**(678)**	(357)
Amortisation	17	**(409)**	(224)
Total operating expenses		**(19,073)**	(15,058)
Profit before income tax		**8,185**	6,204
Income tax credit	11	**1,316**	4,068
Profit for the year		**9,501**	10,272
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in fair value of investment securities taken to equity		**326**	74
Other comprehensive income for the year		**326**	74
Total comprehensive income for the year		**9,827**	10,346

▶ The notes on pages 20 to 45 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	NOTE	2016 £'000s	2015 £'000s
Assets			
Cash		**2,412**	1,807
Commodity Murabaha and Wakala receivables and cash deposits with banks	13	**217,297**	140,573
Net investment in Consumer Finance	14	**43**	95
Net investment in Home Purchase Plans	14	**637,093**	452,787
Net investment in Commercial Property Finance	14	**394,243**	273,276
Investment securities – Sukuk	15	**166,962**	120,934
Property and equipment	16	**6,431**	5,990
Intangible assets	17	**935**	622
Other assets	18	**4,178**	3,455
Deferred tax asset	28	**6,097**	4,781
Total assets		**1,435,691**	1,004,320
Liabilities and equity			
Liabilities			
Deposits from banks	19	**83,571**	155,717
Deposits from customers	20	**1,222,853**	730,713
Other liabilities	21	**5,982**	4,433
Total liabilities		**1,312,407**	890,863
Equity			
Called up share capital	23	**121,219**	121,219
Share premium		**54,807**	54,807
Fair value reserve		**1,980**	1,654
Retained deficit		**(54,817)**	(64,299)
Profit stabilisation reserve		**95**	76
Total equity		**123,284**	113,457
Total equity and liabilities		**1,435,691**	1,004,320

▶ The notes on pages 20 to 45 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 March 2017 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 2016 and 31 December 2015

	Share Capital	Share Premium Account	Fair Value Reserve	Retained Deficit	Profit Stabilisation Rerserve	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Balance at 1 January 2015	121,219	54,807	1,580	(74,545)	51	103,112
Profit for the year	-	-	-	10,272	-	10,272
Other comprehensive income	-	-	108	-	-	108
Reclassification of fair value reserve to profit & loss			(34)			(34)
Transfer to profit stabilisation reserve	-	-	-	(25)	25	-
Issue of ordinary share capital	-	-	-		-	-
Balance at 31 December 2015	**121,219**	**54,807**	**1,654**	**(64,298)**	**76**	**113,458**
Balance at 1 January 2016	**121,219**	**54,807**	**1,654**	**(64,299)**	**76**	**113,457**
Profit for the year	-	-	-	9,501	-	9,501
Other comprehensive income	-	-	1,206	-	-	1,206
Reclassification of fair value reserve to profit & loss			(880)			(880)
Transfer to profit stabilisation reserve	-	-	-	(19)	19	-
Issue of ordinary share capital	-	-	-	-	-	-
Balance at 31 December 2016	**121,219**	**54,807**	**1,980**	**(54,816)**	**95**	**123,285**

▶ The notes on pages 20 to 45 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year end 31 December 2016

	NOTE	2016 £'000s	2015 £'000s
Cash flows from operating activities			
Profit for the year		**8,185**	6,204
Adjustments for:			
Depreciation	16	**678**	357
Amortisation	17	**409**	224
Gain on disposal of Sukuk	6	**(880)**	(34)
Impairment charge and write off on financial assets		**496**	557
Change in Commodity Murabaha and Wakala receivables		**(21,353)**	32,021
Change in investment in Consumer Finance		**52**	55
Change in investment in Home Purchase Plans		**(120,967)**	(141,755)
Change in investment in Commercial Property Finance		**(184,306)**	(134,067)
Change in other assets		**(723)**	(1,210)
Change in deposits from banks		**(72,145)**	123,988
Change in deposits from customers		**492,140**	220,910
Change in other liabilities		**1,549**	1,102
Net cash from operating activities		**103,135**	108,352
Cash flows from investing activities			
Purchase of investment securities - Sukuk		**(44,821)**	(11,467)
Purchase of property and equipment	16	**(1,118)**	(6,085)
Purchase of intangible assets	17	**(721)**	(489)
Net cash used in investing activities		**(46,662)**	(18,041)
Net change in cash and cash equivalents		**56,473**	90,311
Foreign exchange gains		**393**	10
Cash and cash equivalents at 1 January		**102,486**	12,165
Cash and cash equivalents at 31 December	12	**159,352**	102,486

▶ The notes on pages 20 to 45 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 Bank domiciled in the UK. The address of the Bank's registered office is 44 Hans Crescent, Knightsbridge, London, SW1X 0LZ. The financial statements of the Bank are presented as at and for the year ended 31 December 2016. The Bank 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

Accounting standards require the directors to assess the Bank's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on the Going Concern Basis Accounting and Reporting on Solvency and Liquidity Risks' published by the Financial Reporting Council in April 2016. In order to assess the appropriateness of the going concern basis the directors considered the Bank's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and the potential risks affecting them. The Bank continues to be supported by capital injections from its parent, which include an amount of £10m received on 24th March 2017. Further amounts are due to be received later in 2017 and 2018.

After performing this assessment, the directors concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts. 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 Bank'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.

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 Bank 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 Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank 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.

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

Commodity Murabaha is an Islamic financing transaction, which represents an agreement whereby the Bank buys a commodity and sells it to a counterparty based on a promise received from that counterparty to buy the commodity per 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 Bank provides a certain sum of money to an agent, who invests it per 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.

Deposits with banks are stated at cost and are non-return bearing.

(d) Consumer finance accounts

Islamic consumer financing transactions represent an agreement whereby the Bank 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 Bank. 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.

(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 Bank will enter into an agreement to jointly purchase a property and rental income will be received by the Bank relating to that proportion of the property owned by the Bank at any point in time. The other party to the agreement will make separate payments to purchase additional proportions of the property from the Bank, thereby reducing the Bank'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 Bank 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 Bank'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 Sukuk.

(g) Deposits from customers

Profit sharing accounts are based on the principle of Mudaraba whereby the Bank 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 Wakala deposits consist of an Islamic financing transaction, which represents an agreement whereby the customer appoints the Bank as agent to invest a certain sum of money, per specific conditions in order to achieve an expected specified return. The Bank, 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 Bank will maintain the return to depositors by utilising this reserve.

(i) Derecognition of financial assets and liabilities

The Bank 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 is transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment, unsecured financing are excluded from this assessment as they are not considered to be individually significant. 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 Bank uses analysis of historical trends to identify the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions are such that actual losses are likely to be greater or less than suggested by historical analysis. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

(l) Provisions

A provision is recognised if, as a result of a past event, the Bank 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 Bank has a present obligation to its employees that can be measured reliably.

(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 Bank in the management of its short-term commitments.

Commodity Murabaha and Wakala transactions, used by the Bank 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 adopted by the EU

Amendments to IAS16 and IAS 38 'Clarification of acceptable methods of depreciation and amortisation. (Effective 1 January 2018) and endorsed by the EU on 22 November 2016. 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 Bank intends to adopt the standard on the date it becomes effective.

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

IFRS 9 'Financial instruments' (effective 1 January 2018 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.

ARB has completed the impact/ gap analysis phase of the IFRS 9 project. Currently the classification and measurement phase is in process due to be completed by end of Q1 2017.

There are certain portfolios which will change their classification and measurement when compared to the current IAS 39 categories and a thorough exercise is underway to assess and document the business model and contractual cash flow requirements of financial assets under IFRS 9, this exercise will be subject to audit committee approval.

Based on the gap assessment it was identified that the current impairment/ credit loss modelling mechanism will require enhancement to be able to calculate robust IFRS 9 output. Management is currently considering new sophisticated impairment models available in the marker to resolve this gap.

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018) and is endorsed by the EU on 22 September 2016. The standard replaces IAS11, IAS18, IFRIC13, IFRIC15 IFRIC18 and SIC-31. 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.

(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 Bank have been issued, but are not yet effective within the EU and have not been applied in preparing these financial statements.

IFRS 16 'Leases' introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

4 FINANCIAL RISK MANAGEMENT

The Bank 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 Bank'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 Bank's risk management framework. The Bank 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 Bank's risk management policies are established to identify and analyse the risks faced by the Bank, 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 Bank, 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 Bank'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 Bank's credit risk, including:

- Formulating credit policies in consultation with other business units, covering credit assessments, collateral requirements, risk reporting, legal requirements and compliance with regulatory and statutory requirements.
- Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.
- Reviewing and assessing credit risk prior to agreements being entered into with customers.
- Limiting concentrations of exposure to counterparties, countries or sectors and reviewing these limits.
- Ongoing assessment of exposure and implementation of procedures to reduce this exposure.
- Providing advice, guidance and specialist skills to all business areas to promote best practice throughout the Bank in the management of credit risk.

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

(ii) Exposure to credit risk

Investment grade financial assets have a minimum rating of BBB. As at 31 December 2016, the amount of unimpaired balances stood at £1,418,050,219 (2015: £987,664,659). The maximum exposure to credit risk is the carrying amount of the financial asset receivable balances as at 31 December 2016 and 31 December 2015.

CREDIT RISK EXPOSURE, 2015-16

	NOTE	Commodity Murabaha and Wakala receivables and deposits with banks £'000s	Investment securities - Sukuk £'000s	Net investment in Consumer Finance £'000s	Net investment in Commercial Property Finance £'000s	Net investment in Home Purchase Plans £'000s	Total £'000s
2016							
Investment grade financial assets	13/15	**159,352**	**166,962**	**-**	**-**	**-**	**326,314**
Below investment grade	13	**-**	**-**	**-**	**-**	**-**	**-**
Unrated financial assets	13/14	**60,357**	**-**	**255**	**394,446**	**637,917**	**1,092,975**
Specific allowances for impairment	14	**-**	**-**	**-**	**-**	**-**	**-**
Collective allowances for impairment	14	**-**	**-**	**(212)**	**(203)**	**(824)**	**(1,239)**
Carrying amount		**219,709**	**166,962**	**43**	**394,243**	**637,093**	**1,418,050**
2015							
Investment grade financial assets	13/15	101,569	120,934	-	-	-	222,503
Below investment grade	13	-	-	-	-	-	-
Unrated financial assets	13/14	39,004	-	650	273,297	453,330	766,281
Specific allowances for impairment	14	-	-	(33)	-	(2)	(35)
Collective allowances for impairment	14	-	-	(522)	(21)	(541)	(1,084)
Carrying amount		**140,573**	**120,934**	**95**	**273,276**	**452,787**	**987,665**

(iii) Write-off policy

The Bank 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 Bank 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 2016 is £1,031m (2015: £726m). None of this amount was held against impaired assets. There were no non-performing exposures in the secured book as at 31 December 2016.

(v) Concentration of credit risk

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

CREDIT RISK CONCENTRATION BY SECTOR AND LOCATION, 2015-16

	Commodity Murabaha and Wakala receivables and deposits with banks		Investment securities		Net investment in Consumer Finance		Net investment in Commercial Property Finance		Net investment in Home Purchase Plans	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£'000s	£'000s	**£'000s**	£'000s	**£'000s**	£'000s	**£'000s**	£'000s	**£'000s**	£'000s
Concentration by sector										
Individuals	**-**	-	**-**	-	**43**	95	**28,905**	26,461	**637,093**	452,787
Corporate	**-**	-	**64,184**	20,915	**-**	-	**365,338**	246,836	**-**	-
Bank	**217,296**	140,573	**102,778**	100,019	**-**	-	**-**	-	**-**	-
Total	**217,296**	140,573	**166,962**	120,934	**43**	95	**394,243**	273,297	**637,093**	452,787
Concentration by location										
UK	**156,940**	101,569	**67,441**	24,559	**43**	95	**393,131**	273,297	**636,857**	452,787
Europe	**-**	-	**-**	-	**-**	-	**2,062**	-	**236**	-
Asia	**-**	-	**-**	5,571	**-**	-	**-**	-	**-**	-
Middle East	**60,357**	39,004	**99,521**	90,804	**-**	-	**-**	-	**-**	-
Total	**217,297**	140,573	**166,962**	120,934	**43**	95	**394,243**	273,297	**637,093**	452,787

The asset quality underlying the Commercial Property Finance and Home Purchase Plans portfolios is maintained, with financing decisions based on clear affordability assessments and prudent finance-to-value (FTV) ratios. As at 31 December 2016, 19 of the facilities within the secured finance portfolios were in arrears.

(vi) Financial assets that are past due
The table below set out information about the credit quality of financial assets and the allowance for impairment/ loss held by the Bank against those assets:

	Commodity Murabaha and Wakala receivables and deposits with banks	Investment securities	Net investment in Consumer Finance	Net investment in Commercial Property Finance	Net investment in Home Purchase Plans	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Financial assets that were past due but not impaired						
31-60 days	-	-	-	23,317	7,409	30,726
61-90 days	-	-	-	-	122	122
90+ days	-	-	-	-	-	-
Total	**-**	**-**	**-**	**23,317**	**7,531**	**30,848**
Financial assets that were past due and impaired						
31-60 days	-	-	1	-	107	108
61-90 days	-	-	1	-	-	1
90+ days	-	-	219	-	-	219
Total	**-**	**-**	**221**	**-**	**107**	**328**
Financial assets not past due and impaired	-	-	-	14,622	202,994	217,616
Financial assets not past due and not impaired	-	-	34	356,507	427,285	783,826
Gross amount			255	394,446	637,917	1,032,618
Collective allowances for impairment	-	-	(212)	(203)	(824)	(1,239)
Carrying amount	**-**	**-**	**43**	**394,243**	**637,093**	**1,031,379**

Financial assets that are 'past due but not impaired' are those for which contractual profit or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available.

(b) Liquidity risk (unaudited)

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

The Treasury department is responsible for monitoring the liquidity profile of financial assets and liabilities and preparing details of projected cash flows arising from projected future business. The Treasury department maintains a portfolio of Sukuk and short-term liquid assets, made up of cash on demand and short term 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 Bank for managing liquidity risk is the comparison of the maturity of assets and customer deposits. This analysis is completed and monitored daily and reports are submitted each month for review by ALCO. A similar calculation of mismatches is submitted to the Prudential Regulation Authority (the 'PRA') as part of the Bank's quarterly regulatory reporting.

Residual contractual maturities of financial liabilities (audited)

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

UNDISCOUNTED CASH FLOWS ON FINANCIAL LIABILITIES, 2015-16

	NOTE	Carrying amount	Gross maturity outflow	Less than 1 month	1- 3 months	3 months to 1 year	1 - 2 years	2 - 3 years
		£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
2016								
Deposits from banks	19	**83,571**	**84,183**	**1,796**	**82,387**	**-**	**-**	**-**
Deposits from customers	20	**1,222,853**	**1,234,760**	**834,357**	**79,129**	**92,320**	**172,761**	**56,193**
Total		**1,306,424**	**1,318,943**	**836,153**	**161,516**	**92,320**	**172,761**	**56,193**
2015								
Deposits from banks	19	155,717	156,155	88,341	67,814	-	-	-
Deposits from customers	20	730,713	736,574	541,362	74,595	39,293	68,020	13,304
Total		**886,430**	**892,729**	**629,703**	**142,409**	**39,293**	**68,020**	**13,304**

A breakdown of the Bank'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 Bank is not exposed to any material foreign currency risk. Given the Bank'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 Bank's Sharia Supervisory Committee, subject to maximum rent levels.
- Profit rates payable on Mudaraba customer deposit accounts are calculated at each month-end in line with the profit allocation model and the customer terms and conditions. Profit rates payable on 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.

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

Standard scenarios that are considered monthly include a 2.00% or 0.50% rise or fall in effective average rates. An analysis of the Bank'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:

Earnings-based approach (unaudited)

This looks at the 12-month rolling impact of the Banks's P&L account in the event of a rate shift. The P&L impact is measured by flexing the Bank of England Base Rate (BBR) measuring the profits arising from the rate shift.

2% increase: Rate rise from 0.25% BBR to 2.25%

2% decrease: Rate drop from 0.25% capped to a floor rate of 0% (i.e. a drop of 0.25%)

	2.00% parallel increase £'000s	2.00% parallel decrease £'000s	0.50% parallel increase £'000s	0.50% parallel decrease £'000s
31 December 2016	**8,177**	**(2,260)**	**2,353**	**(2,260)**
31 December 2015	7,378	(849)	1,764	(849)

Economic-based approach (unaudited)

This looks at the net present value (NPV) of the balance sheet, impact of the mismatch in each time period arising between assets and liabilities measured up to 10 years. The profit risk is the result of the most severe impact of a 2% increase and a 2% decrease in rates. This is used to determine the impact on discount rate based on Sterling SONIA forward rates.

	2.00% parallel increase £'000s	2.00% parallel decrease £'000s
31 December 2016	**(4,234)**	**2,486**
31 December 2015	217	(96)

(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 daily. 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 Bank's Individual Capital Adequacy Assessment Process (ICAAP) is embedded in the risk management framework of the Bank. The ICAAP is reviewed on an annual basis as part of the Bank's strategic planning process and more frequently if business requirements demand.

The Bank'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 per specified requirements that seek to reflect the varying levels of risk attached to assets. The Bank 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 Bank. 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 Bank'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 Bank has complied with all externally imposed capital requirements throughout the period.

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

REGULATORY CAPITAL POSITION AS AT 31 DECEMBER 2016	2016 £'000s	2015 £'000s
Tier 1 Capital		
Total equity	**123,284**	113,457
Less intangible assets	**(934)**	(622)
Less deferred tax	**(6,097)**	(4,781)
Total	**116,253**	108,054
Tier 2 Capital		
Collective allowances for impairment	**1,238**	1,084
Total regulatory capital	**117,491**	109,138

5 KEY JUDGEMENTS AND UNCERTAINTIES

Management discussed with the Audit Committee the development, selection and disclosure of the Bank'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.

Key judgments used by Management are as follows:

Loss given default: The impairment is dependent on the loss on the receivables in the event of default. This is assessed with reference to the realisable value of collateral and the outstanding account balance. Probability of default: Describes the likelihood of a default occurring due to the borrower's inability to meet their debt obligations. The bank applies judgement to estimate the probability of default.

Emergence period: Against the projected loss given default an emergence time period is applied. This approach recognizes that there will be a period between the occurrence of a specific impairment event and objective evidence of an impairment event becoming apparent on an individual basis and this event being observed by the Bank.

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 (except for Consumer Finance). Consumer finance portfolios are assessed for impairment on a collective basis for accounts that are either impaired or not impaired. 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 £103k net income. Additionally, management performed sensitivity analysis on the loss given default (LGD) by deflating the values of the underlying collateral by 10%.
This resulted in a decrease in net income of £475k.

(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)

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.

For Level 3 assets, the technique used to determine the fair value is by estimating the net present value (NPV) of the future cash flows discounted at a market rate. These are determined with reference to observable inputs, historical observations and analytical techniques.

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

CARRYING AMOUNTS AND ESTIMATED FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES, 2015-16

	Financing and receivables	Available-for-sale financial assets	Other liabilities at amortised cost	Total carrying amount	Fair Value
	£'000s	£'000s	£'000s	£'000s	£'000s
As at 31 December 2016					
Cash	**2,412**	-	-	**2,412**	**2,412**
Commodity Murabaha and Wakala receivables and deposits with banks	**217,296**	-	-	**217,296**	**217,296**
Net investment in Consumer Finance	**43**	-	-	**43**	**43**
Net investment in Home Purchase Plans	**637,093**	-	-	**637,093**	**650,885**
Net investment in Commercial Property Finance	**394,243**	-	-	**394,243**	**399,553**
Investment securities - Sukuk	-	**166,962**	-	**166,962**	**166,962**
Total	**1,251,087**	**166,962**	-	**1,418,049**	**1,437,151**
Deposits from banks	-	-	**83,571**	**83,571**	**83,571**
Deposits from customers	-	-	**1,222,853**	**1,222,853**	**1,222,853**
Total			**1,306,424**	**1,306,424**	**1,306,424**
As at 31 December 2015					
Cash	1,807	-	-	1,807	1,807
Commodity Murabaha and Wakala receivables and deposits with banks	140,573	-	-	140,573	140,573
Net investment in Consumer Finance	95	-	-	95	95
Net investment in Home Purchase Plans	452,787	-	-	452,787	486,015
Net investment in Commercial Property Finance	273,276	-	-	273,276	282,591
Investment securities - Sukuk	-	120,934	-	120,934	120,934
Total	868,538	120,934	-	989,472	1,032,015
Deposits from banks	-	-	155,717	155,717	155,717
Deposits from customers	-	-	730,713	730,713	730,713
Total	-	-	**886,430**	**886,430**	**886,430**

The fair values above were stressed by evaluating the impact of a 1% shift in the discount rate. This resulted in a decrease of £2,514,555 (Home Finance) and £432,323 (Commercial Finance) respectively in the fair values from an increase in the discount rate. Whereas, the values increased by £2,529,549 (Home Finance) and £433,617 (Commercial Finance) respectively from a decrease in the discount rate.

Fair value hierarchy

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE INTO FAIR VALUE HIERARCHY, 2015-16

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
As at 31 December 2016				
Cash	**2,412**	-	-	**2,412**
Commodity Murabaha and Wakala receivables and deposits with banks	-	-	**217,296**	**217,296**
Net investment in Consumer Finance	-	-	**43**	**43**
Net investment in Home Purchase Plans	-	-	**650,885**	**650,885**
Net investment in Commercial Property Finance	-	-	**399,553**	**399,553**
Investment securities - Sukuk	166,962	-	-	**166,962**
Total	**169,374**	-	**1,267,777**	**1,437,151**
Financial liabilities				
Amortised cost	-	-	-	-
Total	-	**1,306,424**	-	**1,306,424**
As at 31 December 2015				
Cash	1,807	-	-	1,807
Commodity Murabaha and Wakala receivables and deposits with banks	-	-	140,573	140,573
Net investment in Consumer Finance	-	-	95	95
Net investment in Home Purchase Plans	-	-	452,787	452,787
Net investment in Commercial Property Finance	-	-	282,591	282,591
Investment securities - Sukuk	120,934	-	-	120,934
Total	123,741	-	876,046	998,787
Financial liabilities				
Amortised cost	-	886,430	-	886,430
Total	-	886,430	-	886,430

p 39 Word doc

5 KEY JUDGEMENTS AND UNCERTAINTIES (CONT.)

(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.

FSCS POSITION AS AT 31 DECEMBER 2016

	2016 £'000s	2015 £'000s
Balance at 1 January	**195**	153
Utilised during the year	**(100)**	(153)
Increase in provision during the year	**(15)**	195
Balance at 31 December	**80**	195

(d) Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2016 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 several 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 of deferred tax. A 5% decrease in future foreseeable profits was applied which resulted in a decrease of £170k in the deferred tax asset to be recognised.

(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 is 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 portfolio is compared to the modelled behaviour and where there are any differences from the modelled behaviour, adjustments were recognised to the Statement of Comprehensive Income.

We performed sensitivity analysis for the calculated expected life, to identify the impact in the deferred balances for any increase/decrease in the expected life.

- The HPP deferred balances increased by £38k when the expected life was increased by 2 years (10 years +2)
- The HPP balance decreased by £91k when the expected life was decreased by 2 years (10 years -2)
- The CPF deferred balances increased by £130k when the expected life was increased by 1 year (5 years +1)
- The CPF deferred balances decreased by £40k when the expected life was decreased by 1 year (5 years -1)

6 NET INCOME FROM ISLAMIC FINANCING TRANSACTIONS

NET INCOME FROM ISLAMIC FINANCING TRANSACTIONS, 2015-16

	2016 £'000s	2015 £'000s
Income receivable		
Commodity Murabaha and Wakala transactions	**488**	298
Consumer finance	**5**	6
Commercial Property Finance	**15,407**	9,833
Home Purchase Plans	**21,936**	15,731
Investment securities - Sukuk	**3,245**	2,894
Gain/Loss on Disposal Sukuk	**880**	34
Foreign Exchange Income	**393**	10
Total income receivable from Islamic financing transactions	**42,354**	28,806
Returns payable		
Deposits from banks	**(1,162)**	(617)
Deposits from customers	**(14,510)**	(7,387)
Total returns payable to customers and banks	**(15,672)**	(8,004)
Net income from Islamic financing transactions	**26,682**	20,802

7 NET FEE AND COMMISSION INCOME

NET FEE AND COMMISSION INCOME, 2015-16	2016 £'000s	2015 £'000s
Fee and commission income		
Retail customer banking fees	**227**	166
ATM commission	**77**	59
Other	**389**	323
Total fee and commission income	**693**	548
Fee and commission expense		
ATM interchange fees	**(26)**	(30)
Electronic transaction fees	**(91)**	(58)
Total fee and commission expense	**(117)**	(88)
Net fee and commission income	**576**	460

8 AUDITOR'S REMUNERATION

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

AUDITOR'S REMUNERATION, 2015-16	2016 £'000s	2015 £'000s
Audit of these financial statements	**96**	91
Quarterly review fees	**26**	26
Audit related assurance services	**15**	-
Services relating to taxation	**27**	7
Total	**164**	124

9 PERSONNEL EXPENSES

PERSONNEL EXPENSES, 2015-16	2016 £'000s	2015 £'000s
Wages and salaries	**8,214**	6,295
Social security costs	**726**	486
Contributions to defined contribution pension plans	**281**	439
Other staff costs	**87**	22
Total	**9,308**	7,242

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

AVERAGE NUMBER OF EMPLOYEES, 2015-16	2016			2015		
	Consumer Banking	Support Services	Total	Consumer Banking	Support Services	Total
Average for the period	**96**	**81**	**177**	72	63	135

10 DIRECTORS' EMOLUMENTS

The emoluments of the Directors who served during the year were as follows:

REMUNERATION OF NON-EXECUTIVE DIRECTORS, 2015-16

	2016				2015			
	Salary	Fees	Benefits in Kind	Total	Salary	Fees	Benefits in Kind	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
A M T Mustafawi	15	11	-	26	15	12	-	27
A S Abdisheikh	15	16	-	31	15	15	-	30
M Brookes	31	22	-	53	28	19	-	47
R Sharpe	62	22	-	85	60	16	-	76
Total	123	72	-	195	118	62	-	180

REMUNERATION OF EXECUTIVE DIRECTOR, 2015-16

	2016					2015				
	Salary	Bonus	Benefits in Kind	Pension Contributions	Total	Salary	Bonus	Benefits in Kind	Pension Contributions	Total
	£	£	£	£	£	£	£	£	£	£
S Choudhury	136	85	1	31	253	119	85	3	27	234
Total	136	85	1	31	253	119	85	3	27	234

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 2015 and 2016, the Executive Director exercised this option.

11 INCOME TAX EXPENSE

INCOME TAX EXPENSE, 2015-16

	2016	2015
	£'000s	£'000s
Current tax expense		
Current year	-	-
Deferred tax		
Origination and reversal of temporary differences	1,641	713
Recognition of previously unrecognised losses	(2,957)	(4,781)
Total income tax credit	(1,316)	(4,068)
Reconciliation of effective tax rate		
Profit before tax	8,185	6,204
Income tax at UK corporation tax rate 20% (2015: 20.25%)	1,639	1,256
Non-deductible expenses	2	2
Utilisation of losses for which deferred tax not recognised	-	(545)
Recognition of tax losses and other timing differences	(2,957)	(4,781)
Income tax credit	(1,316)	(4,068)

Information about deferred tax is presented in note 28.

Finance (No.2) Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted on 26 October 2015. An additional reduction to 17%, effective from 1 April 2020, was legislated in Finance Act 2016 which was substantively enacted on 6 September 2016. The deferred tax asset at 31 December 2016 has been calculated using the applicable rates enacted at the balance sheet date.

12 CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, 2015-16		
	2016 £'000s	2015 £'000s
Cash	**2,412**	1,807
Other advances to banks	**156,940**	100,679
Total cash and cash equivalents	**159,352**	102,486

13 COMMODITY MURABAHA AND WAKALA RECEIVABLES AND DEPOSITS WITH BANKS

COMMODITY MURABAHA AND WAKALA RECEIVABLES, 2015-16		
	2016 £'000s	2015 £'000s
Repayable on demand	**155,870**	100,679
3 months or less but not repayable on demand	**60,357**	39,004
1 year or less but over 3 months	**1,070**	890
Total Commodity Murabaha and Wakala receivables and deposits with banks	**217,297**	140,573

A breakdown of Commodity Murabaha and Wakala receivables and deposist with banks by geographic regions is shown in note 4. Balances maturing in 1 year or less but over 3 months include a balance of £810,833 (2015: £889,909) representing repayable security deposits held by banks that have issued a guarantee to cover the Bank's future customer card transactions with MasterCard. These deposits do not earn a return.

14 FINANCING TO CUSTOMERS

FINANCING TO CUSTOMERS, 2015-16

	2016			2015		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	£	£	£	£	£	£
Retail customers						
Net investment in Consumer Finance	**255**	**(212)**	**43**	650	(555)	95
Total Net investment in Consumer Finance	**255**	**(212)**	**43**	650	(555)	95
Net investment in Commercial Property Finance	**394,447**	**(203)**	**394,243**	273,297	(21)	273,276
Net investment in Home Purchase Plans	**637,917**	**(824)**	**637,093**	453,329	(542)	452,787

ALLOWANCES FOR IMPAIRMENT, 2015-16

	2016 £'000s	2015 £'000s
Specific allowances for impairment		
Balance at 1 January	**35**	35
(Credit) for the year	**-**	-
Amounts written off during the year	**-**	-
Balance at 31 December	**35**	35
Collective allowances for impairment		
Balance at 1 January	**1,084**	531
Charge / (credit) for the year	**449**	557
Amounts written off during the year	**(294)**	(4)
Balance at 31 December	**1,239**	1,084
Total allowances for impairment		
Balance at 1 January	**1,119**	566
Charge / (credit) for the year	**449**	557
Amounts written off during the year	**(294)**	(4)
Balance at 31 December	**1,274**	1,119

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

14 FINANCING TO CUSTOMERS (CONT.)

The gross investment in Commercial Property Finance comprises:.

COMMERCIAL PROPERTY FINANCE INVESTMENT, 2015-16	2016 £'000s	2015 £'000s
Gross investment in Commercial Property Finance		
Less than one year	**82,267**	27,518
Between one and five years	**426,328**	247,262
More than five years	**91,131**	66,247
Total gross investment in Commercial Property Finance	**599,726**	341,027
Unearned future rental on Commercial Property Finance	**(205,280)**	(67,730)
Impairment allowance	**(203)**	(21)
Net investment in Commercial Property Finance	**394,243**	273,276

The net investment in Commercial Property Finance comprises:

Net investment in Commercial Property Finance		
Less than one year	**12,817**	15,894
Between one and five years	**309,003**	206,727
More than five years	**72,626**	50,676
Impairment allowance	**(203)**	(21)
Net investment in Commercial Property Finance	**394,243**	273,276

The gross investment in Home Purchase Plans comprises:.

HOME PURCHASE PLAN INVESTMENT, 2015-16	2016 £'000s	2015 £'000s
Gross investment in Home Purchase Plans		
Less than one year	**47,077**	35,435
Between one and five years	**179,109**	129,836
More than five years	**699,123**	553,812
Total gross investment in Home Purchase Plans	**925,309**	719,083
Unearned future rental on Commercial Property Finance	**(287,392)**	(265,755)
Impairment allowance	**(824)**	(541)
Net investment in Home Purchase Plans	**637,093**	452,787

The net investment in Home Purchase Plans comprises:

Net investment in Home Purchase Plans		
Less than one year	**62,513**	16,704
Between one and five years	**116,223**	59,545
More than five years	**459,181**	377,080
Impairment allowance	**(824)**	(541)
Net investment in Home Purchase Plans	**637,093**	452,787

15 INVESTMENT SECURITIES

INVESTMENT SECURITIES, 2015-16

	2016 £'000s	2015 £'000s
Quoted Sukuks	**166,962**	120,934
Total	**166,962**	120,934

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

16 PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT, 2015-16

2016	Computer Equipment £'000s	Office Equipment £'000s	Leasehold Improvements £'000s	Fixtures & Fittings £'000s	Land & Buildings £'000s	Total £'000s
Cost						
Balance at 1 January 2016	**2,819**	**156**	**4,319**	**548**	**3,640**	**11,482**
Additions	**462**	**21**	**373**	**193**	**69**	**1,118**
Disposals	-	-	-	-	-	-
Balance at 31 December 2016	**3,281**	**177**	**4,692**	**741**	**3,709**	**12,600**
Depreciation						
Balance at 1 January 2016	**2,335**	**136**	**2,749**	**267**	**5**	**5,492**
Additions	**314**	**8**	**228**	**91**	**36**	**677**
Disposals	-	-	-	-	-	-
Balance at 31 December 2016	**2,649**	**144**	**2,977**	**358**	**41**	**6,169**
Net book value at 31 December 2016	**632**	**33**	**1,715**	**383**	**3,668**	**6,431**
2015						
Cost						
Balance at 1 January 2015	2,279	143	3,026	285	37	5,770
Additions	540	16	1,634	293	3,603	6,086
Disposals	-	(3)	(341)	(30)	-	(374)
Balance at 31 December 2015	**2,819**	**156**	**4,319**	**548**	**3,640**	**11,482**
Depreciation						
Balance at 1 January 2015	2,195	134	2,908	272	-	5,509
Additions	140	5	182	25	5	357
Disposals	-	(3)	(341)	(30)	-	(374)
Balance at 31 December 2015	2,335	136	2,749	267	5	5,492
Net book value at 31 December 2015	**484**	**20**	**1,570**	**281**	**3,635**	**5,990**

The Bank owns the operational headquarters and 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.

17 INTANGIBLE ASSETS

INTANGIBLE ASSETS, 2015-16

2016	Computer licences £'000s	Purchased & developed software £'000s	Total £'000s
Cost			
Balance at 1 January 2016	1,261	5,053	6,314
Additions	325	397	722
Balance at 31 December 2016	1,586	5,450	7,036
Amortisation			
Balance at 1 January 2016	1,019	4,673	5,692
Amortisation charge for the year	148	261	409
Balance at 31 December 2016	1,167	4,934	6,101
Net book value at 31 December 2016	419	516	935

INTANGIBLE ASSETS, 2015-16

2015	Computer licences £'000s	Purchased & developed software £'000s	Total £'000s
Cost			
Balance at 1 January 2015	1,120	4,706	5,826
Additions	141	347	489
Balance at 31 December 2015	1,261	5,053	6,314
Amortisation			
Balance at 1 January 2015	952	4,516	5,468
Amortisation charge for the year	67	157	224
Balance at 31 December 2015	1,019	4,673	5,692
Net book value at 31 December 2015	242	380	622

18 OTHER ASSETS

OTHER ASSETS, 2015-16

	2016 £'000s	2015 £'000s
Accrued income	2,486	2,354
Prepayments	1,692	1,101
Total	4,178	3,455

There are no receivables within other assets that are expected to be recovered in more than 12 months (2015: £nil).

Other receivables included exit fees in the prior year, which has been presented as part of the customer financing balances. Accrued income is the profit receivable on the customer financing transactions.

19 DEPOSITS FROM BANKS

DEPOSITS FROM BANKS, 2015-16	2016 £'000s	2015 £'000s
Repayable on demand	**776**	4,366
3 months or less but not repayable on demand	**82,795**	151,351
Total deposits from banks	**83,571**	155,717
Comprising:		
Non profit sharing accounts	**776**	4,366
Profit sharing / paying accounts	**82,795**	151,351
Total deposits from banks	**83,571**	155,717

20 DEPOSITS FROM CUSTOMERS

DEPOSITS FROM CUSTOMERS, 2015-16	2016 £'000s	2015 £'000s
Repayable on demand	**256,775**	240,108
3 months or less but not repayable on demand	**153,737**	159,084
1 year or less but over 3 months	**592,970**	253,884
2 years or less but over 1 year	**166,712**	65,291
3 years or less but over 2 years	**52,659**	12,346
Total deposits from customers	**1,222,853**	730,713
Comprising:		
Non profit sharing accounts	**220,089**	148,248
Profit sharing / paying accounts	**1,002,764**	582,465
Total deposits from customers	**1,222,853**	730,713

21 OTHER LIABILITIES

OTHER LIABILITIES, 2015-16	2016 £'000s	2015 £'000s
Returns payable to customers	**2,392**	1,662
Trade payables	**389**	356
Social security and income tax	**256**	156
Accruals	**3,130**	2,074
Other creditors	**(184)**	185
Total	**5,983**	4,433

Returns payable is profit payable to customers on their deposit balances. Other creditors included for 2016 includes a VAT refund from HMRC of £265,000.

22 OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

OPERATING LEASES 2015-16	2016 £'000s	2015 £'000s
Less than one year	**775**	775
Between one and five years	**2,919**	2,989
More than five years	**2,055**	2,760
Total	**5,749**	6,524

During the year, there was £903,903 recognised in the statement of comprehensive income in respect of operating leases (2015: £1,085,058).

23 CAPITAL AND RESERVES

CAPITAL AND RESERVES, 2015-16	2016 £'000s	2015 £'000s
Allotted, called up and fully paid		
Issued ordinary share capital (4,345,789,979 ordinary shares of £0.01 each)	**121,219**	121,219
Share premium	**54,807**	54,807
Reserves	**1,980**	1,654
Profit stabilisation reserve	**96**	76
Retained earnings	**(54,817)**	(64,299)
Total	**123,284**	113,457

The Profit stabilisation reserve is attributable to depositors of the Bank.

24 RELATED PARTIES

At 31 December 2016, Directors of the Bank and their immediate relatives have no shareholding in the Bank (2015: Nil).

Transactions with key management personnel
Key management of the Bank are the Board of Directors and senior management.

The compensation of key management personnel including the Directors is as follows:

KEY MANAGEMENT EMOLUMENTS, 2015-16	2016 £'000s	2015 £'000s
Key management emoluments including social security costs	**2,675**	1,957
Company contributions to pension plans	**287**	208
Total	**2,962**	2,165

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £1,637,768 as at 31 December 2016 (2015: £1,652,726). The highest balance during the year was £2,997,699 (2015: £2,697,064). Total returns paid on these accounts during the year were £5,066 (2015: £2,832).

Outstanding consumer finance and Home Purchase Plan balances relating to key management personnel and immediate relatives totalled £1,090,497 as at 31 December 2016 (2015: £786,419). The amount of the provision relating to these finances is £nil (2015: £nil). Returns recognised during the year for these accounts were £23,337 (2015: £19,553). All consumer finance account facilities taken by key management personnel and staff were offered in line with standard customer terms and conditions.

Ultimate parent company
The Bank's controlling parent company is Masraf Al Rayan Q.P.S.C (MAR), a company registered in Doha, Qatar.

Masraf Al Rayan Q.P.S.C owns 70% and Qatar Holding LLC incorporated in Doha, Qatar owns 30% of Al Rayan (UK) Ltd which in turn owns a share of 98.34% of the Company (Masraf Al Rayan Q.P.S.C owned 100% holding in Al Rayan (UK) Ltd in 2015). The remaining 1.66% is owned by other minority Shareholders.

Outstanding Vostro balance with MAR totalled £690,578 as at 31 December 2016 (2015: £1,303,737). The amount of Wakala placements held with MAR totalled £12,182,113 as at 31 December 2016 (2015: £nil). MAR held wholesale deposits totalling £1,711,743 as at 31 December 2016 (2015: £83,933,796).

25 CAPITAL COMMITMENTS

The Bank had no outstanding capital commitments at 31 December 2016 (2015: £nil).

26 SEGMENTAL REPORTING

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

INCOME FROM ISLAMIC FINANCING TRANSACTIONS REVENUE, 2015-16	2016 £'000s	2015 £'000s
United Kingdom	**41,691**	26,067
Europe	**11**	21
Asia	**11**	206
Middle East	**641**	2,502
Total	**42,354**	28,796

27 ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

As at 31 December 2016, assets equivalent to £126,484,728 were denominated in US Dollars and are included within Commodity Murabaha and Wakala receivables, Sukuk and deposits with banks (2015: £235,937,236). At 31 December 2016 assets, equivalent to £3,063,316 were denominated in Euros and are included within Commodity Murabaha and Wakala receivables and deposits with banks (2015: £43,056,701).

Deposits from banks and customers of £125,729,308 were denominated in US Dollars (2015: £234,647,895) and £5,166,909 were denominated in Euros (2015: £42,942,400).

28 DEFERRED TAX ASSET

The movement on the deferred tax account is as follows:

DEFERRED TAX ACCOUNT MOVEMENT, 2015-16	2016 £'000s	2015 £'000s
At beginning of year	**4,781**	713
Current year income statement credit/charge	**1,316**	4,068
At end of year	**6,097**	4,781
Deferred Tax Asset		
Accelerated tax depreciation	-	-
Carried forward tax losses	6,097	4,781
Total	**6,097**	**4,781**

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 five years.

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.

The deferred tax asset recognised is £6,1m (2015: £4.8m) on £59,512,793 of tax losses carried forward. These losses are available for offset against future non-trading profits and have no expiry date. The Bank has an unrecognised deferred tax asset that will arise from remaining brought forward losses of £19,919,433.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items; because the profits cannot be reliably forecast that far in the future, for them to be reliably recognised.

UNRECOGNISED DEFERRED TAX ASSETS, 2015-16		
	2016 £'000s	2015 £'000s
Capital allowances	**332**	560
Tax losses	**6,928**	6,687
Total	**7,260**	7,247

Deferred tax assets have been calculated based on the rate substantively enacted at the Statement of Financial Position date.

29 EVENTS AFTER THE REPORTING PERIOD

The following events and transactions occurred subsequent to 31 December 2016:

- The Bank received a capital injection, in the form of Tier 2 subordinated liability of £10m on 24 March 2017 from its Parent, Masraf Al Rayan QPSC.

NOTES

NOTES

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