AL RAYAN BANK

Annual Report and Financial Statements

For the year ended 31 December 2018

Al Rayan Bank PLC | Registered number 4483430

Banking you can believe in

alrayanbank.co.uk

Contents

Introduction

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

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

"Banking you can believe in"

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

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

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

The Bank has an independent Board of Directors which has delegated responsibility for day to day management to the executive team, led by the Chief Executive Officer.

Over the past 14 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 the Bank's responsible and ethical finance approach and attractive profit rates.

The Bank has built a thriving branch and office network throughout the UK, including its Premier branch in Knightsbridge and a dedicated Commercial office in the heart of London's West End. The Bank prides itself on delivering excellent customer service, be it through one of its direct channels or through intermediaries.

OUR MISSION, VISION AND VALUES

Our Mission

To be the UK's first choice ethical, Sharia compliant bank

Our Vision

The Bank's vision is to build a profitable, specialist, Sharia compliant bank that serves our chosen niche markets with customer driven and differentiated products, positioning us as a market leader in our target segments

OUR VALUES

Sharia Compliant

Everything we do will be in line with our values. Following the Sharia, we will conduct our activity in a fair, ethical and socially responsible manner

Pioneering

We will be a dynamic, inspiring and pioneering organisation, which offers unique solutions to our customers

Dedicated

We will build strong, enduring relationships, delivering an experience that delights our customers

Aspirational

We will be professional and will fulfil our promises, delivering high quality products and services

Dependable

As part of the Masraf Al Rayan Group of companies, we have a long-term commitment to Islamic finance, with the credibility and stability to deliver for our customers

The Bank is realising its vision through an understanding of its customers and by creating appropriate products and services which meet their needs. This supports the Bank's objectives of sustained profitability and effective risk management.

Chairman's statement

"Al Rayan Bank is recognised as having a clear sense of purpose and extremely strong connections to its customer base...

£6.12m
Pre-tax profit

£1.97bn
Total assets

£1.83bn
Total liabilities

I took over as Chairman of Al Rayan Bank on 1 February 2019. I am pleased to have joined, what I believe to be, a pioneering and progressive organisation. Al Rayan Bank is recognised as having a clear sense of purpose and extremely strong connections to its customer base, and my short time at the Bank so far has confirmed this to me. I have also discovered that this is a bank which retains its entrepreneurial spirit, whilst being aware of its unique responsibilities and mindful of how it needs to evolve.

Reviewing the history of the Bank since its inception in 2004, there have been a number of important milestones and achievements along the way. Even by the Bank's ground-breaking standards, 2018 was a significant year.

In February 2018, we launched our pioneering Sharia compliant structured funding instrument, the "Tolkien" sukuk. Backed by residential Home Purchase Plans (HPP), the sukuk was the largest ever sterling-denominated issue of its kind, and we became the first bank in the world to issue such an instrument in Western Europe. Strong demand for the sukuk meant the issue was 1.5 times oversubscribed when it was launched on the London Stock Exchange, raising £250m of diversified funding for the Bank and confirming the level of confidence in the fundamentals of our business. This was further reiterated by the Bank maintaining its Aa2 rating by Moody's, having become the first Islamic bank in UK history to have received such a public credit rating.

The £6.12m profit before tax for 2018 continued the trend of annual profitability achieved since 2014, providing further validation of the Bank's business model. The balance sheet continued to show steady growth with total assets increasing by 8.8% to £1.97bn (2017: £1.81bn) while total liabilities were 9.0% higher at £1.83bn (2017: £1.68bn).

Whilst the progress summarised above is hugely positive, it also brings with it certain challenges. The Bank has grown rapidly and continues to have longer-term ambitions in line with our mission and vision. We recognise that this requires that our infrastructure also develops and remains adequate for our evolving needs. Therefore, in 2018 the Board approved a revised five-year business plan which committed to a period of significant investment designed to ensure that our systems, people and processes are ready to fully support the next stage of the Bank's progression.

This period of investment commenced in 2018 and was the main driver for an increase in operating costs and reduction in profits, when compared to the prior year. Through this ongoing investment, we intend to build upon our leading position by ensuring that all aspects of the Bank's infrastructure and controls environment are adequately robust and resilient for the future. We are not underestimating the importance of this work and will ensure that it is given the right level of focus as it continues over 2019.

The investment has included a review and enhancement of the Bank's overall Risk Management Framework. The Bank's Anti Money Laundering (AML) processes and controls have been placed under formal review by the Financial Conduct Authority, which has led to ongoing investment in enhanced AML processes. This investment is expected to continue through 2019. We are committed to ensuring that our risk management policies and practices remain appropriate for a bank of our size and complexity and that we consistently meet all regulatory requirements. During 2018 we also invested in a number of regulatory projects, such as General Data Protection Regulation (GDPR), Second Payment Services Directive (PSD2) and international tax reporting. Additionally, we initiated projects to enhance aspects of our service and operational resilience. We continued to upgrade elements of our core banking systems, while making further improvements to our cyber-security framework and international payment processes. This ongoing investment in technology enabled us to successfully implement new processes and systems, and to transition smoothly to new International Financial Reporting Standards (IFRS) rules on accounting for financial instruments, which also became effective in 2018.

We recognise the importance of our people in all that we do and want to achieve. During the year we were accredited with the 'Investors in People' Silver award, reflecting the Bank's commitment to developing the right culture and environment. We also launched a new management and leadership development programme for our colleagues to support their development and aspirations.

In summary, Al Rayan Bank has come a long way. We continue to offer an extensive range of products and banking services that appeal to our customers – whether they are Muslims wanting to bank in accordance with their faith, or people of other faiths - or no faith at all - attracted by the Bank's responsible and ethical approach to finance, or simply because they find our expected profit rates highly competitive.

The period of investment that the Bank has now embarked on represents the intention to build upon these foundations in the next stage of our development. We intend to ensure that the Bank maintains the capabilities required for all of our regulatory and risk management needs, whilst offering the best possible products and services to our customers.

Outlook

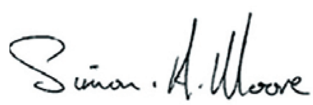
At the time of writing this report, the terms of the UK's departure from the European Union, and the post-Brexit regulatory environment for financial services, remain unclear. This has resulted in associated uncertainties for the UK economy, with growth predicted to remain below trend whatever the outcome of Brexit negotiations. We have completed a detailed assessment of the potential impact to the Bank of these uncertainties, including running additional and more severe stress tests. Based on the results of these tests, and considering the specific make-up of our assets, customers and counterparties, we are confident that the Bank is well-positioned to deal with any period of continued uncertainty or volatility.

Our investment programme will continue in 2019 with a renewed focus on improving our digital banking offering and all aspects of customer service. An immediate priority is the completion of the PSD2 project, the EU's payment services 'open banking' directive, where plans are well advanced to ensure the Bank is prepared.

The Bank continues to operate in a competitive environment for both our savings and financing products, and we believe that we can continue to provide focused and competitive products for our customers. Without compromising on our service, regulatory or risk management needs, the aforementioned investment we are making in our infrastructure will also enable us to improve efficiency and move towards the targeted returns for our shareholders in our five-year plan.

On behalf of the entire Board, I would like to thank Robert Sharpe whom I have succeeded as Chairman. Robert served the Bank for four years and in that time led the transformation of our customer offering and our financial performance, under the ownership of our parent, Masraf Al Rayan, who I also thank for their continued support.

Finally, I express my gratitude to all our other stakeholders including the Sharia Supervisory Committee of scholars for their guidance and of course, all our colleagues for their dedication and determination in delivering against the Bank's objectives in 2018.



Simon Moore
Chairman
4 April 2019

Report of the Sharia Supervisory Committee

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:

بسم الله الرحمن الرحيم

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

السلام عليكم ورحمة الله و بركاته

To the Members of Al Rayan Bank PLC
For the period from 1 January 2018 to 31 December 2018

We have reviewed the documentation relating to the products and transactions entered into by Al Rayan Bank PLC for the period from 1 January 2018 to 31 December 2018.

According to the management, the audit review conducted by the Head of Sharia Compliance & Product Development (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 was conducted by our representative in the Bank, we found 4 Sharia compliance audit issues rated as B and 29 Sharia compliance audit issues rated as C[1]. All the Sharia compliance audit issues found during this audit review occurred due to either misjudgement or human errors in implementing the Sharia controls 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 2018 to 31 December 2018, was <u>Satisfactory with Improvement Required.</u>

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 2018 to 31 December 2018 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 a room for improvement, based on the findings of the Sharia Compliance Audit Report, in implementing the Sharia controls 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 Committee
4 April 2019

[1] Definition of Sharia compliance audit issue ratings:

- A These represent the highest level of significance, in relation to Sharia requirements and controls, and generally pose material risk to the Bank if not resolved in a timely manner.
- B Pose less risk but could have an adverse impact on the Bank's compliance with Sharia if the underlying issues are not properly addressed.
- C Opportunities to enhance the existing control environment to ensure continued compliance with Sharia requirements and the Sharia Supervisory Committee guidelines.

Strategic report

Achievements and highlights of the year

2018 was a year of consolidation as the Bank focused on enhancing its risk management framework and infrastructure to ensure that these remained adequate to support future requirements. This included investment in the Bank's systems, people and processes and undertaking development activities for upcoming regulatory and market changes.

Despite this focus on internal investment, it was still a year of significant achievements for the Bank, which included the launch of the Tolkien sukuk, receiving a number of industry awards, and regularly topping 'best buy' tables for deposit and savings rates.

The launch of the Tolkien sukuk, which was the first public issuance of its kind in Western Europe, reinforced the Bank's position as a significant player in Islamic finance in the UK. The sukuk was the largest ever Sterling denominated sukuk issued by a UK entity, following on from the UK Government's £200m sukuk issued in 2014. The proceeds from the issuance diversified the Bank's funding portfolio and were used to further grow its asset book during the year.

During 2018, the Bank continued to strengthen its leadership and management team, further developed its infrastructure and embarked on a new phase of significant investment to develop a strong platform to support its future development and position itself to respond to new challenges in the marketplace.

Making History	The Bank completed the launch of the first asset backed sukuk issued by an Islamic bank in Western Europe, which was well received in the market and was the largest Sterling denominated sukuk issue of its kind.
Leadership Team	Simon Moore, a former member of the Confederation of British Industry management board, was appointed as the Bank's new Chairman on 1 February 2019, replacing Robert Sharpe who stepped down after four years at the Bank. The Bank welcomed its new Chief Operating Officer, Paul McMillan to lead on the implementation of a new operational structure. This is designed to support the Bank's continued customer experience development and to ensure that the Bank's systems and processes fully support the next stage of its progression and evolving regulatory environment.
Investment and Project Delivery	The Bank initiated a significant period of investment, designed to strengthen all aspects of the Bank's infrastructure, including developing and upskilling our people. Work in respect of the transition to IFRS 9 and IFRS 15 was completed during the year, including the development of a new expected loss model for financing assets. Enhancements were made to the cyber-security environment and progress was also made on a number of regulatory projects, including GDPR and PSD2. Significant work was completed on enhancing AML process and controls.
Risk Management Enhancement Plan	As part of the investment identified above, the Bank continued implementation of its ongoing risk management enhancement plan, updating the Risk Management Framework and all aspects of regulatory and operational controls.

Awards and commendations

The Bank received several awards and commendations relating to the year and continued to offer market leading returns to retail customers as it regularly topped Moneyfacts "Best Buy" tables for savings products during 2018.

- Best Notice Savings Account Provider – Moneyfacts
- UK's Best Cash ISA Provider – Moneynet
- Best Islamic Bank of the Year – World Muslim Leadership Forum
- Best Islamic Bank in the UK – Islamic Finance News
- Sukuk Deal of the Year – Islamic Finance News
- UK Deal of the Year – Islamic Finance News
- Investors in People Silver award, improving on the accreditation received in 2015
- The Bank's Chief Executive Officer, Sultan Choudhury, was named in the Muslim Power 100 in recognition of his role at the Bank and his wider impact within the community

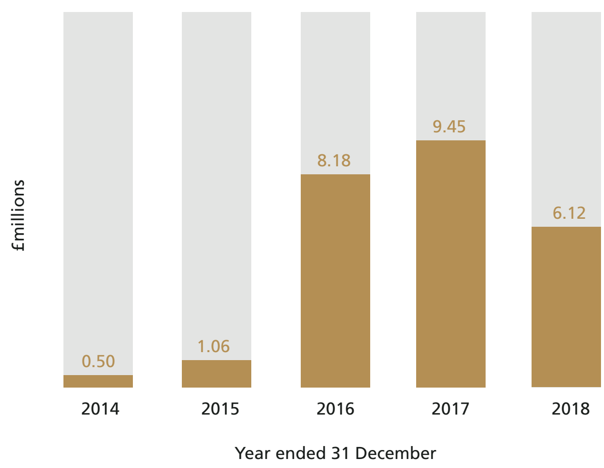
The financial statements for the year ended 31 December 2018 are shown on pages 34 to 67.

The Bank remained profitable for the year posting a profit before tax of £6.12m (2017: £9.45m).

Within this result, total income increased by 14.7% to £38.62m (2017: £33.66m). This increase was in line with the overall balance sheet growth and signifies the ongoing progress that the Bank has continued to make. The cause of the reduction in annual profit was the increase in total costs, which increased to £32.50m (2017: £24.21m). This included approximately £3.80m of costs which were specifically part of the allocated investment spend and therefore were non-recurring in nature. Excluding these non-recurring costs, total operating expenses increased by 18.6% compared to the prior year. This increase in underlying expenses also reflected spend incurred to strengthen the Bank's overall resilience. For example, staff numbers increased by 67 to 278 as at the end of 2018 (2017: 211). Staff increases were focused in oversight, control and customer service functions. There was also an increase in IT maintenance costs resulting from further systems development.

Costs associated with strengthening ongoing capability and capacity will be recurring. Additionally, there will be further non-recurring investment costs in 2019. However, it is expected that income will continue to grow and efficiency savings will be realised once the investment phase has been completed. Therefore, whilst profits have reduced in 2018 and are expected to remain relatively flat in 2019, this is in line with the business plan and mainly as a result of the specific investment period that the Bank is undertaking. It is forecast that once this investment period is completed and its full benefits are obtained, annual profits will again increase on an annual basis.

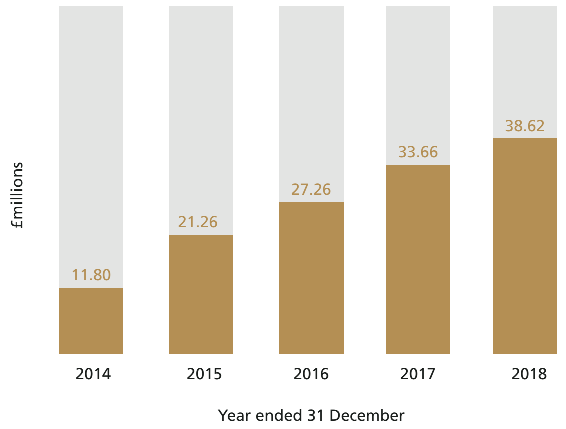
Profit Before Tax



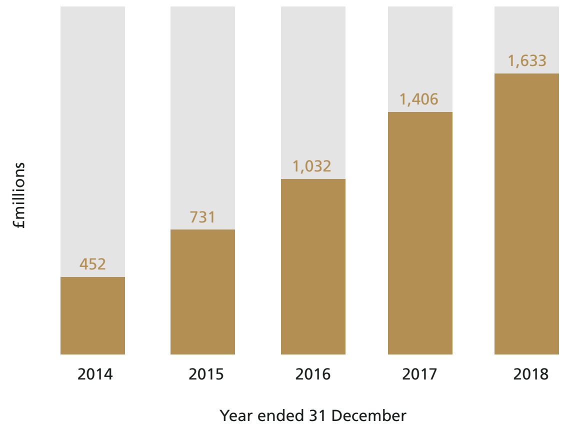
Key financial metrics for 2018 are summarised in the following table:

Key Financial Metric	Basis of Calculation	2018	2017
Profit before tax		**£6.12m**	£9.45m
Profit after tax		**£6.43m**	£8.62m
Cost to income ratio	Total operating expenses for the year (including depreciation and amortisation) divided by total income.	**84%**	72%
Return on equity	The ratio of profit for the year (after tax) to average equity, expressed as a percentage.	**4.9%**	6.8%
Common equity tier 1 ratio (as at 31 December)	Common equity tier 1 (CET1) capital ratio is the CET1 capital of the institution as a percentage of its total risk-weighted assets.	**13.6%**	14.6%
Liquidity coverage ratio (as at 31 December)	Liquidity Coverage Ratio (LCR) is high quality liquid assets that can be converted to cash with little or no loss in value expressed as a percentage of expected net cash outflows over the following 30 days according to CRD IV requirements.	**287%**	337%

Total Income



Financing Assets

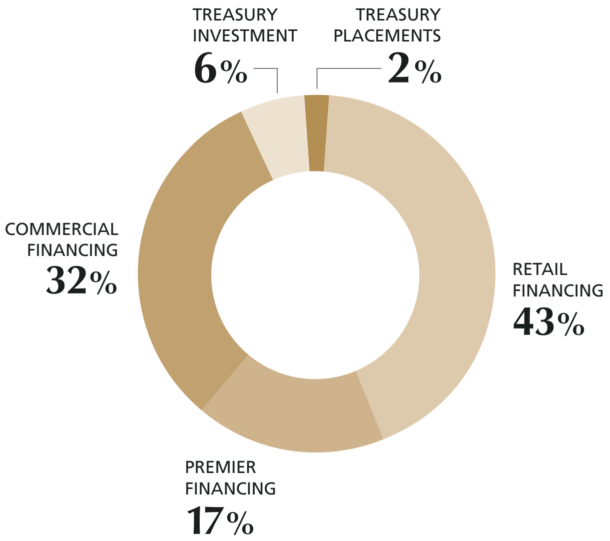


Total income for the period grew by 14.7% over the year, increasing to £38.62m (2017: £33.66m). This was largely due to the continued steady growth in financing assets. The Bank continued to offer its core financing products of Home Purchase Plans (HPP), which includes Buy to Let (BTL) and Premier financing (to GCC customers purchasing UK properties), and Commercial Property Finance (CPF). Total HPP increased by 24.1% to £1,154m (2017: £930.4m). CPF remained relatively flat closing the year at £479.0m (2017: £475.8m), reflecting new sales being offset by the higher redemption profile of CPF assets when compared to HPP.

Financing asset growth was reduced in the second half of 2018, as the Bank focused more on the activities relating to the investment phase designed to enhance operational capability. Taking this into account, the steady level of growth reflected the ongoing demand for the Bank's financing products.

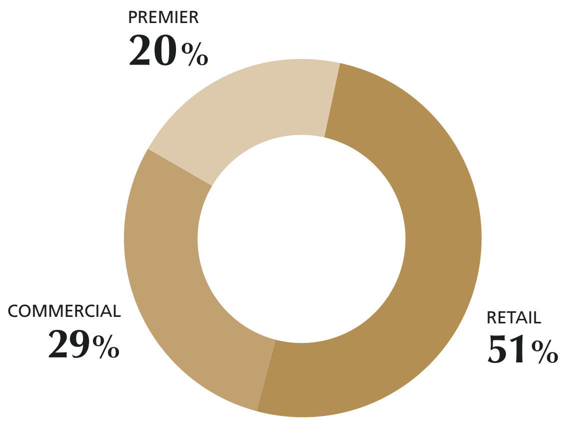
The following charts illustrate the split of financing assets and income.

Income from Islamic Financing Transactions by Type



2018 total £63.06m (2017: £50.62m)

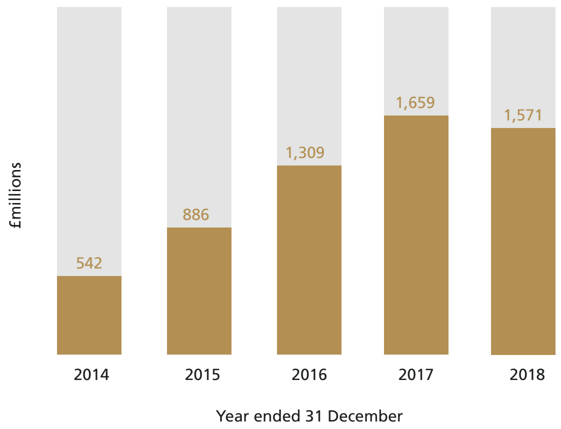
2018 Financing Assets by Sector



2018 total £1,633m (2017: £1,406m)

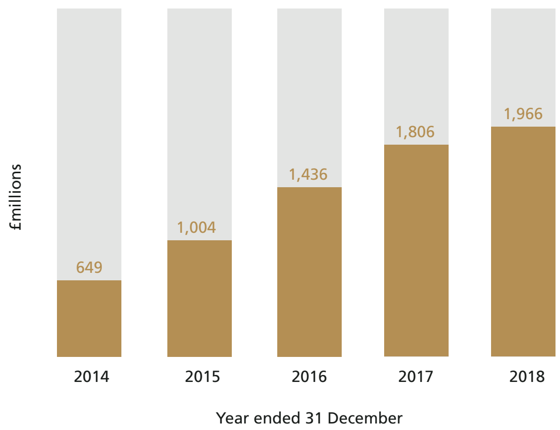
Whilst financing assets increased, the Bank's total deposits reduced. This was due to the positive impact of the additional structured funding received from the Tolkien sukuk issuance. As at the end of the year, the net funding from the issuance was £219.1m (2017: £nil) providing additional diversified and stable funding, and allowing the reduction in deposits.

Total Deposits

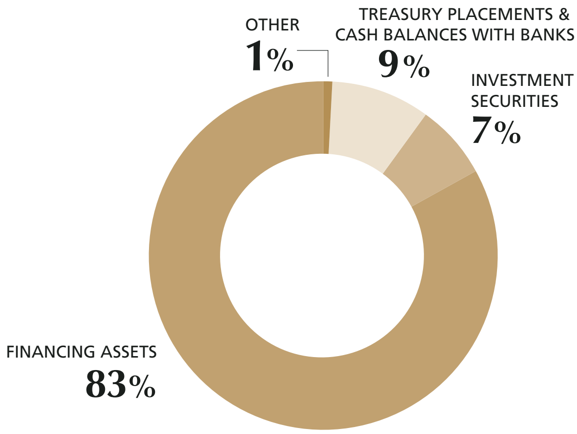


Consequently, the Bank's total balance sheet grew by 8.8% in 2018 finishing the year at £1.97bn (2017: £1.81bn).

Total Assets



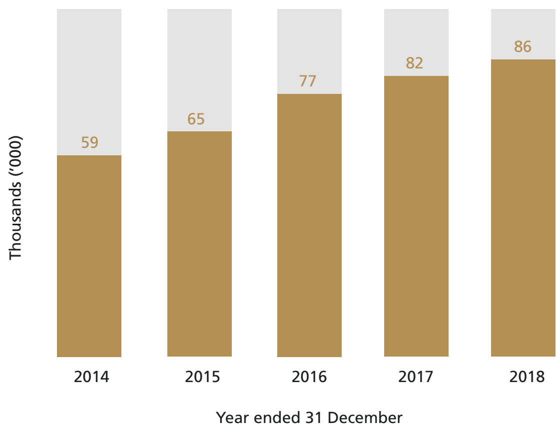
2018 Total Asset Breakdown



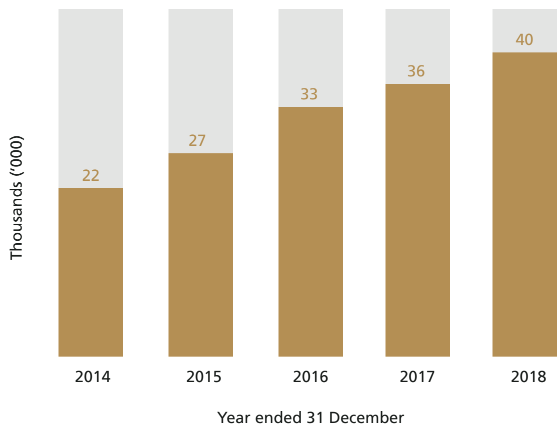
2018 total £1,966m (2017: £1,806m)

Customers were kept at the heart of everything that the Bank did. The Bank continued its strong focus on the customer journey setting up dedicated teams to ensure great customer experience, which is monitored through customer surveys and feedback. The Bank's customer base steadily grew, with the online channel continuing to be one of the most important sources of business.

Total Customers



Internet Enabled Accounts



The Strategic Plan

The Bank's strategic intent is to implement strong and robust risk management and operational resilience capability across the Bank to provide a platform for excellent customer conduct outcomes with acceptable returns to shareholders. This strategic intent is underpinned by five key imperatives which are fully integrated into the Bank's plans and Risk Management Framework. This enables the Bank to make better, risk-informed, strategic business decisions on a day to day basis.

The Strategic Plan serves both as a guide to the Bank's employees on its future development and as a blueprint for its external stakeholders, to inform them about the Bank's work and the strategic priorities it has established for the coming years.

The key imperatives are as follows:

Robust Risk Management capability	**Manage capital and financial performance effectively**	**Lower cost diversified funding**	**Drive service quality & efficiency across the Bank**	**Resilient People, Processes and Systems**

The Bank's strategic objectives for the coming years are summarised below:

Distribution strategy

The Bank aims to provide its customers with a seamless experience through any one of its distribution channels.

Branch and office network	Other channels
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 (HNW) customers, primarily from the Gulf Cooperation Council (GCC) region	**Business development managers (BDMs)** Field-based BDMs facilitate HPP sales
Commercial office, London Specialist Commercial Property Finance team to support the Bank's growing financing portfolio within this business sector	**Intermediaries** Intermediaries provide an efficient and effective route for marketing products including HPP and CPF
National branch and office network Provide retail and Small and Medium Enterprise (SME) customers with a counter/cashiering service, and access to the Bank's range of personal and business products	**Voice** A dedicated and highly trained Customer Services team and HPP and deposit sales teams are based at the Bank's operational headquarters in Birmingham
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	**Digital** Web and online service facilitates account opening, payment transactions and product information
Offices Glasgow; Blackburn; Bradford; Luton; Greater London (Ilford, Wembley and Tooting)	**Post** Processing of postal applications is completed at the Bank's operational headquarters

Our market and competition

The Bank is well positioned to help shape the future of Sharia compliant, responsible and ethical finance in the UK and enjoys distinct competitive advantages. Its parent, MAR, is an established and successful sponsor with the skills, experience and expertise to help the Bank 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 HNW customers. Furthermore, the Bank:

- is the leading provider of a wide range of Sharia compliant retail products in the UK, and the main provider of Islamic home finance in the country.
- provides a credible alternative to traditional banking. Its Islamic finance model is responsible and fair, and its savings products consistently deliver competitive and market-leading rates of return.
- has established a loyal customer base amongst Muslims and non-Muslims alike, demonstrating the popularity of ethical banking across all faiths.
- possesses a strategically located branch and office network which has assisted in maximising the Bank's exposure within the UK.
- employs staff who are dedicated and passionate about working for the Bank, appreciating the culture and environment of a Sharia compliant, ethical organisation.
- is agile enough to embrace change, whilst delivering steady growth of its customer and asset base.
- has continued to develop offerings in the marketplace to respond to customer needs, including products focused on SMEs and expatriate customers.

The Bank undertakes competitor analysis to understand the evolving landscape, and to make informed strategic decisions. It remains well placed to take advantage of growing demand by virtue of its strong foundations, specialist experience built up over a number of years, and range of products and services.

Liquidity and funding

Liquidity

The Bank has a low liquidity risk appetite. One of its key objectives is to ensure that it retains sufficient liquid resources in line with regulatory liquidity requirements. The Bank has developed a plan to ensure that liquidity requirements are effectively managed in light of all applicable regulations and planned asset growth.

Funding

Retail funding

The strategy for funding is underpinned by acquisition of stable funding through retail deposits, which are closely managed with well-priced products catering for the differing requirements of customers.

Branches continue to be an important source of stable retail funding. Rates of return are monitored and managed to attract a longer behavioural weighted average deposit life to match the asset that is being underwritten, thus minimising the risk of maturity transformation.

Wholesale funding

Wholesale funding to date has predominantly been sourced from prominent GCC counterparties. The Bank continues to diversify its wholesale funding mix and has completed significant steps towards achieving this during the year:

- In November 2017 Moody's issued the Bank an Aa2 rating, which the Bank has maintained, and has allowed the Bank to target funding previously unavailable to it.
- The launch of a £250m asset backed sukuk, which completed in February 2018 with an AAA rating and has continued to realise benefits for the Bank.
- Further developing the dedicated Commercial office in central London, including the introduction of a dedicated wholesale funding team.

Principal risks

The Bank regards the monitoring and controlling of risks as a fundamental part of the management process. The Board has ultimate responsibility for ensuring that appropriate risk management systems and controls exist for the determination, assessment and management of the principal risks facing the Bank and for approving the risk appetite for these risks in the context of achieving the Bank's strategic objectives.

In line with this, the Bank has performed an assessment of the principal risks that it faces and their impact on its liquidity, solvency, forward performance and the effective delivery of its operating model and strategy.

Risk Management Framework

The Bank's Risk Management Framework (RMF) and its underlying control systems are the principal tool to identify, monitor and report on the risks to which the Bank is exposed. This provides reasonable assurance against the risk of material misstatement or forward loss.

In 2017, the Bank had embarked on a Risk Enhancement Plan to improve all areas of the Bank's risk management capabilities and to ensure that these remained adequate for the needs of the Bank as it developed. This included enhancements to the Risk Management function's structure and staffing and the overall RMF. Significant progress was made during 2018 in implementing this plan.The RMF is monitored and updated on a regular basis to ensure it is aligned to regulatory requirements and is supported by appropriate policies, processes and procedures. These ensure risks are managed appropriately and are proportionate to the size of the Bank and nature of its products.

The Bank uses the three lines of defence model to support risk management and to manage risk across the organisation. All roles fit in to one of these three lines and support the embedding of risk management in all areas of operations. The effectiveness of internal controls is regularly reviewed by the Board, supported by reporting from the business lines, Risk and Internal Audit.

First line of defence	Second line of defence	Third line of defence
Line management within each business area is responsible for the identification, measurement and management of the risks within the Bank's risk appetite, ensuring appropriate controls are in place and operating effectively.	Risk and Compliance functions provide risk management expertise and challenge managers and staff in their performance of risk management activities through independent reviews, monitoring and testing. The remit of the Sharia Compliance Monitoring activities also falls under the second line of defence.	The Bank's Internal Audit function is responsible for independently reviewing the effectiveness of the risk management structure and internal controls and to confirm the Bank's activities are in line with the risk appetite, regulatory and legal requirements. The Internal Audit function is currently outsourced to a specialist firm, and reports directly to the Chairman of the Audit Committee. The Audit Committee approves the work programme of Internal Audit and receives reports of the results of the work performed. The Sharia Compliance department also conducts an independent audit on an annual basis to ensure that the Bank is Sharia compliant in its activities; this report is submitted directly to the Sharia Supervisory Committee.

Principal risks are the primary risks that the Bank faces which could impact the delivery of its strategy:

Principal Risk	Mitigations
Strategic Risk The risk of failing to achieve the strategic vision and objectives or failing to achieve the financial objectives due to failure to achieve the strategic plan due to changing or flawed assumptions or external events which are outside the control of the Bank	Setting of the Bank's risk appetite by the Board with a focus on identification and minimisation of risks, with financial limits in place to limit exposure to risks where appropriate Continual monitoring of performance through financial and non-financial KPIs against the Bank's strategy and financial plans Development of robust short and medium-term financial plans based on policies and processes aligned to the Bank's structure and operating model and risk appetite Scenario modelling and stress testing is performed to assess the potential impact of external events and downside risk events The Bank reviews the overall market and performs competitor analysis to inform its strategic plan and approach to market and continually updates these assessments to ensure the strategic objectives can continue to be met
Operational Risk The risk of direct or indirect loss from the failure of systems, processes, people or external events	Policies and processes are aligned to the Bank's structure and operating model Regular risk event and rapid loss escalation processes are in place, including reporting of incidents and remediation and follow up programmes Business continuity planning is embedded and tested regularly to ensure effectiveness Structured Risk Control Self-Assessment regime is in place Regular monitoring of change and transition programmes is in place The Bank is undertaking significant investment in system infrastructure, technology and digital strategies to meet future operational requirements and customer demand The Bank relies on third parties for payment processing and clearing, and has engaged with these third parties to ensure continuity plans are in place, including with regards to potential Brexit outcomes
Prudential Risk The risk of failure from not holding sufficient or appropriate reserves to support growth, meet regulatory requirements, or to repay obligations when required	Daily monitoring of the financial position Adequacy of liquidity buffer and 3-month forward stress test, as well as longer-term growth forecasting and planning to monitor future capital requirements Robust forecasting and testing of forward capital plan, as well as capital and liquidity sensitivity and stress testing Annual ICAAP and ILAAP process Contingency funding and Recovery & Resolution Plan development
Market Risk The risk of reductions in earnings and/or value, from unfavourable market movements	The Bank does not undertake proprietary trading Profit rates and currency obligations are matched where possible and the Bank seeks to minimise market risk in all transactions Basis risk is minimised by matching profit rate reference base for assets and liabilities There is a risk of significant disruption in the financial system due to the UK's decision to leave the EU. The Bank has exposure to the UK economy but has minimal exposure to the EU as activities are primarily undertaken with either UK or Middle Eastern based counterparties and customers. The Bank has limited exposure to the European market, however disruption to the wider UK economy may still impact the Bank's operations through a reduction in the appeal of the UK market to foreign investors and the impact of any potential economic downturn within the UK The Bank hedges its currency exposure through matching assets and liabilities to minimise the impact of any currency movements, including potential changes in the value of the pound due to ongoing political uncertainty and from general economic changes
Credit Risk The risk of financial loss and/or value as a result of the failure of a counterparty, with whom the Bank has contracted, to meet its obligations	Conservative risk appetite framework and metrics, supporting policy with appropriate concentration risk limits Focusing the provision of products, and to markets, where the Bank has specific expertise, and recruitment of specialist staff to assist with the development of new products and markets Obtain appropriate level of supporting asset cover security Robust policies and guidelines in place which are regularly reviewed and updated in response to internal and external developments and changes in risk appetite Regular reviews of performance against risk appetite Performance of portfolio stress testing to confirm resilience

Principal Risk	Mitigations
Conduct Risk The risk of treating customers unfairly and delivering inappropriate outcomes that leads to customer detriment or not achieving a positive experience for 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.	Development of simple, understandable products aligned to core offering Application of robust policies, governance and rigour to the approval of new products and initiatives, incorporating best practice Ongoing staff awareness training and assurance mechanisms Continual investment in development of staff and facilities to support continued growth and customer service expectations Maintenance of open and honest relationships with regulators and all stakeholders
Legal and 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)	The Bank actively monitors regulatory changes, engages with regulators and industry bodies to keep abreast of current development and respond as appropriate Undertake horizon scanning and forward planning to ensure compliance with new regulatory requirements The Bank has engaged with the regulators in regard to Brexit scenario modelling, which is a key driver of potential regulatory change going forward. The Bank has positioned itself to continue to support the existing regulatory environment and be able to respond to any changes and challenges post-Brexit Development of simple, understandable products aligned to core offering Application of robust policies, governance and rigour to the approval of new products and initiatives, incorporating best practice Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability Development of effective AML policies, processes and controls, including related systems Ongoing staff awareness training and assurance mechanisms Continuous regulatory change horizon scanning
Sharia non-compliance Risk The risk of a loss in earnings, value or reputation due to products and services or their associated operational systems, conduct and financial processes being non-compliant with Sharia (Islamic law)	Products, services, policies, procedures, transactions and behaviours are aligned to Sharia principles and its ethical code of the Bank Independent Sharia Supervisory Committee and their internal representative, monitoring, oversight and challenge Review of products and initiatives prior to changes being implemented to ensure continuing Sharia compliance across all areas of the business and product offerings Ensure that service providers and suppliers to ensure that all third party arrangements are entered into in a Sharia compliant manner

Outlook for 2019

Economic outlook

The UK's decision to leave the EU in 2016 brought about a significant amount of uncertainty and volatility in the markets. This uncertainty continued to cast a shadow on the economy in 2018. The economy proved to be broadly resilient, post the Brexit vote, with economic indicators holding relatively strong but with reductions in business investment in the UK as businesses waited for further details on the nature of Brexit. GDP growth, however, did slowdown in 2018 and the bank rate increased from 0.50% to 0.75% in August 2018. This is anticipated to lead to a reduction in household disposable incomes, with uncertainty over further increases after the initial Brexit deadline of 29 March 2019.

Overall the full impact of Brexit on the UK economy and the financial services sector is still unknown – it is likely that this will only truly be known after the arrangements between the UK and EU are finalised. The UK Government has stated that it is a key priority to ensure that there is an adequate transition period, avoiding a 'cliff edge' both at the time of withdrawal following the Article 50 process and as the UK and EU move towards a new relationship.

As a UK focused Bank with links to the Middle East through its parent, the primary exposures the Bank has to Brexit are through the general state of the UK economy. A general downturn in the UK which may restrict customer growth and increase the risk of customer defaults has been incorporated by the Bank, along with the general market consensus for GDP growth and rate rises in the business plan for 2019 and it expects continued profitability on this basis. Sensitivity analysis has also been performed as part of the Expected Credit Loss (ECL) model to incorporate an analysis of an economic downturn on the Bank's financing asset credit losses.

An economic downturn in the UK post-Brexit may impact on the appeal of the domestic market to the Middle East, resulting in a reduction in overseas customer deposits and financing, and an increase in credit loss events, impacting the profitability and asset books of the Bank. Similarly, continued geopolitical instability in the Middle East may impact investment and increase the potential for financing losses for the Bank. The Bank continually monitors, both independently and together with its parent, potential risks associated with any political and economic uncertainties in the wider GCC region. Presently, there has been no adverse impact to the Bank's business or future plans resulting from events during 2018 in the region.

The Bank regularly engages in forward-looking stress testing and assessing risks based on both PRA defined stresses and management's own internal 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, including the additional severe 'worst case' scenarios. Specific stress scenarios are incorporated into the Bank's planning and risk management processes, including potential scenarios relating to the GCC region.

Business outlook

The Bank remains committed to its current strategy. This will be evolved to take account of the changing and increasingly challenging landscape and operating environment, including increasing competition in the market and ongoing economic uncertainty.

2019 will be a year of continued investment for the Bank, focusing on consolidating the existing investment in the Bank's systems, processes, risk management capabilities and people, and continuing to invest in these areas to ensure that it builds on the solid foundations and is prepared for future developments.

In 2019 the Bank plans to modestly grow its financing asset book, based on its existing range of financing products. This growth will continue to support the Bank's overall objective of increasing profitability in a consistent and controlled manner, whilst ensuring that appropriate focus is given to the investment phase. The results of the improvements which will improve efficiency, together with future growth, will lead to an improved cost to income ratio in line with the five-year plan.

Therefore, it is considered that the Bank is well positioned to respond to future challenges based on its quality asset book, Board and management focus, dedicated employees and a dynamic approach to managing change associated with the enhancements being made to its operational and risk management infrastructure.

Signed on behalf of the Board

Sultan Choudhury
Chief Executive Officer

4 April 2019

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

Directors' report

The Directors present their report and audited financial statements for the year ended 31 December 2018.

Directors and Directors' interests

The Directors who held office during the year ended 31 December 2018 are as follows:

- Robert Sharpe (Chairman) (b)
- Adel Mohammed Tayeb Mustafawi (b) (c)
- Sultan Choudhury
- Ahmed Swaleh Abdisheikh (a) (b) (c)
- Malcolm Brookes (a)
- Richard Sommers (a) (c)

(a) Denotes member of Audit Committee
(b) Denotes member of Remuneration and Nomination Committee
(c) Denotes member of Board Risk Committee

Subsequent to 31 December 2018 on 1 February 2019, Robert Sharpe resigned as Chairman of the Board and as a Director. Simon Moore was appointed as a Director and Chairman of the Board on 1 February 2019.

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

No Director had any interest in the ordinary shares of the Bank in the current or preceding year per the register of Directors' interests.

On 31 January 2018, Sultan Choudhury stepped down as a member of the Board Risk Committee and Richard Sommers became a member of the Audit Committee.

The Company Secretary throughout the year was Mohammed Al Azam.

Significant shareholders

The following shareholders had interests in the ordinary shares of the Bank in excess of 3% as at 31 December 2018:

	2018	2017
	%	%
Al Rayan (UK) Ltd	98.34	98.34

The remaining 1.66% of the Bank is owned by minority shareholders. The shareholding in Al Rayan UK Ltd is as follows: MAR 70% (2017: 70%) and Qatar Holding LLC 30% (2017: 30%).

Sharia Supervisory Committee members

The Sharia Supervisory Committee (SSC) 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 7.

Dividends

The Directors do not recommend the payment of a dividend for the year ending 31 December 2018 (2017: £nil).

Political contributions

The Bank made no political contributions during the year ending 31 December 2018 (2017: £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. Significant changes which may impact staff are reviewed by a Human Resources Committee before being circulated to the wider Bank.

The Bank holds regular 'town hall' events to provide an update to all staff on the strategic plans of the Bank and progress during the year against key objectives. These events set out the current position and challenges to the Bank and allow staff to engage with the Executive team through question and answer sessions. Further regular updates are also provided through newsletters which provide a spotlight on all areas of the Bank and recent developments and achievements.

An annual Employee Opinion survey is undertaken by the Bank to enable all staff to provide feedback, and the CEO also engages directly with employees through regular round table discussions which involve all levels of employees throughout the Bank. The Bank has been accredited with the Investors in People Silver status.

The Bank operates an equal opportunities policy in all aspects of employment, recruitment and promotion, and offers flexible working opportunities for staff when possible in order to meet the needs of staff. An annual "people roadmap" is in place across the Bank to support the continuous learning and development alongside career development programmes for staff to help the Bank retain and promote top talent. Internal awards programmes also recognise high levels of customer service and performance across the organisation.

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 of 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 has been supported by capital injections from its parent. Further amounts are forecast to be received in 2019. However, the Bank is profitable on a sustained basis and generates additional regulatory capital once these profits have been verified.

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

Financial risk management

The Bank's approach to financial risk management is outlined in the strategic report and in note 29.

Subsequent events

Events subsequent to 31 December 2018 have been highlighted in note 30.

Future developments

Future developments are outlined in the Chairman's statement and strategic report.

Disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming AGM.

Approved by the Board of Directors and signed on behalf of the Board:

Sultan Choudhury
Chief Executive Officer

4 April 2019

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

Directors' responsibilities statement

The Directors are responsible for preparing the strategic report, 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 International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU subject to any material departures disclosed and explained in the financial statements; 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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Al Rayan Bank plc (the 'company'):

- **give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 33

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • behavioural life assumption used in the Effective Profit Rate ("EPR") accounting; • impairment of investment in financing assets; and • securitisation accounting. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was £442 thousand which was determined on the basis of 5% of adjusted profit before tax.
Scoping	All of the company's activities are based in and audited directly by the audit team from the UK.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

During the year 2018, the company completed its first ever Sharia compliant securitisation transaction by issuing a Sharia compliant bond ("Sukuk") backed by its HPP financing assets. We consider it to involve significant level of judgement and considered it as a new key audit matter in 2018.

Behavioural life and product switch assumption used in the Effective Profit Rate ("EPR") accounting

Key audit matter description	The financing assets portfolio comprises the investments in Commercial Property Finance (CPF) and Home Purchase Plan (HPP) and has grown significantly in the last few years. Income from financing assets is recognised under the amortised cost basis using the Effective Profit Rate (EPR) approach, in accordance with IFRS 9: Financial instruments, where future expected profits excluding credit losses, including any fee paid or received, are discounted over the estimated behavioural life of the asset. The income recognised from financing assets during the year was £58.4 million (2017: £47.3 million) as disclosed in note 6 on page 47 of the financial statements. The estimated behavioural life of the CPF and HPP together with the expected product switch made by the customer at the end of their product term are sensitive assumptions and any changes in it can has have a significant impact on revenue recognition. Therefore we consider this as a potential fraud risk. Detail of the applicable accounting policy is disclosed in note 4 on page 42 of the financial statements respectively.

How the scope of our audit responded to the key audit matter	We first obtained an understanding of the process and relevant controls surrounding the estimated behavioural life and product switch percentages by undertaking a walk-through and reviewing management judgement paper. Following identification of relevant controls we evaluated the design and implementation of controls the company has in place to manage the risk of inappropriate behavioural life and product switch assumptions being used within the EPR model. We evaluated the behavioural life and product switch models and the assumptions used in them by analysing the historical behavioural life of the investments made and payments received in the previous years and also analysed the reasonableness of the behavioural life in comparison to our knowledge of the industry, expected redemption levels, product switches and other factors affecting future behaviour. As part of our testing, we tested the accuracy and completeness of the data used in determining the behavioural life and product switch percentage of the financing assets. We critically assessed the expected product switch assumption as part of the behavioural life models against the prescribed criteria of IFRS 9 for modification of future cash flows. We assessed the reasonableness of the behavioural life and product switch percentage by benchmarking them to a range of peer group and industry data.
Key observations	We concluded that the behavioural life and product switch assumptions applied in the EPR model and the reported revenue figure is appropriate and in line with the requirements as outlined in IFRS 9.

Impairment of investment in financing assets

Key audit matter description	The company has implemented IFRS 9: Financial Instruments, which is effective from 1 January 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. The company held provisions for impairment of investment in financing assets of £1.64 million (2017: £1.41 million in accordance with IAS 39) against financing to customers of £1,635 million (2017: £1,408 million). There was no material transition adjustment on adoption of IFRS 9 at 1 January 2018. For financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimation on assumptions relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and experience as well as credit bureau data. They are also affected by management's consideration of the future economic

	environment including the potential effect of the withdrawal of the United Kingdom from the European Union. An updated impairment model has been created to meet the requirement of the new IFRS 9 standard. Due to the absence of entity specific historical default data on impairment management use a number of expert credit judgements, with focus areas noted as the estimated forced sale discounts applied in the estimate, the value of underlying properties used as collateral, and the supportability of any overlays applied by management. Considering the level of judgement involved, and the potential for material misstatement due to changes in such estimates, we considered these estimates as fraud risks. A description of the applicable accounting policy is disclosed in note 4 on page 43 of the financial statements respectively.
How the scope of our audit responded to the key audit matter	We first understood management's process and relevant controls around provision for impairment of financing assets by undertaking a walk-through and reviewing management judgement paper. Following identification of relevant controls placed by the management to review the impairment provision we evaluated the associated design and implementation of such controls. Specifically, we assessed the relevant controls the company has in place surrounding the approval of overlays in the model, and other key estimates used in the impairment of CPF and HPP assets. We challenged the appropriateness of key assumptions used in the impairment model, in particular the estimated forced sale discounts applied, the value of underlying properties used as collateral and the supportability of any overlays applied by management by reference to independently obtained third party data and benchmarking to a range of peer groups. We engaged impairment specialists to assess the compliance of the modelling approach with the requirements of the IFRS 9: Financial Instruments. We challenged the level of overlay applied by management by reviewing supporting underlying information, evaluating model weaknesses, and considered the possible impact of future economic scenarios. We challenged management's consideration of the future economic environment within the macroeconomic scenarios, including the potential effect of the withdrawal of the United Kingdom from the European Union and reviewed management's approach as well as comparing modelled assumptions to publically available data from the Office of National Statistics and comparable peer data.
Key observations	The estimated provision level is appropriate, and we do not note any material departures from the requirements of IFRS 9.

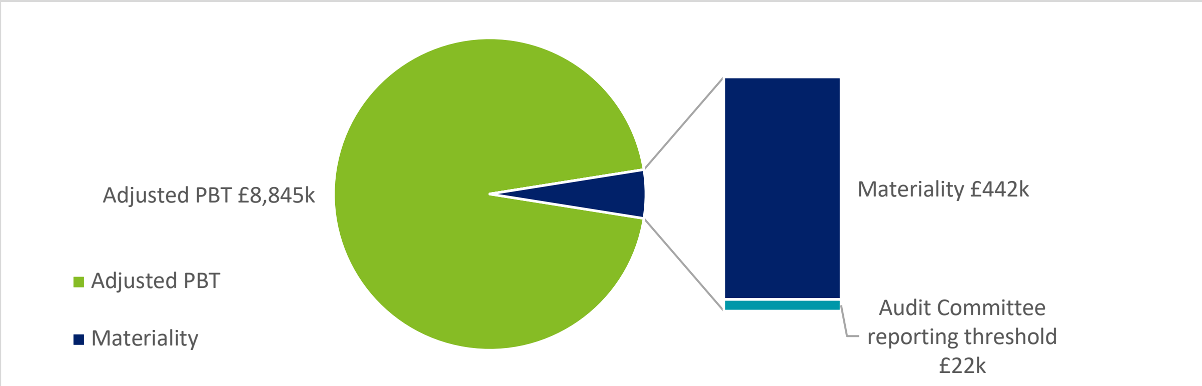
Securitisation accounting	
Key audit matter description	Securitisation accounting is a complex area which requires judgement in determining whether the transferred assets meet derecognition criteria under IFRS 9: Financial Instruments, and therefore whether the transferred HPP financing assets should be derecognised from the company. The outcome of this assessment could have a material impact on the assets and liabilities recognised by the company. During the year, first ever Sharia compliant securitisations transactions of £250 million was completed by issuing a Sukuk backed by HPP financing assets by using a Special Purpose Vehicle ("SPV"). Management has concluded that derecognition of HPP financing assets has not been achieved in the securitisation transaction and therefore continues to recognise the HPP assets on the balance sheet of the company with a corresponding deemed liability. The securitisation is detailed in note 14. Management's associated accounting policies are detailed on page 43 with detail about judgement in applying those accounting policies on page 47.
How the scope of our audit responded to the key audit matter	We first understood the securitisation transaction and performed a walkthrough of the management's process and relevant controls around securitisation accounting. Following identification of the relevant controls we evaluated the associated design and implementation of such control. Specifically, we assessed the relevant controls the company has in place around making a judgement about continuing recognition or derecognition of the HPP financing assets as a result of securitisation, as well as the controls in place to determine the accounting treatment on day one for the securitisation. We used the relevant accounting guidance to assess whether the company controls the transferred assets following securitisation, which is primarily dependent on whether the company retained the risks and rewards of ownership of the transferred assets following securitisation. In forming our view we considered whether the company retained the residual rights to the cash flows within the SPV. We reviewed the appropriateness and accuracy of the disclosures made in the financial statement.
Key observations	We concurred with management's conclusion regarding continuing recognition of the financing assets as a result of the securitisation transaction made in the year.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£442 thousand (2017: £472 thousand)
Basis for determining materiality	We determined materiality based on adjusted pre-tax profit using a factor of 5% (2017: 5%). Pre-tax profit is adjusted for the exceptional cost of £2.7 million incurred during the year in relation to improving the risk management system and controls.
Rationale for the benchmark applied	We considered profit before tax as the most appropriate measure to assess the performance of the Company and affects the decision making of the users of the financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £22,000 (2017: £23,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including controls and assessing the risk of material misstatement. The Company's operations are based in the UK and all material balances are audited directly by our UK audit team.

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance; including their assessment of the regulatory reviews disclosed in note 31;

    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, information technology, prudential regulatory, impairment and conduct risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the estimation of behavioural life of financing assets used to determine income from financing assets, level of judgement involved in determining the provision for impairment of investment in financing assets and level of judgement required in determining whether regulatory provisions are required; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation. In addition, we considered the regulation set by the Prudential Regulatory Authority relating to regulatory capital and liquidity requirements, which are fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified the behavioural life assumption used under the EPR accounting for revenue recognition and impairment of investment in financing assets as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- meeting with the Financial Conduct Authority and Prudential Regulation Authority to evaluate management judgements in relation to compliance with regulations and its impact on the financial statements; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 32 to the financial statements for the financial year ended 31 December 2018 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the company on 27 April 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering periods from our appointment through to the year ending 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

K. J. Cooper

Kieren Cooper FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
04 April 2019

Financial Statements

Statement of comprehensive income

For the year ended 31 December 2018

	NOTE	2018 £'000s	2017 £'000s
Income from Islamic financing transactions	6	63,061	50,619
Returns to banks and customers	6	(25,468)	(18,681)
Net income from Islamic financing transactions		37,593	31,938
Fees and commission income	7	1,381	931
Fees and commission expense	7	(326)	(482)
Net fees and commission income		1,055	449
(Loss) / Gain on disposal of investment securities		(1)	1,276
Foreign exchange loss		(28)	(5)
Other (loss) / income		(29)	1,271
Total income		38,619	33,658
Movement in net impairment on assets	14	(257)	(448)
Staff costs	8	(16,787)	(13,025)
General and administrative expenses		(14,230)	(9,438)
Depreciation	16	(713)	(781)
Amortisation	17	(516)	(516)
Total operating expenses		(32,503)	(24,208)
Profit before tax		6,116	9,450
Tax credit / (charge)	11	314	(830)
Profit for the financial year		6,430	8,620
Other comprehensive income:			
Items that are or may be subsequently reclassified to profit or loss: Change in fair value of investment securities taken to equity including reversal of investment securities reserve on disposal (IAS 39)		-	(3,142)
Changes in the fair value of investment securities at FVOCI (IFRS 9)		(226)	-
Other comprehensive loss for the financial year		(226)	(3,142)
Total comprehensive income for the financial year		6,204	5,478

- The results from the year are derived entirely from continuing activities.
- The notes on pages 38 to 67 are an integral part of these financial statements.

In accordance with the transitional provisions in IFRS 9.7.2.15 comparative figures have not been restated; see note 3 for details about changes in accounting policies.

Statement of financial position

As at 31 December 2018

Assets	NOTE	2018 £'000s	2017 £'000s
Cash	12	**2,327**	2,692
Treasury placements and cash balances with banks	13	**170,940**	228,822
Consumer finance	14	**18**	9
Home Purchase Plans	14	**1,154,158**	930,386
Commercial Property Finance	14	**478,989**	475,787
Investment securities	15	**139,846**	154,207
Property and equipment	16	**5,703**	6,112
Intangible assets	17	**2,941**	716
Deferred tax asset	18	**5,915**	5,545
Other assets	19	**4,841**	2,032
Total assets		**1,965,678**	**1,806,308**

Liabilities and equity			
Liabilities			
Deposits from banks	20	**23,917**	62,219
Deposits from customers	21	**1,547,456**	1,596,656
Subordinated financing	22	**25,000**	10,000
Sukuk funding	14	**219,145**	-
Other liabilities	23	**15,194**	8,671
Total liabilities		**1,830,712**	**1,677,546**
Equity			
Share capital	24	**121,219**	121,219
Share premium		**54,807**	54,807
Reserve on investment securities		**(1,388)**	(1,162)
Retained deficit		**(39,769)**	(46,198)
Profit stabilisation reserve		**97**	96
Total equity		**134,966**	128,762
Total liabilities and equity		**1,965,678**	**1,806,308**

▶ The notes on pages 38 to 67 are an integral part of these financial statements.

In accordance with the transitional provisions in IFRS 9.7.2.15 comparative figures have not been restated; see note 3 for details about changes in accounting policies.

These financial statements were approved by the Board of Directors on 4 April 2019 and were signed on its behalf by:

Sultan Choudhury
Chief Executive Officer

Al Rayan Bank PLC
Registration number: 04483430

Statement of changes in equity

For the year ended 31 December 2018

	Share capital	Share premium	Reserve on investment securities	Retained deficit	Profit stabilisation reserve	Total
Note	24					
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Balance at 1 January 2017	121,219	54,807	1,980	(54,817)	95	123,284
Profit for the year	-	-	-	8,620	-	8,620
Other comprehensive income	-	-	(1,866)	-	-	(1,866)
Reclassification of investment securities reserve on disposal of investment (IAS 39)	-	-	(1,276)	-	-	(1,276)
Transfer to profit stabilisation reserve	-	-	-	(1)	1	-
Balance at 31 December 2017 (IAS 39)	121,219	54,807	(1,162)	(46,198)	96	128,762
Adjustment on adoption of IFRS 9 (note 4)	-	-	-	-	-	-
Balance as at 1 January 2018 (IFRS 9)	**121,219**	**54,807**	**(1,162)**	**(46,198)**	**96**	**128,762**
Profit for the year	-	-	-	6,430	-	6,430
Other comprehensive income	-	-	-	-	-	-
Changes in the fair value of investment securities at FVOCI (IFRS 9)	-	-	(226)	-	-	(226)
Transfer to profit stabilisation reserve	-	-	-	(1)	1	-
Balance at 31 December 2018	**121,219**	**54,807**	**(1,388)**	**(39,769)**	**97**	**134,966**

▶ The notes on pages 38 to 67 are an integral part of these financial statements.

In accordance with the transitional provisions in IFRS 9.7.2.15 comparative figures have not been restated; see note 3 for details about changes in accounting policies.

Statement of cash flows

For the year ended 31 December 2018

Cash flows from operating activities	NOTE	2018 £'000s	2017 £'000s
Profit before tax		6,116	9,450
Adjustments for:			
Depreciation	16	713	781
Amortisation	17	516	516
Loss / (gain) on disposal of investment securities		1	(1,276)
Impairment charge and write-off on financial assets		257	448
		7,603	9,919
Changes in:			
Treasury placements		(56)	59,388
Consumer finance		(9)	34
Home Purchase Plans		(223,771)	(292,072)
Commercial Property Finance		(3,202)	(81,566)
Other assets		(2,808)	(340)
Deposits from banks		(38,302)	(21,352)
Deposits from customers		(49,200)	371,412
Other liabilities		6,522	5,079
Deferred tax asset		(370)	552
Net cash (outflow) / inflow from operating activities		(303,593)	51,054
Cash flows from investing activities			
Sales and maturities of investment securities		3,430,743	1,420,538
Purchases of investment securities		(3,416,525)	(1,409,642)
Purchase of property and equipment	16	(303)	(462)
Purchase of intangible assets	17	(2,741)	(297)
Net cash inflow from investing activities		11,174	10,137
Cash flows from financing activities			
Subordinated funding	22	15,000	10,000
Proceeds from issuance of sukuk funding	14	250,000	-
Repayment of sukuk funding	14	(30,855)	-
Net cash inflow from financing activities		234,145	10,000
Net change in cash and cash equivalents		(58,275)	71,191
Foreign exchange loss		(28)	(5)
Cash and cash equivalents at 1 January	12	230,538	159,352
Cash and cash equivalents at 31 December	12	172,235	230,538

▶ The notes on pages 38 to 67 are an integral part of these financial statements.

In accordance with the transitional provisions in IFRS 9.7.2.15 comparative figures have not been restated; see note 3 for details about changes in accounting policies.

Notes to the Financial Statements

1. Reporting entity

Al Rayan Bank PLC (the "Bank" or the "Company") is a public unlisted bank, limited by shares, domiciled in England, UK. The Bank's registered office is 44 Hans Crescent, Knightsbridge, London, SW1X 0LZ. The address of the Bank's operational headquarters is 24a Calthorpe Road, Edgbaston, Birmingham, B15 1RP. The Bank is primarily involved in retail and corporate banking services.

The financial statements of the Bank are presented as at and for the year ended 31 December 2018. The financial statements are presented in pound sterling, which is the Bank's functional currency.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and approved by the Directors, and are presented on a historical cost basis.

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

3. New standards and interpretations adopted by the EU

IFRS 16 adoption 2019
IFRS 16 'Leases' was published in July 2014 and is effective for periods beginning on or after 1 January 2019. This replaces IAS 17 'Leases' and will result in the majority of operating leases being recognised on the balance sheet by the Bank. Under the new standard, an asset (right of use of the leased item) and a financial liability to pay rentals will be recognised.

The Bank has commenced a review of all current lease arrangements. The standard will affect primarily the Bank's accounting for operating leases. As at the reporting date the Bank has non-cancellable operating lease commitments of £5.2m which relate to long-term, high value leases. The Bank expects to recognise right of use assets totalling approximately £8.0m and liabilities of approximately £7.8m, as well as the reclassification of existing balance sheet prepayment and provision amounts.

The assessment of leases under IFRS 16 requires the Bank to consider the expected period of the lease, while the lease commitment disclosure under IAS 17 is based on the non-cancellable lease period, resulting in the right of use asset expected to be recognised being greater than the operating lease commitment as the Bank expects to continue its existing lease agreements beyond their earliest cancellation periods.

The practical expedient available will be used for low value leased items, which primarily relate to printing and other facility items which will continue to be recognised on a straight-line basis as part of 'general and administrative expenses'.

The Bank does not expect a material impact on the profit in the statement of comprehensive income, however there will be a material reclassification of expenditure between 'general and administrative expenses' and 'depreciation' as the right of use assets recognised under the standard will be subject to depreciation, rather than being recognised as general expenditure. The deemed financing charge under the standard will be included as part of the 'general and administrative expenses' in the statement of comprehensive income. Right of use assets will be reviewed for impairment in accordance with IAS 36 'Impairment of assets', which will replace the existing requirement to recognise a provision for onerous lease contracts where applicable.

The lease payments will be recognised in the statement of cash flows as financing activities, resulting in an increase in cash generated by operating activities and a corresponding increase in cash outflows used for financing activities.

The Bank will apply the standard from its mandatory adoption date of 1 January 2019 and intends to apply the simplified transition approach, and will not restate comparative amounts for the year prior to first adoption. Right of use assets for property leases will be measured on transition at the amount of lease liability on adoption (adjusted for any prepaid or accrued lease expenses), and practical expedients will be used to treat leases which end within 12 months of initial application as short-term leases which will be recognised in the statement of comprehensive income on a straight-line basis.

While the majority of the Bank's home financing products are structured with the Bank as a lessor, where the Bank purchases the property in partnership with the customer and leases its share to the customer, the economic substance of the financing products meets the criteria of IFRS 9 'Financial Instruments', and will continue to be treated under IFRS 9 as financial instruments recognised at amortised cost, and not be impacted by the introduction of IFRS 16.

Changes in accounting policies
Other than IFRS 15 'Revenue from Contracts with customers' and IFRS 9 'Financial Instruments' as noted below (including related amendments to IFRS 7 'Financial Instruments: Disclosures'), other amendments to IFRS effective for 2018, including IFRS 2 'Share-based payments' and IAS 40 'Investment Property' have not had a material effect on the Bank's financial statements.

IFRS 15 'Revenue from contracts with customers'
On 1 January 2018 the Bank adopted the requirements of IFRS 15 "Revenue from contracts with customer". Fees which are not an integral part of the effective profit rate (EPR) of a financial instrument under IFRS 9 are recognised in accordance with IFRS 15, alongside other income not related to financing products including ad-hoc customer charges, transaction fees and business account maintenance fees. The adoption of IFRS 15 has not had a material impact on the income recognised for transactions which fall outside the scope of IFRS 9.

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' was published in July 2014 with a date of transition of 1 January 2018, which has resulted in changes in accounting policies. The Bank did not early adopt any elements of IFRS 9 in previous periods.

The adoption of IFRS 9 has resulted in changes to the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities, as well as impairments and provisions in respect of financial assets. The IFRS 9 amendments relating to other standards, including IFRS 7 'Financial Instruments: Disclosures', have also been adopted as part of the transition.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures, but has provided reconciliations in key changes from the year end IAS 39 balances to the opening balances under IFRS 9. The transition to IFRS 9 has resulted in adjustments to the net carrying amounts of financial assets at the date of transition through the inclusion of expected credit losses at the date of transition. As the Bank held collective allowances for impairment under IAS 39 in the prior year, there has been no overall impact on retained earnings or equity at the date of transition. In the disclosures to the financial statements presented below, the amendments required under IFRS 7 have only been applied to the current period. The comparative period notes disclosures throughout the financial statements are based on prior year disclosures made under IAS 39.

IFRS 9 requires financial assets to be classified on the basis of two criteria:
1. the business model within which financial assets are managed; and
2. their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and profit).

Financial assets will be measured at amortised cost if they are held by the Bank in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and profit. Financial assets will be measured at fair value through other comprehensive income if they are held either for the collection of contractual cash flows or for selling and their contractual cash flows represent solely payments of principal and profit. Other financial assets are measured at fair value through profit or loss.

Set out below is a summary of the impact of IFRS 9 on the Bank at the date of transition, 1 January 2018.

Classification and measurement of financial instruments

	31 Dec 2017 - IAS 39		Transition adjustments	1 Jan 2018 - IFRS 9	
£'000s	**Measurement category**	**Carrying amount**	**ECL adjustment**	**Measurement category**	**Carrying amount**
Financial assets					
Cash, treasury placements and cash balances with banks	Financing and receivables (Amortised cost)	**231,514**	(2)	Amortised cost	**231,512**
Financing to customers	Financing and receivables (Amortised cost)	**1,406,182**	14	Amortised cost	**1,406,196**
Investment securities	Available for sale (FVOCI)	**154,207**	(12)	FVOCI	**154,195**
Financial liabilities					
Deposits from banks	Financing and receivables (Amortised cost)	**62,219**	-	Amortised cost	**62,219**
Deposits from customers	Financing and receivables (Amortised cost)	**1,596,656**	-	Amortised cost	**1,596,656**
Subordinated financing	Financing and receivables (Amortised cost)	**10,000**	-	Amortised cost	**10,000**

Amortised cost

Based on the business model and contractual cash flow characteristics there were no material changes in the classification of financial assets under IFRS 9. There were opening balance adjustments related to the application of the ECL model, replacing the previously recognised collective impairment provisions under IAS 39, impacting the asset carrying amounts. Financing assets are recognised when the funds are drawdown to customers and carried at amortised cost using the Effective Profit Rate (EPR) method, less provisions for impairment. The measurement of financial liabilities has also not changed under IFRS 9 and these continue to be held at amortised cost.

IFRS 9 has not resulted in any underlying changes to the Bank's approach to the amortised cost calculations of EPR for customer financing products. The Bank has revised its judgements and estimates on expected behavioural life and product switch behaviours to incorporate additional customer information as the customer portfolio has continued to grow and mature when calculating the EPR applicable to the financing portfolio. Amortised cost assets include the Bank's HPP and CPF products, where contractual cash flows are solely payments of principal and profit on the amount outstanding. Short-term deposits and placements with other banks are also held at amortised cost on the same basis.

Fair value through other comprehensive income (FVOCI)

Assets classified as FVOCI are held for the collection of contractual cash flows. These are held for liquidity purposes by the Bank. These assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at FVOCI. The cash flows received by the Bank are solely payments of principal and profit on the outstanding balance or sale proceeds in the event of a sale. Assets in this category are investment securities issued by third parties (e.g. government issued sukuk) which are held by the Bank to generate a return, but may also be bought and sold as required in order to manage the Bank's liquidity.

Impairment

Under IFRS 9, impairment is based on a more forward-looking expected credit loss (ECL) approach for financial assets classified as amortised cost and FVOCI, rather than the incurred loss approach applied under IAS 39, which was supplemented by the collective allowance for impairment.

At initial recognition, financial assets are categorised as stage 1 and an impairment provision is required for ECL resulting from default events projected within the next 12 months (12-month ECL). Where there is a significant increase in credit risk (SICR), an asset may be moved to stage 2 or stage 3, depending on the nature of the change in credit risk.

Investment securities, placements and deposits with banks are subsequently re-categorised as stage 2 or 3 where there are changes in the counterparty credit ratings, which are monitored on a regular basis, as well as payment history and other qualitative factors.

The Bank assesses exposures on net investment in finance to be in stage 2 when the accounts are more than one month past due or there has been a significant increase in the lifetime probability of default (PD) compared to initial recognition. The Bank considers both quantitative and qualitative factors based on early warning indicators and expert credit risk assessment when making the determination. For assets in stage 2, the ECL recognised is equal to the expected loss calculated over the life of the exposure, which is based on the contractual period over which the Bank is exposed to the credit risk.

Financial assets are included in stage 3 when there is objective evidence that the exposure is credit impaired, with expected credit losses still calculated on a lifetime basis. Objective evidence used to determine whether exposures are impaired includes, if they are more than 90 days past due or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). This is consistent with the definition of default used for internal credit risk management purposes. The impairment provision is determined using the same calculation as stage 2, but with the PD set to 100%.

ECLs are calculated at the individual exposure level using three main components, i.e. a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD). These are described further in note 4 on page 43.

Financial Assets	31 Dec 2017 Financing loss allowance / provision under IAS 39	Remeasurement on transition to IFRS 9	1 Jan 2018 Financing loss allowance under IFRS 9 (ECL) Stage 1	Stage 2	Stage 3	Total
Treasury placements and deposits with banks	-	2	2	-	-	**2**
Investment securities	-	12	12	-	-	**12**
Consumer Finance	23	-	-	-	23	**23**
CPF	159	476	299	336	-	**635**
HPP	1,228	(490)	374	304	60	**738**
Total	**1,410**	**-**	**687**	**640**	**83**	**1,410**

Where the Bank offers financing commitments to customers, the ECL model includes expected credit losses for the undrawn commitments based on the forecast drawdown profile.

The Bank does not hold any purchased or originated credit-impaired (POCI) assets.

Hedge accounting
The IFRS 9 hedge accounting requirements aim to simplify hedge accounting and permit application to a wider population of economic hedge relationships. IFRS 9 does not explicitly address macro hedge accounting strategies, which are particularly important for banks and building societies. As a result, IFRS 9 includes an accounting policy choice to continue applying the IAS 39 hedge accounting requirements. During the financial year ended 31 December 2018 and as at 31 December 2018, the Bank did not have any designated hedging instruments impacted by this accounting choice.

4. Significant accounting policies

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 of 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 £5m received on 1 February 2018 and a further £10m received on 28 June 2018. Further amounts of capital funding are forecast to be received in 2019 from the parent. Additionally, however, the Bank is profitable on a sustained basis and generates additional regulatory capital once these profits have been verified.

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

Fees and commissions
Fees 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.

Directly attributable fees relating to CPF deals and HPP transactions are recognised using an Effective Profit Rate (EPR) methodology as part of the amortised cost. The EPR model is a method of allocating income and expense over the expected life of the product. The model includes all fees relating to the transaction.

The effective fees recognised during the year from the EPR model are reflected in the income from financing assets. Fees and commissions not directly attributable to CPF deals and HPP transactions are recognised in the statement of comprehensive income and are included in fees and commission income or expenses.

Treasury placements and cash balances with banks
Treasury placements are recognised when the Company becomes party to the contractual provisions of the placement and qualify as financial instruments which are initially recognised at fair value and are subsequently measured at amortised cost.

Treasury placements are mainly Commodity Murabaha or Wakala transactions. 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.

Receivables under Commodity Murabaha contracts are recognised at fair value upon the sale of the commodity to the counterparty and subsequently measured at amortised cost. Receivables under Wakala contracts are recognised at fair value upon placement of funds with other institutions and subsequently measured at amortised cost.

Income from Treasury placements is recognised on an amortised cost basis using an effective profit rate. The effective profit 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 profit is established on initial recognition of the asset and is not revised subsequently.

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

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

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 payments received relating to the initial recognised amount, plus the cumulative amortisation using an effective profit 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 profit basis over the period of the contract. The effective profit 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 profit is established on initial recognition of the asset and is not revised subsequently.

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

Home Purchase Plans (HPP) and Commercial Property Finance (CPF)

HPP and CPF are provided using the Diminishing Musharaka (reducing partnership) and Murabaha principles of Islamic financing. The Bank enters into an agreement to jointly purchase a property and rental income is received by the Bank relating to the 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. HPP and CPF financing are recognised initially at fair value and subsequently at amortised cost.

A financial asset is recognised upon legal completion of the property purchase with the fair value at inception recognised as the receivable 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 and fees are included in the initial measurement of the receivable and the amount of income over the term is reduced. Rental income is recognised to provide a constant periodic rate of return on the Bank's net investment.

The Bank also undertakes syndicated financing activities in order to manage its exposure to individual counterparties or underlying collateral. Where financing is syndicated, the portion held by the Bank is recognised at fair value and subsequently measured on an amortised cost basis, with profits and impairments recognised in line with other home purchase or commercial property financing transactions. The portion to be syndicated will be measured at FVTPL in line with IFRS 9 from origination up to the point of syndication, where the balance will be derecognised upon transfer to any third parties.

Investment securities

Investment securities are non-derivative financial assets which are purchased for profit and 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 classified as FVOCI and are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at FVOCI. The cash flows received by the Bank are solely payments of principal and profit on the outstanding balance or sale proceeds in the event of a sale.

Gains and losses arising from changes in the fair value of investment security 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.

Deposits from banks and 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.

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 in 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. When the Bank completes a securitisation, management considers whether the assets securitised meet the derecognition criteria or should continue to be recognised.

Securitisation funding

When a securitisation is completed and the assets have not been derecognised under IFRS 9 due to the Bank retaining the risks and rewards of ownership, a liability is created in respect of the funds received from the securitisation offering, recognised initially at fair value and subsequently at amortised cost. The balance is recognised in the Statement of Financial Position as a liability, and amortised over time in line with expected cash flows from the securitised asset portfolio. Where additional capital payments are received, such as redemptions or prepayments, the outstanding liability is reduced by these amounts when they have been paid out to certificate holders.

Impairment of financial assets

Impairment of financial assets is based on a forward-looking expected credit loss (ECL) approach for financial assets classified as amortised cost and fair value through other comprehensive income. The ECL approach utilises historical information, current conditions and forecasts of future economic conditions to generate the expected credit loss for assets. Multiple economic scenarios are modelled and weighted as part of the ECL calculation using a variety of future economic assumptions, including a central scenario which is also used as the base for the Bank's forward planning. At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is required for ECL resulting from default events projected within the next 12 months (12-month ECL).

The Bank assesses exposures to be in stage 2 when the accounts are more than 30 days past due or there has been a significant increase in the lifetime probability of default (PD) compared to initial recognition. The Bank considers both quantitative and qualitative factors based on early warning indicators and expert credit risk assessment when making the determination. For assets in stage 2, the ECL recognised is equal to the expected loss calculated over the life of the exposure.

Financial assets are included in stage 3 when there is objective evidence that the exposure is credit impaired, with expected credit losses still calculated on a lifetime basis. Objective evidence used to determine whether exposures are impaired includes, if they are more than 90 days past due or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). Criteria of application is consistent with the definition of default used for internal credit risk management purposes. The impairment provision is determined using the same calculation as stage 2, but with the PD set to 100%.

The Bank does not hold any purchased or originated credit-impaired (POCI) assets, which would be classified separately from stage 1, 2 or 3 assets.

Assets in stage 2 or 3 can transfer back to stage 1 or 2 once the criteria which resulted in classification in stage 2 or 3 (significant increase in credit risk or impairment) are no longer met. For financing subject to other adverse events such as forbearance, accounts must first be up to date for a period of 90 days before they can transfer back to stage 1 or 2, with consideration taken of other qualitative and quantitative factors including credit ratings.

ECLs are calculated at the individual exposure level using three main components, which are described below:

Component	Definition
Probability of Default (PD)	The PD is the probability that within 12 months of the reporting date (for stage 1) or over the lifetime of the product (stage 2) a customer will default. The PD is based on individual customer details, adjusted for forward looking assumptions such as base rate and unemployment rates which may impact the credit risk of the customer.
Loss Given Default (LGD)	LGD is the loss expected to arise on default and represents the difference between the contractual cash flows due and the actual cash flows that Bank expects to receive after the default occurs. The EAD considers the recovery of any collateral that is linked to the financial asset, including the impact of forward-looking economic assumptions where relevant, see note 29.
Exposure at Default (EAD)	The EAD is based on the expected balance sheet exposure at the time of default, incorporating changes in the exposure over the lifetime of the customer, such as payments of principal and profit, prepayments and drawdowns of committed facilities.

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 sell. 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.

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.

Under IFRS 9, provisions relating to customer financing assets and other financial assets are recognised as part of the Expected Credit Loss model and assets are shown on a net basis on the Statement of Financial Position.

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

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.

Property and equipment
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 and required to bring the asset to its intended condition and location.

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.

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.

Intangible assets
Licences acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses. These are intangibles with a finite useful life.

Expenditure on internally developed software is recognised as an asset when the Bank is expected to be able to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs of 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 initially recorded as work in progress until completion, and then stated at total eligible cost less accumulated amortisation and impairment. An impairment assessment is performed when the project transfers from work in progress or at the date of initial capitalisation.

Subsequent expenditure on software assets and licences is capitalised when it meets recognition criteria. All other expenditure on software or 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.

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.

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.

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 which are available on demand or 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. Cash and cash equivalents exclude assets with original maturities greater than three months.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

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.

5. Critical accounting judgements and key sources of estimation uncertainties

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.

Management discusses 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.

Key judgements, estimations and uncertainties are set out below.

(a) Effective Profit Rate (EPR)

Income from financing assets recognised on an amortised cost basis is recorded using the effective profit rate method. The EPR method is the rate that exactly discounts the estimated stream of cash payments or receipts, without consideration of future credit losses, over the expected life (behavioural life) of the financial instrument.

The Bank has limited historical data for customer behaviours due to the relative immaturity of the portfolios. The Bank makes critical estimations on expected behavioural life and product switch behaviours based on their own expert judgement of the portfolio. These estimations are subject to changes in internal and external factors and may result in adjustments to the carrying value of financing assets which must be recognised to the profit or loss.

In 2018, management updated the estimates on expected behavioural life and product switch behaviours to incorporate additional customer information as the customer portfolios continue to mature and more data becomes available. The actual behaviour of the portfolios is compared to modelled behaviour on a regular basis as significant financing products and customer tranches mature. The forward-looking profit rates used during the expected life do not incorporate any impact from future base rate changes.

To assess the impact of the aforementioned estimations to the carrying value of the financing assets, various scenarios have been modelled to provide sensitivity analysis across the HPP product portfolio and the impact on the balance sheet as at 31 December 2018 from these sensitivities, and corresponding impact to profit is as follows:

Scenario	Profit impact (£'000s)
6 months increase in behavioural life – increase in profit	305
6 months decrease in behavioural life – reduction in profit	(355)
10% increase in proportion of customers on standard contractual reversion rate – increase in profit	166
10% decrease in proportion of customers on standard contractual reversion rate – reduction in profit	(160)

(b) Allowance for expected credit losses

Financial assets are evaluated for impairment on the basis described in note 4 under the IFRS 9 expected credit loss (ECL) model. Further details of related balances, as well as credit risk and credit risk assessment is provided in note 28 and note 29. The assessment of increases in credit risk and calculation of ECL are complex and both incorporate forward-looking information and require significant management judgement.

LGD: The LGD values incorporate local and macro-economic factors to determine the expected realisable value of collateral, including forecast house price changes and local market conditions which may impact asset values. There is estimation uncertainty in determining these values, as well as judgement applied in modelling the impact of customer behaviour such as prepayment rates, refinancing and additional funding drawdowns.

PD: The Bank applies judgement to estimate the PD based on customer credit risk and economic analysis. The definition of a default is an accounting judgement which is based on a combination of both regulatory definitions for overdue payments, as well as management judgement in respect of credit risk scores, the Bank's internal underwriting process and the impact of qualitative factors.

ECL: In order to estimate the ECL, assumptions are made to define the way inherent losses are modelled and to determine the appropriate input parameters, which are based on historical experience and current economic conditions. Judgements are applied in determining the economic forecasts used in the model, as well as the weighting of the alternative economic scenarios.

Judgement is required in determining the variables used for the forecast macroeconomic scenarios, as well as the weighting of each scenario and management overlay. The core judgements are in relation to future economic forecasts, including base rates, unemployment levels, house price movements, as well as the ability of the Bank to recover outstanding balances in default situations, net of associated costs of recovery.

The Bank has used five core scenarios to model the ECL based on different macroeconomic parameters. These scenarios are discussed in further detail in note 29, and sensitivity analysis has been performed showing the impact of the base case and moderate downturn scenarios against the ECL applied in the year.

A 'management overlay' has been added to the calculated ECL for the core financing asset portfolios (HPP and CPF) as at 31 December 2018. The management overlay relates to a number of factors which are not able to be captured in the underlying economic scenarios used in the model. The level of the management overlay has been based on historical information and trends observed by management, in order to capture these in the total provision. These primarily relate to the volatility in the CPF portfolio to staging due to the size of individual deals within the portfolio, where there is greater exposure to individual deals which may result in material movements to the provision where there are changes in individual credit risk, the continuing uncertainty over the impact of Brexit, which may not be fully captured by scenario modelling, and geopolitical uncertainty in the Middle East.

For the CPF element of the overlay, management has considered historical trends in the calculated ECL across recent periods and the impact of credit risk changes on individual deals to determine an overlay to reduce the volatility produced by the staging model. The Brexit and overseas elements of the overlay have been determined by considering the ECL calculated from additional scenarios modelling, including the PRA anchor stress scenario, and applying an overlay to incorporate an additional allowance relating to these uncertainties.

(c) Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2018 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated, against which losses can be utilised. In arriving at this conclusion, the Directors have applied judgement in respect of the future profitability of the Bank, economic circumstances, regulatory and the tax rate that will have an impact on the utilisation of these losses.

Management has performed sensitivity analysis on the estimated future profitability of the Bank and its impact on the recognition of deferred tax. A reduction in estimated future profits was assessed by stressing future profitability through applying haircuts. This sensitivity indicated that an additional deferred tax charge of £390k would result from a decrease in the deferred tax asset.

Additionally, another scenario was considered where all remaining losses were considered to be utilised against expected future profits. This scenario resulted in an additional deferred tax credit of £1.1m as a result of an increase to the deferred tax asset.

(d) Treatment of assets and liabilities included as part of the Tolkien sukuk

Management has applied judgement in respect of the issuance of the Tolkien sukuk (the "Sukuk") in February 2018 and the subsequent treatment of the securitised HPPs under IFRS 9. As the Bank retains exposure to the variability of cash flows, management has deemed that the HPPs should not be de-recognised and have continued to recognise the assets on the balance sheet.

A corresponding liability has been recognised relating to the obligation to pay proceeds received to the Sukuk noteholders. Further detail regarding this classification is included in note 14.

6. Net income from Islamic financing transactions

£'000s	2018	2017
Treasury placements	1,157	423
Consumer finance	1	2
Home Purchase Plan	38,125	27,765
Commercial Property Finance	20,297	19,498
Investment securities	3,481	2,931
Income from Islamic financing transactions	63,061	50,619
Deposits from banks	(1,835)	(1,653)
Deposits from customers	(23,633)	(17,028)
Returns to banks and customers	(25,468)	(18,681)
Net income from Islamic financing transactions	37,593	31,938

7. Net fees and commission income

£'000s	2018	2017
Fees and commission income		
Retail customer banking fees	1,287	844
ATM commission	94	84
Other	0	3
Total fees and commission income	1,381	931
Fees and commission expense	(3)	(21)
ATM interchange fees	(323)	(461)
Electronic transaction fees	(326)	(482)
Total fees and commission expense	1,055	449
Net fees and commission income	1,055	449

8. Staff costs

£'000s	2018	2017
Wages and salaries	15,035	11,696
Social security costs	1,257	905
Contributions to defined contribution pension plans	429	319
Other staff costs	66	105
Total	16,787	13,025

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

	2018			2017		
	Front Office	Back Office	Total	Front Office	Back Office	Total
Average for the period	112	134	246	104	111	215

9. Auditor's remuneration

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

£'000s	2018	2017
Audit of these financial statements	165	144
Audit related assurance services	58	18
Other assurance services	-	15
Corporate finance services	-	45
Other services	86	28
Total	309	250

10. Directors' emoluments

£'000s

2018	Salary	Bonus	Benefits in kind	Pension contributions	Total
S Choudhury	199	100	2	22	323
	199	100	2	22	323
2017					
S Choudhury	166	65	1	17	249
	166	65	1	17	249

The emoluments, consisting entirely of fees, of the non-executive Directors who served during the year were as follows:

£'000s	**2018**	**2017**
Adel Mohammed Tayeb Mustafawi	**24**	20
Ahmed Swaleh Abdisheikh	**35**	23
Malcolm Brookes	**56**	55
Richard Sommers	**51**	38
Robert Sharpe	**86**	81
Total	**252**	217

11. Tax

£'000s	**2018**	**2017**
Current tax expense:		
Current tax on profits for the year	**(63)**	(278)
Adjustment in respect of prior years	**7**	0
Current Year	**(56)**	(278)
Deferred Tax:		
Current year	**560**	(15)
Adjustment in respect of previous periods	**(24)**	178
Effect of changes in tax rates	**(166)**	(715)
Deferred tax credit / (charge)	**370**	(552)
Total income tax credit / (charge)	**314**	(830)
Reconciliation of effective tax rate:		
Profit before tax	**6,116**	9,450
Tax on profit at standard UK tax rate of 19% (2017: 19.25%)	**(1,162)**	(1,819)
Effects of:		
Adjustments in respect of prior years:	**(17)**	178
Expenses not deductible	**(31)**	(11)
Tax rate changes	**(167)**	(715)
Exempt amounts	**(33)**	(76)
Amounts not recognised	**1,460**	1,613
Items relating to fair value through OCI	**264**	-
Income tax credit / (charge)	**314**	(830)

- Information relating to deferred tax is presented in note 18.
- 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 2018 has been calculated using the applicable rates enacted at the balance sheet date.

12. Cash and cash equivalents

£'000s	2018	2017
Cash	2,327	2,692
Balances with banks available on demand	113,901	101,543
Treasury placements with original maturity less than 3 months	56,007	126,303
Total cash and cash equivalents	172,235	230,538

- As the Bank is a UK authorised institution, it is required to maintain a non-return bearing deposit with the Bank of England amounting to 0.18% of the average eligible liabilities in excess of £600 million, which is included as part of the balances with banks total above.

13. Treasury placements and cash balances with banks

£'000s	2018	2017
Repayable on demand	113,901	101,543
3 months or less but not repayable on demand	56,007	126,303
1 year or less but over 3 months	1,032	976
Total Treasury placements and cash balances with banks	170,940	228,822

- A breakdown of treasury placements and cash balances with banks by geographic regions is shown in note 29. Balances maturing in 1 year or less but over 3 months include a balance of £1,032,298 (2017: £976,187) 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 assets

£'000s	2018			2017		
	Gross amount	Impairment Allowance (IFRS 9)	Carrying amount	Gross amount	Impairment Allowance (IAS 39)	Carrying amount
Consumer finance	41	(23)	18	32	(23)	9
Home Purchase Plans	1,155,013	(856)	1,154,158	931,614	(1,228)	930,386
Commercial Property Finance	479,768	(779)	478,989	475,946	(159)	475,787

Impairment allowance on financing assets 2018 (IFRS 9):

£'000s	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January 2018	673	640	60	1,373
Charge for the year	192	81	(11)	262
Amounts written off during the year	-	-	-	-
Balance as at 31 December 2018	**865**	**721**	**49**	**1,635**

- The total 'movement in net impairment on assets' of £257,000 also includes a credit of £5,000 relating to other assets. On transition to IFRS 9, an opening balance adjustment was made to the impairment on financing assets, resulting in a reduction of £14,000 to the opening impairment allowance on financing assets as at 1 Jan 2018, and an increase of £14,000 to the opening impairment allowance on other assets. See Note 3 for further details on the transition to IFRS 9.

Impairment allowance 2017 (IAS 39):

£'000s	Specific provision	Collective provision	Total provision
Balance at 1 January 2017	35	1,239	1,274
Charge for the year	-	448	448
Amounts written off during the year	(35)	(277)	(312)
Balance as at 31 December 2017	**-**	**1,410**	**1,410**

- This impairment allowance relates to consumer finance, Home Purchase Plan and Commercial Property Finance calculated under IAS 39.

Interest in unconsolidated structured entity

The Bank completed the issuance of a Sukuk on 22 February 2018 through a special purpose vehicle (SPV), Tolkien Funding Sukuk No.1 Plc, to a number of third parties, backed by its beneficial interests in £250m of HPP financing originated by the Bank, which the Bank continues to service. These assets have been assessed for derecognition under IFRS 9 and an assessment has been made as to whether there is any requirement to consolidate the SPV under IFRS 10 'Consolidated Financial Statements'.

While the Bank has transferred a majority of the rights and interests in the portfolio assets as part of the issuance of the Sukuk, the Bank retains an exposure to variability in the present values of future cash flows of the finance through the retention of a share in the underlying portfolio, as well as potential trigger thresholds and options for asset repurchase events. The Bank also receives continuing fees relating to servicing arrangements for the portfolio. As the Bank continues to be exposed to the variability of cashflows as well as rights or potential obligations to repurchase the assets, it has been determined that the relevant derecognition criteria under IFRS 9 have not been met and the bank continues to recognise the assets alongside a liability relating to the proceeds received from the issuance of the instrument. A corresponding liability has been recognised in respect of amounts due to the Sukuk noteholders.

As the Bank is consolidated into its parent company, Masraf Al Rayan Q.P.S.C (MAR), the Bank has opted not to produce consolidated financial statements which include the SPV.

The Sukuk was issued on 22 February 2018, with total proceeds of £250,000,000. The final maturity date of the Sukuk is 20 July 2052, however as the underlying assets have the right to prepay capital amounts or settle outstanding balances ahead of scheduled maturity dates, the final maturity date of the Sukuk may be earlier than this date if all underlying financing investments have matured.

The profit rate paid out from inception to 31 December 2018 was three-month Sterling LIBOR plus a margin of 0.80% per annum, which is payable until the step-up date of 20 April 2021, at which point the margin will increase to 1.6% per annum.

As cash is swept on a daily basis from the Bank to the SPV which holds the certificates, there was no outstanding balance at year end.

Sukuk Financing capital movements

£'000s	
Balance at issuance, 22 February 2018	250,000
Principal payment during the year	(30,855)
Balance as at 31 December 2018	219,145

15. Investment securities

£'000s	2018	2017
Quoted Sukuk	139,846	154,207
	139,846	154,207

16. Property and equipment

£'000s	Computer Equipment	Office Equipment	Leasehold Improvements	Fixtures & Fittings	Land & Buildings	Total
Cost						
Balance at 1 January 2018	3,455	238	4,879	760	3,730	13,062
Additions	158	6	81	59	-	304
Balance at 31 December 2018	**3,613**	**244**	**4,960**	**819**	**3,730**	**13,366**
Depreciation						
Balance at 1 January 2018	3,013	161	3,238	459	79	6,950
Depreciation charge for the year	286	21	264	104	38	713
Balance at 31 December 2018	3,299	182	3,502	563	117	7,663
Net book value						
As at 31 December 2018	**314**	**62**	**1,458**	**256**	**3,613**	**5,703**
Cost						
Balance at 1 January 2017	3,281	177	4,692	741	3,709	12,600
Additions	174	61	187	19	21	462
Balance at 31 December 2017	3,455	238	4,879	760	3,730	13,062
Depreciation						
Balance at 1 January 2017	2,649	144	2,977	358	41	6,169
Depreciation charge for the year	364	17	261	101	38	781
Balance at 31 December 2017	3,013	161	3,238	459	79	6,950
Net book value						
As at 31 December 2017	442	77	1,641	301	3,651	6,112

- The Bank owns its operational headquarters and leases its branch premises under operating leases.

17. Intangible assets

£'000s	Computer licences	Purchased & developed software	Work in progress	Total
Cost				
Balance at 1 January 2018	**1,601**	**5,732**	-	7,333
Additions	**91**	**104**	2,546	2,741
Balance at 31 December 2018	**1,692**	**5,836**	2,546	10,074
Amortisation				
Balance at 1 January 2018	**1,393**	**5,224**	-	6,617
Amortisation charge for the year	**181**	**335**	-	516
Balance at 31 December 2018	**1,574**	**5,559**	-	7,133
Net book value as at 31 December 2018	**118**	**277**	**2,546**	**2,941**
Cost				
Balance at 1 January 2017	1,586	5,450	-	7,036
Additions	15	282	-	297
Balance at 31 December 2017	1,601	5,732	-	7,333
Amortisation				
Balance at 1 January 2017	1,167	4,934	-	6,101
Amortisation charge for the year	226	290	-	516
Balance at 31 December 2017	1,393	5,224	-	6,617
Net book value as at 31 December 2017	208	508	-	716

- Work in progress relates to the development of internal-use software projects, which will be transferred to 'purchased & developed software' when the software is capable of operating as intended.

18. Deferred tax asset

The movement on the deferred tax account is as follows:

£'000s	2018	2017
Asset at start of period	**5,545**	6,097
Adjustment in respect of prior years	**(24)**	178
Deferred tax credit / (charge) to profit for the period	**395**	(730)
Deferred tax asset as at 31 December	**5,915**	5,545

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

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 Bank had accumulated tax losses prior to 2014 of £66.8m, of which £31.9m have been utilised against tax profits in 2014 (£2.0m), 2015 (£5.3m), 2016 (£8.2m), 2017 (£7.3m) and 2018 (£5.3m). The Bank has an unrecognised deferred tax asset that will arise from remaining unutilised carried forward losses of £6.8m (2017: £14.5m).

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

19. Other assets

£'000s	2018	2017
Prepayments and other receivables	4,841	2,032
Total other assets	4,841	2,032

There are no receivables within other assets that are expected to be recovered in more than 12 months (2017: £nil).

20. Deposits from banks

£'000s	2018	2017
Repayable on demand	3,023	4,976
3 months or less but not repayable on demand	20,894	57,243
Total deposits from banks	23,917	62,219
Non-profit paying accounts	3,023	4,976
Profit sharing / paying accounts	20,894	57,243
Total deposits from banks	23,917	62,219

21. Deposits from customers

£'000s	2018	2017
Repayable on demand	863,692	923,131
3 months or less but not repayable on demand	169,307	193,079
1 year or less but over 3 months	351,790	300,820
2 years or less but over 1 year	162,640	162,409
3 years or less but over 2 years	27	17,217
Total deposits from customers	1,547,456	1,596,656
Comprising:		
Non-profit paying	317,855	329,063
Profit sharing / paying accounts	1,229,601	1,267,593
Total deposits from customers	1,547,456	1,596,656

22. Subordinated funding

£'000s	2018	2017
Subordinated funding	**25,000**	10,000
Total	**25,000**	10,000

Total returns paid on this funding for the year ended 31 December 2018 were £1,573,698 (2017: £620,274).

All returns were fully paid during the year and there was no outstanding payable as at 31 December 2018 (2017: £nil).

This facility was granted through an agreement dated 24 March 2017 negotiated on an arm's length basis with MAR. The contract is based on a Wakala agreement and expected profit is payable every 6 months. During the year, a further £5m was drawn down on 1 February 2018 and £10m on 28 June 2018. The maturity of the facility is greater than 5 years and qualifies as tier 2 capital for regulatory capital purposes.

23. Other liabilities

£'000s	2018	2017
Trade payables	**61**	170
Social security and income tax	**364**	279
Accruals	**6,448**	4,327
Other creditors	8,321	3,895
Total	**15,194**	8,671

24. Share Capital

Allotted, called up and fully paid	2018	2017
Issued ordinary share capital (12,121,870,000 ordinary shares of £0.01 each)	**121,219**	121,219

25. Operating leases

Future minimum lease payments for non-cancellable operating lease rentals are payable as follows:

£'000s	2018	2017
Less than one year	**1,021**	1,034
Between one and five years	**3,487**	3,670
More than five years	**656**	1,350
Total	**5,163**	6,054

During the year, there was £1,267,245 recognised in the statement of comprehensive income in respect of operating leases (2017: £1,103,561). As at 31 December 2018 the Bank has capital commitments in the form of non-cancellable operating lease rentals of £5.2m (2017: £6.1m). The leases typically run for 5 or 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.

The Bank also acquired the leasehold on a property adjacent to its headquarters during 2018 to support its continued growth.

26. Related parties

(a) Transactions with key management personnel

At 31 December 2018, Directors of the Bank and their immediate relatives have no shareholding in the Bank (2017: £nil).

Key management of the Bank are the Board of Directors and members of the Executive Committee. The compensation of key management personnel is as follows:

£'000s	2018	2017
Key management emoluments including social security costs	1,517	1,416
Bank contributions to pension plans	56	61
Total	1,573	1,477

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £1,739,711 as at 31 December 2018 (2017: £2,005,995). Total returns paid on these accounts during the year were £8,324 (2017: £6,137).

Outstanding consumer finance and Home Purchase Plan balances relating to key management personnel and immediate relatives totalled £399,370 as at 31 December 2018 (2017: £534,835). No specific impairment has been recognised in relation to the outstanding financing provided to related parties.

Returns recognised during the year for these accounts were £9,106 (2017: £19,925). All consumer finance account facilities taken by key management personnel and staff were offered in line with standard customer terms and conditions.

(b) Transactions with ultimate parent company

Masraf Al Rayan Q.P.S.C (MAR) owns 70% and Qatar Holding LLC incorporated in Doha, Qatar owns 30% of Al Rayan (UK) Ltd which in turn owns 98.34% of Al Rayan Bank PLC. The remaining 1.66% is owned by other minority Shareholders.

MAR prepares consolidated financial statements and the Bank's results are only reported in their statement. These statements are available to the public.

	Less than 1 month	1-3 months	Less than 1 month	1-3 months
£'000s	2018	2018	2017	2017
Placements with MAR	17,820	7,820	48,447	-
Deposits from MAR	-	26,343	1,778	-

As at 31 Dec 2018 there was an outstanding subordinated financing balance payable to MAR of £25m (2017: £10m). See note 22 for further details of this facility.

27. Assets and liabilities denominated in foreign currency

Assets denominated in US Dollars (USD) and Euro (EUR) are included within treasury placements, cash balances with banks, financing assets and investment securities.

Deposits denominated in USD and EUR are included within deposits from banks and customers.

£'000s equivalent	USD	EUR
2018		
Assets	155,232	33,175
Deposits	155,247	33,521
2017		
Assets	177,588	5,087
Deposits	179,431	5,186

The Bank manages its foreign currency exposure within its set risk appetite. As at 31 December 2018 the Bank's net foreign currency exposure was immaterial.

28. Financial Instruments

On transition to IFRS 9, the Bank has elected not to restate prior year comparatives for the changes in Financial Instruments relating to IFRS 9 as allowed under the standard. The information below is presented under IFRS 9 for the year ending 31 December 2018 and under IAS 39 for the year ending 31 December 2017.

A summary of the impact of the transition to IFRS 9 is included in note 3 of these accounts.

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

Categories of financial instruments (IFRS 9)

£'000s	Amortised Cost	Fair Value through OCI	Other liabilities at amortised cost	Total carrying amount
At 31 December 2018				
Cash	2,327	-	-	2,327
Treasury placements and balances with banks	170,940	-	-	170,940
Consumer finance	18	-	-	18
Home Purchase Plans	1,154,158	-	-	1,154,158
Commercial Property Finance	478,989	-	-	478,989
Investment securities	-	139,846	-	139,846
	1,806,432	139,846	-	1,946,277
Deposits from banks	-	-	23,917	23,917
Deposits from customers	-	-	1,547,456	1,547,456
	-	-	1,571,373	1,571,373

Categories of financial instruments (IAS 39)

£'000s	Financing and receivables	Available-for-sale financial assets	Other liabilities at amortised cost	Total carrying amount
At 31 December 2017				
Cash	2,692	-	-	2,692
Treasury Placements and balances with banks	228,822	-	-	228,822
Consumer finance	9	-	-	9
Home Purchase Plans	930,386	-	-	930,386
Commercial Property Finance	475,787	-	-	475,787
Investment securities	-	154,207	-	154,207
	1,637,696	154,207	-	1,791,903
Deposits from banks	-	-	62,219	62,219
Deposits from customers	-	-	1,596,656	1,596,656
	-	-	1,658,875	1,658,875

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.

As at 31 December 2018 the only financial assets or financial liabilities which were subsequently measured at fair value after initial recognition were the investment securities held for the purpose of collecting contractual cash flows and for selling, measured at FVOCI. All of these assets are Level 1 in the fair value hierarchy.

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

£'000s	Level 1	Level 2	Level 3	Total
Investment securities	139,846	-	-	139,846
As at 31 December 2018	139,846	-	-	139,846
Investment securities	154,207	-	-	154,207
As at 31 December 2017	154,207	-	-	154,207

29. Financial risk management

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

a) Credit risk
b) Liquidity risk
c) Market risk
d) Concentration risk
e) Capital management

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 (RMF)
The Board of Directors has overall responsibility for the establishment of the Bank's Risk Management Framework with robust oversight provided through the Board Risk Committee (BRC). The Bank has established the Asset & Liability (ALCO) and Executive Risk Committee (ERC), supported by other sub-committees such as the Credit Committee, which together 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 Management Credit Committee and the Executive Risk Committee. A separate Credit department and Credit Risk Committee (sub-committee of ERC), reporting to the Chief Risk Officer is responsible for oversight of the Bank's credit risk, including:

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

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

(ii) Exposure to credit risk

At initial recognition, financial assets are categorised as stage 1 and an impairment provision is required for ECL resulting from default events projected within the next 12 months (12-month ECL). Where there is a significant increase in credit risk (SICR), an account may be moved to stage 2 or stage 3, depending on the nature of the change in credit risk.

The Bank considers a financial instrument to have experienced a SICR when one or more of the following criteria have been met:

- there is a significant decrease in credit score relative to the credit score at time of origination, or significant movement in the customer credit scorecard;
- a customer enters arrears of greater than 30 days for stage 2, or 90 days for stage 3;
- For HPP customers, if the credit score drops below the Bank's minimum underwriting standards for the type of exposure, the exposure will be deemed to be in stage 2;
- For CPF customers, where breaches of covenants are noted customers may be moved to stage 2 or 3 in combination with other qualitative and quantitative factors;
- there is a significant change in credit rating from benchmark providers for other placements, sukuk or other investments. The nature and magnitude of the change in credit rating, along with other qualitative factors, will determine whether the asset is moved to stage 2 or 3.

These thresholds have been applied across the Bank's financing portfolio, alongside qualitative considerations on a per financing deal basis. These qualitative factors may lead to additional monitoring of customers to facilitate the early identification of potential problems which may lead to an increase in credit risk, and may include the following criteria, depending on segment and sector: short-term forbearance; extensions to the terms granted; significant adverse changes in business; early signs of cash flow or liquidity problems or significant change in collateral value.

For assets in stage 2, the ECL recognised is equal to the expected loss calculated over the life of the exposure. Financial assets are included in stage 3 when there is objective evidence that the exposure is credit impaired, with expected credit losses calculated on a lifetime basis. The impairment provision is determined using the same calculation as stage 2, but with the PD set to 100%. Criteria of application is consistent with the definition of default used for internal credit risk management purposes.

A 90-day cure period is also applied to each stage for CPF and HPP customers, which may delay the transition of financing to a lower credit risk classification (e.g. from stage 3 to stage 2), where sustained performance is required before financing is reclassified. This means that financing may be held in stage 2 or 3 despite being considered as a performing asset at the reporting period date as they have not yet exited the cure period.

ECLs are calculated at the individual exposure level using three main components, i.e. a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD). This is described further in note 4 on page 43.

The Bank has used five scenarios to support its assessment of ECL for its core financing asset portfolios; these includes a base view, and four alternative base cases representing optimistic and pessimistic outcomes. The Bank also conducts stress testing of more extreme economic variables to determine the potential impact of significant economic shocks as part of its overall sensitivity and risk analysis and for regulatory purposes, which do not factor into the model.

Total financing assets and ECL at 31 December 2018

Treasury placements and deposits with banks	Investment grade £'000s	Below investment grade £'000s	Unrated financial assets £'000s	Total (Gross) £'000s	ECL £'000s	Total (Net) £'000s	Coverage (%)
- Stage 1	170,941	-	-	170,941	1	170,940	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**170,941**	**-**	**-**	**170,941**	**1**	**170,940**	**0.00%**
Investment securities							
- Stage 1	141,242	-	-	141,242	8	141,234	0.01%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**141,242**	**-**	**-**	**141,242**	**8**	**141,234**	**0.01%**
Home Purchase Plans							
- Stage 1	-	-	1,049,869	1,049,869	560	1,049,309	0.05%
- Stage 2	-	-	102,875	102,875	247	102,628	0.24%
- Stage 3	-	-	2,270	2,270	49	2,221	2.14%
Total	**-**	**-**	**1,155,014**	**1,155,014**	**856**	**1,154,158**	**0.074%**
Commercial Property Finance							
- Stage 1	-	-	459,235	459,235	305	458,930	0.07%
- Stage 2	-	-	20,533	20,533	474	20,060	2.31%
- Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**479,768**	**479,768**	**779**	**478,989**	**0.16%**
Consumer Finance							
- Stage 1							0.00%
- Stage 2	-	-	1	1	-	1	-
- Stage 3	-	-	-	-	-	-	57.50%
Total	-	-	40	40	23	17	**55.00%**
	-	**-**	**41**	**41**	**23**	**18**	
Total Financial Assets							
- Stage 1	312,183	-	1,509,105	1,821,288	874	1,820,414	0.05%
- Stage 2	-	-	123,409	123,409	721	122,687	0.58%
- Stage 3	-	-	2,310	2,310	72	2,238	3.11%
Total	**312,183**	**-**	**1,634,823**	**1,947,006**	**1,667**	**1,945,339**	**0.09%**

Of the £123.4m of total gross financial assets in stage 2 that have experienced a significant increase in credit risk, £16.7m are included in stage 2 due to arrears of 30 days or more past due, and the remaining £106.7m are included in stage 2 due to non-arrears factors which have impacted the credit risk, including other qualitative factors taken into consideration as part of the Bank's credit assessment.

The Bank does not hold any purchase or originated credit-impaired (POCI) assets. Investment grade financial assets have a minimum rating of BBB-.

A reconciliation of movements in the ECL from the opening position as at 1 January 2018 to the closing position as at 31 December 2018 for customer financing products (Home Purchase Plans and Commercial Property Finance) is set out below:

	Stage 1		Stage 2		Stage 3		Total	
Customer financing - HPP and CPF £'000 At 1 Jan 2018	**Gross carrying amount 1,264,349**	**ECL allowance 673**	**Gross carrying amount 143,974**	**ECL allowance 640**	**Gross carrying amount 1,758**	**ECL allowance 60**	**Gross carrying amount 1,410,081**	**ECL allowance 1,373**
ECL on consumer financing matured/ redeemed during the period	(193,788)	(123)	(21,485)	(146)	-	-	(215,273)	(269)
Transfers of financial instruments:								
Transfers from Stage 1 to Stage 2	(25,529)	(8)	25,529	8	-	-	-	-
Transfers from Stage 2 to Stage 1	66,813	210	(66,813)	(210)	-	-	-	-
Transfers to Stage 3	(568)	(1)	-	-	568	1	-	-
Transfers from Stage 3	-	-	-	-	-	-	-	-
Net transfers	**40,716**	**201**	**(41,284)**	**(202)**	**568**	**1**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage	-	(188)	-	36	-	11	-	(141)
Net new financing/payments and remeasurement of continuing customer ECL	397,827	302	42,203	393	(56)	(23)	439,974	672
At 31 Dec 2018	**1,509,104**	**865**	**123,408**	**721**	**2,270**	**49**	**1,634,782**	**1,635**
ECL income statement (charge)/release for the period on customer financing		(192)		(81)		11		(262)
ECL movements on other assets								5
Total income statement (charge)/ release in ECL provision for the period on assets								**(257)**

The ECL adjustment for assets matured or redeemed during the period reflect accounts where the product term has either expired, or the customer has left the Bank during the year, and to whom the Bank no longer has exposure.

The transfers of financial instruments relate to accounts which have moved between the stages from the prior period end date to the current period end date only, and do not include any accounts which may have moved stage within the year and then moved back or cured. The transfer adjustment reflects the prior year closing ECL balance. The remeasurement of the ECL reflects all of the accounts which have transferred into the stage and shown on an aggregated basis.

The new financing ECL is the ECL which has been determined for customers who joined the Bank during the year and are still with the Bank at the end of the year. Customers who joined and left within the year are not shown in the above table as the Bank does not retain any exposure to these customers.

The impact of remeasurement of ECL represents the change in the ECL for all customers and accounts which are not captured in the above categories. These are customers or accounts which have not changed stage and have remained with the Bank throughout the year. These ECLs are impacted by macroeconomic factors such as changes in house prices, as well as customer repayments or additional drawdowns, and the remeasurement may result in increases or decreases in ECL balances for these customers year on year.

The movement in the ECL allowance during the year has been due to revisions to the ECL model inputs, primarily LGD and PD, to reflect updated economic circumstances and reflect changes in the Bank's product and customer mix, product margins and changes to the Bank of England current and forecast base rates. Increases in product rates and worsening economic forecasts, including GDP growth and unemployment rates, are expected to increase the PD of customers and the ECL, while a decrease in rates and improved economic forecast would reduce the PD. A decrease in house prices would increase LGD, while an increase in house prices would reduce LGD.

The impact of the economic variables varies according to the portfolio. HPPs are most sensitive to house prices, base rates and margins, while CPF is more sensitive to economic conditions and unemployment rates.

Sensitivity analysis:

The key assumptions in the ECL models are unemployment expectations, forecast house price growth and changes in the base rate. The ECL is calculated on a per customer basis, incorporating local indexation, with adjustments made to incorporate additional risk factors in geographical locations which are expected to have a greater reaction to changes in economic circumstances.

The ECL calculation incorporates five economic scenarios which have been weighted according to considered likelihood. The table below shows the average values of the key variables used within the base case scenario, based on a 5-year average:

3 Month LIBOR	0.9%
Annual Unemployment	4.7%
Annual House Price Index (HPI) Growth	4.0%

The base case scenario represents the most likely economic forecast and is aligned with the assumptions used in the Bank's financial planning processes. The upturn and downturn economic scenarios are viewed as less likely and are weighted accordingly in the model.

Scenario	Weighting
Base case	40%
Moderate downturn – increase in unemployment, reduction in HPI	10%
Downturn – large increase in unemployment, reduction in HPI	20%
Slight upturn – small decrease in unemployment, increase in HPI	20%
Strong upturn – large decrease in unemployment, strong increase in HPI	10%

The alternative scenarios are calculated by modifying the base case, and these are designed to be cyclical, reverting to the base case scenario from the third year.

The model is particularly sensitive to changes in house prices and the unemployment rate. These are the most significant inputs in the model and there is a significant degree of judgement in these variables. The impact of incorporating the PRA's anchor stress HPI assumptions in the downturn scenarios with no change in scenario weightings, to reflect a more negative scenario, is shown below.

31 December 2018	Weighted scenario ECL, with overlay	Base case ECL scenario, no overlay	Negative scenario incorporating PRA anchor stress
	£'000	£'000	£'000
HPP	856	803	1,045
CPF	779	643	812
Total	1,635	1,446	1,857

Prior year information under IAS 39:

The table below sets out information about the credit quality of financial assets and the allowance for impairment / loss held by the Bank against those assets as disclosed under IAS 39 as at 31 December 2017:

£'000s	Consumer finance	CPF	HPP	Total
Financial assets that were past due but not impaired				
31-60 days	-	147	22,338	22,485
61-90 days	-	-	976	976
90+ Days	-	-	783	783
	-	147	24,097	24,244
Financial assets not past due and not impaired	32	475,799	907,517	1,383,348
	32	475,799	907,517	1,383,348
Gross Amount	32	475,946	931,614	1,407,592
Collective allowances for impairment	(23)	(159)	(1,228)	(1,410)
Carrying amount	9	475,787	930,386	1,406,182

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.

£'000s	Note	Treasury placements and deposits with banks	Investment securities	Consumer finance	CPF	HPP	Total
2017							
Investment grade financial assets	13/15	228,822	154,207	-	-	-	383,029
Below investment grade		-	-	-	-	-	-
Unrated financial assets	14	-	-	32	475,946	931,614	1,407,592
Specific allowances for impairment	14	-	-	-	-	-	
Collective allowances for impairment	14	-	(23)	(159)	(1,228)	(1,410)	
Carrying amount as at 31 December 2017		228,822	154,207	9	475,787	930,386	1,789,211

Specific and collective allowances for impairment above have been determined based on the relevant criteria under IAS 39 for the year ended 31 December 2017. See note 3 for a reconciliation between the 31 December 2017 impairment provisions under IAS 39 and the 1 January 2018 ECL provision under IFRS 9.

(iii) Write-off policy

The Bank writes off a balance (and any related allowances for impairment) when the Credit Risk 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.

In 2018, £nil (2017: £294,000) of financing assets were written off.

(iv) Collateral

The Bank holds collateral against secured financing made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and are updated on a periodic basis. The estimated fair value of collateral held against financial assets as at 31 December 2018 is £3,136m (2017: £2,676m).

Home Purchase Plan exposure by FTV band:

FTV band	Gross exposure	ECL Total	Net balance	ECL coverage
	£'000	£'000	£'000	
<=60%	473,428	147	473,282	0.031%
60%-70%	392,997	382	392,615	0.097%
70%-80%	237,973	248	237,725	0.104%
80%+	50,615	79	50,536	0.157%
Total	1,155,014	856	1,154,158	0.074%

(v) Concentration of credit risk

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

Concentration by sector:

£'000s

2018	Individuals	Corporate	Bank	Total
Treasury placements and balances with banks	-	-	170,940	170,940
Investment securities	-	134,137	5,709	139,846
Consumer finance	18	-	-	18
Home Purchase Plans	1,154,158	-	-	1,154,158
Commercial Property Finance	25,454	453,535	-	478,989
2017				
Treasury placements and balances with banks	-	-	228,822	228,822
Investment securities	-	138,354	15,853	154,207
Consumer finance	9	-	-	9
Home Purchase Plans	930,386	-	-	930,386
Commercial Property Finance	25,667	450,120	-	475,787

Concentration by location:

£'000s	UK	Europe	Asia	Middle East	Total
2018					
Treasury placements and balances with banks	**145,300**	**-**	**-**	**25,640**	**170,940**
Investment securities	**45,090**	**-**	**35,691**	**59,064**	**139,846**
Consumer finance	**18**	**-**	**-**	**-**	**18**
Home Purchase Plans	**1,153,932**	**226**	**-**	**-**	**1,154,158**
Commercial Property Finance	**477,112**	**1,877**	**-**	**-**	**478,989**
2017					
Treasury placements and balances with banks	151,980	-	-	76,842	228,822
Investment securities	45,941	-	30,083	78,183	154,207
Consumer finance	9	-	-	-	9
Home Purchase Plans	930,152	234	-	-	930,386
Commercial Property Finance	473,921	1,866	-	-	475,787

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 2018, 49 of the facilities within the secured finance portfolios were in arrears (31 December 2017, 28).

(b) Liquidity risk

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

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

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

Residual contractual maturities of financial liabilities

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.

A breakdown of the Bank's Treasury placements by maturity date is shown in note 13.

£'000s	Note	Carrying amount	Gross maturity outflow	Less than 1 month	1 - 3 months	3 months - 1 year	1 year - 2 years	2 years - 3 years
2018								
Deposits from banks	**20**	**23,917**	**23,985**	**22,642**	**1,344**	**0**	**0**	**0**
Deposits from customers	**21**	**1,547,456**	**1,713,185**	**1,084,626**	**77,024**	**358,289**	**166,971**	**26,275**
		1,571,373	**1,737,170**	**1,107,268**	**78,368**	**358,289**	**166,971**	**26,275**
2017								
Deposits from banks	20	62,219	62,327	62,327	-	-	-	-
Deposits from customers	21	1,596,656	1,619,000	1,017,722	103,220	309,249	170,536	18,274
		1,658,875	1,681,327	1,080,049	103,220	309,249	170,536	18,274

(c) Market risk

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

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

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

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

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

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

Standard scenarios that are considered monthly include a 2.00% 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

This looks at the 12-month rolling impact of the Banks's income and expenditure account in the event of a rate shift. The income statement impact is measured by flexing the Bank of England base rate (BBR) and measuring the profits arising from the rate shift.

£'000s	2.00% parallel increase	2.00% parallel decrease
31 December 2018	**4,184**	**(1,162)**
31 December 2017	7,762	(1,613)

2% increase - Rate rise from 0.75% BBR to 2.75%

2% decrease - Rate drop from 0.75% but rate drop is capped to a floor rate of 0% (i.e. a drop of 0.75%)

Economic Based Approach

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.

£'000s	2.00% parallel increase	2.00% parallel decrease
31 December 2018	**3,008**	**(1,566)**
31 December 2017	(2,479)	1,308

Basis risk

Basis risk assesses the impact of a 0.5% widening of profit reference rates (BBR vs LIBOR) used as a basis for asset and liabilities pricing measured over a 12-month period.

The maximum negative impact is shown right:

£'000s	0.5% widening
31 December 2018	**1,102**
31 December 2017	322

(d) Concentration risk

Concentration risk is the risk of loss arising from inadequate diversification of credit risk across sectors. The risk arises due to exposure to 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. Concentration limits are set for customers. 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 required parameters set out in the EU's Capital Requirements Regulation (CRR), together with local rules and guidance set by the PRA, 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.

Regulatory capital is analysed as below;

- Tier 1 capital, (the Bank's Tier 1 wholly comprises of CET1 capital), includes ordinary share capital, share premium, AFS reserve, deficit earnings, less intangible assets, additional value adjustments and deferred tax.
- Tier 2 capital, includes subordinated funding

The PRA has reviewed and evaluated the ICAAP and has provided the Bank with its Individual Capital Requirement (ICR) to be met. The PRA sets out ICR for all banks operating in the United Kingdom by reference to its Capital Resources Requirement and monitors the available capital resources in relation to the ICR requirement. The Bank's capital requirements are monitored by the Executive team and the Board.

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:

£'000s	2018	2017
Tier 1 capital		
Total equity	134,966	128,765
Less intangible assets	(2,941)	(716)
Less deferred tax	(5,915)	(5,545)
Less additional value adjustments	(140)	-
	125,970	122,504
Tier 2 capital		
Subordinated funding	25,000	10,000
Collective allowances for impairment	-	1,411
Total regulatory capital	150,970	133,915

30. Events after the reporting period

There were no events after the reporting period.

31. Contingent liabilities

The Bank has issued guarantees in respect to the Tolkien Funding Sukuk No.1 Plc which may require it to repurchase assets from the funding pool if certain conditions or thresholds are met with respect to either individual securitised assets, or across the pool of assets as a whole. These repurchase events are described in full in the Tolkien Funding Sukuk No.1 Plc prospectus, available from https://www.centralbank.ie.

A repurchase event would give rise to a cash outflow for the Bank to the SPV. The Bank's liability to the Sukuk noteholders is already recognised on the balance sheet as Sukuk Funding, and these repurchase events are expected to only alter the timing of capital repayments to the SPV, and not materially impact the value of the outstanding Sukuk Financing liability.

As noted in the Chairman's statement, the Bank's AML processes and controls have been placed under formal review by the Financial Conduct Authority. At the date of signing these financial statements, the review remains on-going. As such, the final outcome is not yet known and no provisions are held in relation to this matter, albeit a future outflow of economic benefit remains possible.

32. Country by Country reporting

The Bank is required as a CRD IV regulated institution to disclose annually under UK legislation the following information:

- Name(s), nature of activities and geographical location
- Turnover
- Number of employees on a full-time equivalent basis
- Profit or loss before tax
- Tax on profit or loss
- Public subsidies received

Name, nature of activities, and geographical location Providing Sharia compliant banking services in the UK.	**Al Rayan Bank PLC**
Turnover (£'000s)	**£64,116**
Number of employees on a full-time equivalent basis	**246**
Profit or loss before tax (£'000s)	**£6,116**
Tax (credit) on profit (£'000s)	**(£314)**
Public subsidies received	**£0**

33. Ultimate parent company

The Bank's immediate parent company is Al Rayan (UK) Limited, 44 Hans Crescent, London, SW1X 0LZ, a company registered in the United Kingdom, which does not prepare group financial statements. The Bank's ultimate controlling parent company is Masraf Al Rayan (Q.P.S.C.), a company registered in Doha, Qatar and which prepares group financial statements, which is the smallest and the largest group. The group financial statements include the Bank and the Bank's immediate parent company.

Copies of the group financial statements, in English, can be obtained from http://www.alrayan.com/en/Annual-Reports or from PO Box 28888, Doha, Qatar.

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AL RAYAN BANK

Banking you can believe in

Al Rayan Bank PLC
PO Box 12461, Birmingham, B16 6AQ, United Kingdom

Contact
0808 252 7898 (UK)
0044 129 889 0137 (overseas)

alrayanbank.co.uk