AL RAYAN BANK

Annual Report and Financial Statements

For the year ended 31 December 2019

Al Rayan Bank PLC | Registered number 4483430

Banking you can believe in

alrayanbank.co.uk

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Banking you can believe in

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 largest and most well established 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 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's Board of Directors has delegated responsibility for day to day management to the executive team, led by the Chief Executive Officer.

Over the past 15 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 via 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.


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Chairman's statement

At the time of writing this statement, in the Spring of 2020, the primary source of uncertainty is the global Covid-19 pandemic and the very proper, consequential measures taken to contain it which will cause major disruption to business. The immediate and significant shutdown of large parts of the UK and world economy is unprecedented, but the medium and long term impact is still uncertain. The impact on the Bank is therefore highly unpredictable. However, our own stress testing and resilience planning place the Bank in a strong financial and operational position to deal with this challenge. Whilst the duration and severity of the resultant downturn remain to be seen, the Bank continues into 2020 in as good a place as possible to both weather the storm and support our customers through this difficult period.

It has been just over a year since I became chairman of Al Rayan Bank, and in that time I have been hugely impressed by the dedication, determination and ability of management and employees alike.

As the UK's largest and longest-established Sharia-compliant bank, Al Rayan Bank occupies a unique position in the UK financial system. Everyone within the organisation is fully aware of the considerable responsibilities that come with this distinctive role, and of how they can play their part in the continuing evolution of the Bank.

The 2019 financial year was an important one for a number of reasons. In particular, we were pleased to celebrate the 15th anniversary of becoming the first Islamic retail bank to be licensed in a non-Muslim country. The Bank has developed significantly since its inception in 2004 and now serves over 90,000 customers throughout the UK and beyond.

In terms of what this means on the ground, the Bank commissioned an economic impact study, which calculated that it contributes £389m to the UK national economy and supports 636 jobs nationwide. The study estimated that, by 2022, the economic impact of the Bank will have almost doubled to £719m.

On financial performance, the £6.49m profit before tax for 2019, slightly up on the previous year, continued the trend of annual profitability achieved since 2014, providing further validation of the Bank's business model. Total assets increased by 14.3% to £2.25bn (2018: £1.97bn) while total liabilities were 14.7% higher at £2.10bn (2018: £1.83bn).

The size of our asset book is a significant achievement considering that just four years ago we celebrated passing the £1bn milestone.

Whilst this growth is hugely positive and emphasises the strong demand that exists for Islamic financing in the UK, the Board also acknowledges that balance sheet expansion brings with it certain challenges.

Last year we undertook our biggest-ever customer remediation programme to improve our Anti Money Laundering (AML) processes and controls. This exercise was a significant undertaking, not only for colleagues but also at times for customers. Whilst this is underway, the Bank has agreed to restrict its onboarding of certain categories of customers. I am very pleased to report that the first phase of the programme, which contained a number of deliverables, is now complete.

Preventing financial crime and strengthening our controls remains the number one priority for the Bank and we are looking forward to completing the remaining phase of the programme in 2020. The Board remains committed to a programme of investment designed to ensure that our people are fully equipped and our systems and processes sufficiently robust to support the next stage of the Bank's development.

Earlier this year, the Board was pleased to confirm the appointment of its new Chief Executive Officer, Peter Horton. Mr Horton is ideally placed to build on the excellent work that interim Chief Executive Officer, Ahmed Sheikh, has led since the departure of Sultan Choudhury in April last year.

The Bank has also significantly strengthened its executive and senior management team in 2019 and 2020 with several highly experienced appointments. Together, the Board believes it has the necessary expertise and ambition to lead the Bank into the next phase of its growth and development.

Meanwhile, the Bank successfully launched its new mobile banking app and at the time of writing almost 14,000 of its personal customers bank with us through this channel. The app significantly improves the security of our customers' accounts, meets new regulatory standards, and provides a substantial upgrade to our customer service.

The Bank also successfully completed its 'Open Banking' project, which allows the use of open application programming interfaces (APIs), enabling third-party developers to build applications and services around Al Rayan Bank.

In addition, the Bank recently migrated its core banking systems to a new private data centre. The new IT infrastructure will increase the Bank's IT capacity and capability, helping to support our operational resilience and equip us for future growth in line with customer demand.

During the year the Bank was the subject of several false, unsubstantiated and politically motivated media articles. I am pleased to report that the impact to the Bank has been limited, as demonstrated by this strong set of results.

Nevertheless, I feel compelled to reiterate that Al Rayan Bank does not, never has, and never will support any organisation, individual or event that promotes extreme or violent views or ideologies, and that the Bank is a fully independent UK bank controlled by its Board of Directors and regulated by the PRA and the FCA. Furthermore, Al Rayan Bank only provides services to organisations which are authorised to operate under UK law and regulations.

Al Rayan Bank continues to recognise the critical importance of our people in all that we do and want to achieve. The Bank is proud to be an 'Investors in People' Silver organisation, as well as being a National Living Wage Employer.

The Board is committed to ensuring our people are provided with the platform to succeed and we were pleased to support a range of activities, aligned to the United Nations Sustainable Development Goals (UNSDGs), designed to improve diversity and inclusion within the Bank.

As a Board, we also want the Bank to play its part in tackling the very real threat of climate change, which is why, in 2019, we approved a series of wide-ranging environmental initiatives. These include ensuring all energy consumed at the Bank's facilities comes from renewable sources – such as wind, solar or hydro - by 2021, and eliminating single-use plastics by the end of this year.

We continue to offer the most extensive range of Sharia compliant banking products and banking services to our customers – whether they are Muslims wanting to bank in accordance with their faith, people of other faiths, or people of no faith at all.

The enduring appeal of the product range was demonstrated by the phenomenal success of the new Everyday Saver instant access savings account which was launched in September 2019, and generated over £100m in funds in less than three weeks – a record for the Bank and a visible demonstration, if one were needed, that customers consider Al Rayan Bank a strong and trusted brand for their savings.

Outlook

When looking ahead during 2019, the main challenge on the horizon appeared to be Brexit, and the considerable uncertainty around how the UK would align with the EU following the agreement of a trade deal.

We had completed a detailed assessment of the potential impact on the Bank of these uncertainties, including running additional and more severe stress tests. Based on the results of these tests, and considering the specific profile of our assets, customers and counterparties, we were confident that the Bank was well-positioned to deal with a period of continued uncertainty or volatility which may have arisen as a result of Brexit.

Since the year end however, the primary external factor affecting the outlook has switched to Covid-19, and the effect of the measures taken to contain it on the economy. However, the same features which provided resilience to Brexit uncertainty place the Bank in a strong position to deal with any challenge, no matter the cause.

Beyond the current situation, while the Bank continues to operate in an increasingly competitive environment for both our savings and financing products, we are confident that we can continue to provide focused and competitive products for our customers without compromising on our Sharia governance service, regulatory or risk management needs.

On behalf of the entire Board, I would like to thank MAR, our parent bank, for its continued support and vision for the Bank.

I would also like to express my gratitude to all our other stakeholders including the Sharia Supervisory Committee (SSC) of scholars for their guidance and, of course, all our colleagues for their dedication and determination in delivering against the Bank's objectives in 2019.

Simon Moore
Chairman
11 May 2020

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 2019 to 31 December 2019

We have reviewed the documentation relating to the products and transactions entered into by Al Rayan Bank PLC for the period from 1 January 2019 to 31 December 2019.

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 16 Sharia compliance audit issues rated as C . 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 2019 to 31 December 2019, was satisfactory.

Therefore, based on the Sharia Compliance Audit Report of our representative and representations received from the management, in our opinion, the transactions and the products entered into or offered by the Bank during the period from 1 January 2019 to 31 December 2019 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. The amount of zakat due per share is £0.0003.

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
11 May 2020

[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 SSC guidelines

Strategic report

As noted in the Chairman's statement, the period since the year end has been dominated by the global outbreak of Covid-19, and the actions taken by Governments around the world to contain it. These events have altered the outlook for the UK economy, and consequently the Bank, to a considerable extent. Further details of the impact on the outlook for the Bank are laid out on Page 18, but on the basis of detailed forecasts and stress testing, the Board remains confident that the Bank will emerge from this period of uncertainty well placed to develop and adapt its strategy to the new landscape.

Achievements and highlights of the year

In 2019, the Bank celebrated its 15-year anniversary and since its founding in 2004, the Bank has overcome a number of challenges to become the largest Islamic Bank in the UK, now serving more than 90,000 customers, with total assets of over £2bn.

Following the rapid growth of the last three years, the Bank undertook a period of consolidation during 2019, continuing the work started in 2018 to further enhance the risk management framework and infrastructure, which will provide a solid base going forwards. Significant investment in systems, people and processes will ensure that we are best positioned to keep pace with a rapidly evolving regulatory and market environment and ensure that the Bank is able to first meet, and then exceed, the expectations of all stakeholders in to the future.

The focus on investment for the future led to a number of more immediate achievements, including the launch of a new mobile banking app, a market-leading profit rate on its 'Everyday Saver' account and expansion of the Operational Headquarters. The Bank was also delighted to win a number of industry awards, as well as regularly topping 'best buy' tables for deposit and savings profit rates.

In April the Bank expanded its Birmingham base, taking on more office space to accommodate the growing workforce. September saw the launch of the market-leading Everyday Saver account offering a 1.6% effective profit rate (EPR) which shot to the top of the instant access savings chart. This was closely followed by the release of our new mobile banking app, providing customers with a simpler, quicker, and more secure platform with which to bank with Al Rayan Bank.

The key focus areas for the Bank during 2019 were:	
Operational Resilience	The changing technological landscape requires the Bank to ensure that its operations remain robust in an environment of rapidly evolving risks. As part of our commitment to meeting these risks, a project to migrate our information technology infrastructure from onsite servers to a private data centre was initiated during 2019. The project, which completed successfully in January 2020, has resulted in improved resilience and the ability to increase capacity in the future to cater for expected planned growth.
Leadership Team	Simon Moore, 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 revised its executive committee structure by welcoming new Executives to the bank whilst also promoting a number of existing employees to the Executive Committee.
Investment and Project Delivery	In addition to our new mobile app and data centre, the Bank made significant investment in enhancing the AML processes and controls, as well as other regulatory projects to ensure that the bank continues to meet its obligations in areas such as General Data Protection Regulation (GDPR) and cyber security. The implementation of PSD2 (Payment Services Directive), and the development of open banking, also continues to drive significant investment.
Risk Management Enhancement Plan	The work that commenced during 2018 was continued during 2019, with policies, governance and controls all now entering a phase of continuous improvement. The Bank expects to continue to invest in this area for the foreseeable future, ensuring that the changing risk environment is managed effectively.

The Bank received several awards and commendations during the year and continued to offer market leading returns to retail savers as it regularly topped Moneyfacts "best buy" tables for savings products during 2019.

Awards and Commendations

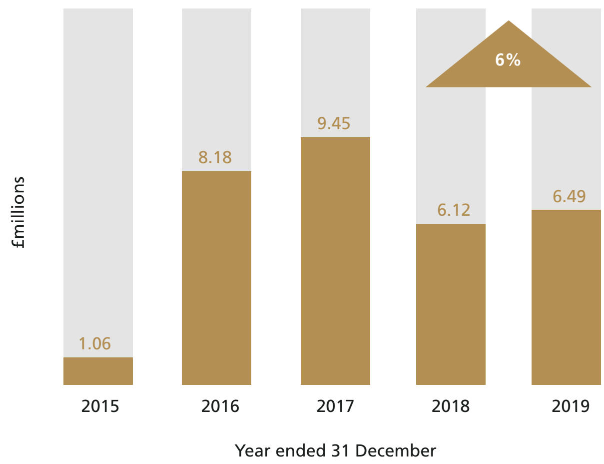
- Best Islamic Bank in the UK – Global Business Outlook annual business awards 2019
- Best Structured Finance Sukuk (Client) EMEA – Asset Triple 'A' Islamic Finance Awards 2019
- Best Structured Finance Sukuk (Lead manager) EMEA – Asset Triple 'A' Islamic Finance Awards 2019
- Best Islamic Deal (Client) United Kingdom – Asset Triple 'A' Islamic Finance Awards 2019
- Best Cash ISA Provider (commended) – Moneyfacts Award 2019
- Most Innovative Islamic Bank – International Finance – Banking Awards 2019
- Best Islamic Bank in the UK – World Finance – Islamic Finance Awards 2019
- Best Customer Service Provider – Savings Champion Awards 2019
- Best Charity Notice Account Provider – Savings Champion Awards 2019
- Variable Cash ISA (highly commended) - Savings Champion Awards 2019
- Business Notice Account (highly commended) - Savings Champion Awards 2019
- Best Islamic Bank in the UK – Islamic Finance News Awards 2019
- Sukuk Deal of the Year - Islamic Finance News Awards 2019
- UK Deal of the Year - Islamic Finance News Awards 2019
- ISA Provider of the Year (commended) – Moneyfacts Consumer Awards 2019

The financial statements for the year ended 31 December 2019 are shown on pages 34 to 69.

Profit before tax for the year of £6.49m (2018: £6.12m) grew by £0.37m from 2018. The growth in assets during 2018 provided a full year's income in 2019, whilst increased expenditure relating to the investment in systems and risk management was incurred in both years, but will not continue into 2020 to the same extent.

The Bank's current recurring cost base is considered sufficient to support the planned activity during 2020 and beyond, and facilitate growth in profit and improved cost to income ratio, which is expected to be achieved through sales of both existing and new products, to respond to the developing market in the UK.

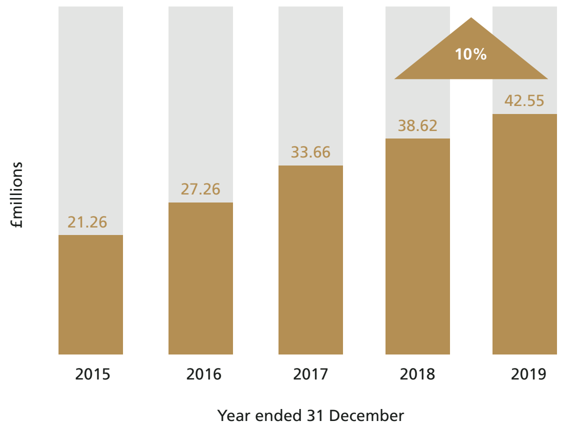
Profit Before Tax



Key performance indicators for 2019 are summarised below:

Key Financial Metric	Basis of Calculation	2019	2018
Profit before tax		**£6.5m**	£6.1m
Profit after tax		**£6.1m**	£6.4m
Cost to income ratio	Total operating expenses for the year (including depreciation and amortisation) divided by total income.	**85%**	84%
Return on equity	The ratio of profit for the year (after tax) to average equity, expressed as a percentage.	**4.4%**	4.9%
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.	**13.2%**	13.6%
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.	**517%**	287%

Total Income Growth

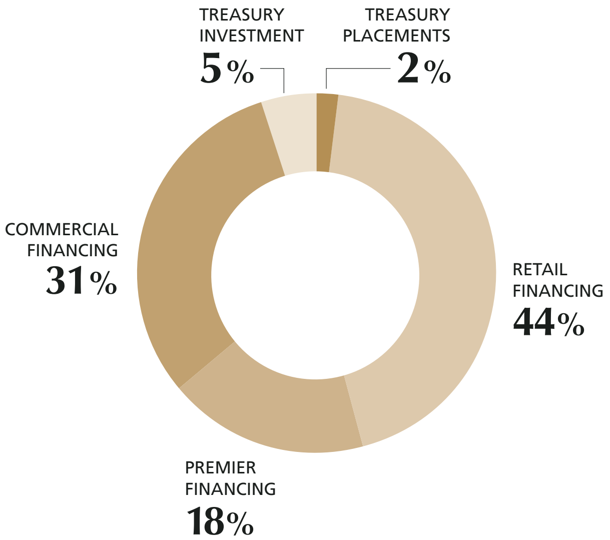


The growth in income during 2019 was primarily as a result of annualisation of 2018 asset growth, providing a full year's return. The Bank continued to offer its core financing products of HPP, which includes Buy to Let (BTL) and Premier financing (to GCC customers purchasing UK properties), and CPF. Overall growth in financing assets of 1%, was driven by HPPs which increased by 2.6% to £1,184m (2018: £1,154m) whilst CPF reduced slightly, closing the year at £466m (2018: £479m). The result of the full year impact of 2018 growth, and the changes in the year, was that total income increased by 10.1% to £42.55m (2018: £38.62m).

With a view towards driving the next stage of the Bank's growth in 2020 new products were launched in late 2019 and early 2020, to enable the Bank to offer customers market leading ways to finance their property.

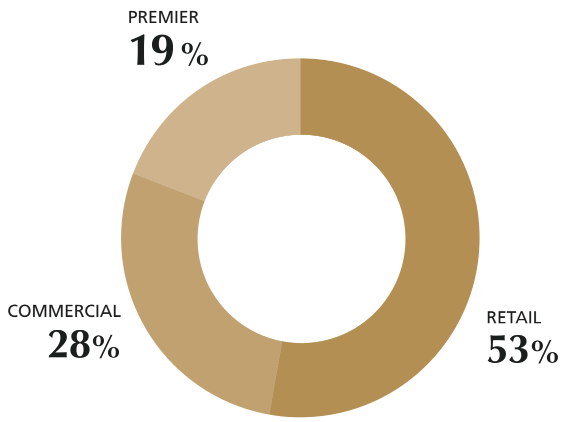
The charts below and on the following page illustrate the split of financing assets and income.

Income from Islamic Financing Transactions by Type



2019 total £71.49m (2018: £63.06m)

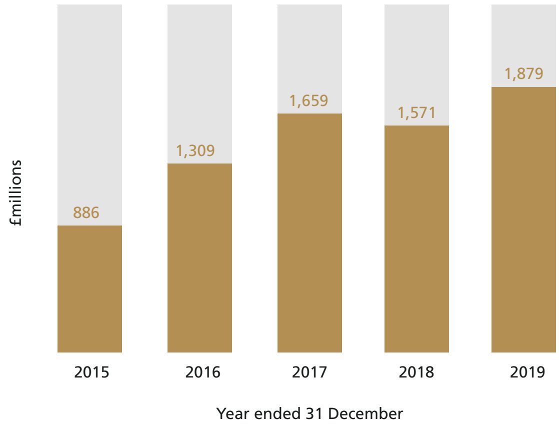
2019 Financing Assets by Sector



2019 total £1,650m (2018: £1,633m)

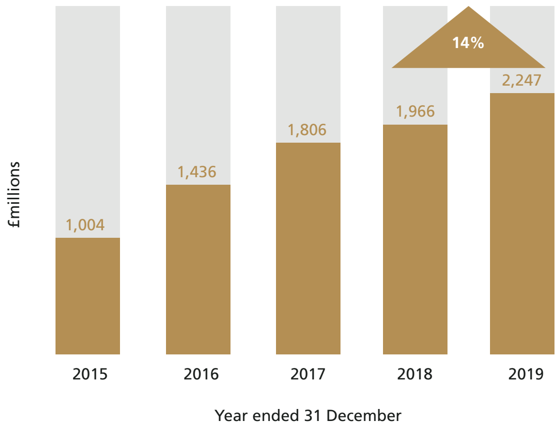
Whilst financing assets were flat, the Bank's total deposits increased. This followed the positive reception of the Bank's 1.6% EPR Everyday Saver product launch, and the subsequent 1% EPR Everyday Saver, which were consistently on the 'best buy' tables and attracted significant media attention. This combined with the continued strength of the term deposit profit rates offered by the Bank to offset the scheduled run-off of the Tolkien sukuk. At the end of the year, the net additional funding from deposits and structured funding was £269.1m, providing the Bank with a strong base from which to grow its financing asset book during 2020.

Total Deposits

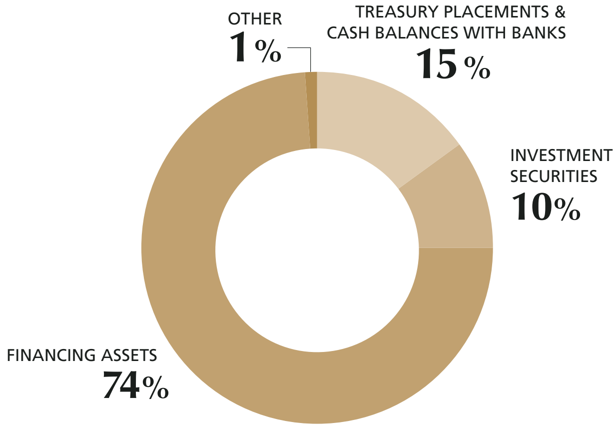


The result of the growth in deposits was that the Bank's total balance sheet grew by 14.3% during 2019, finishing the year at £2.25bn (2018: £1.97bn).

Total Assets



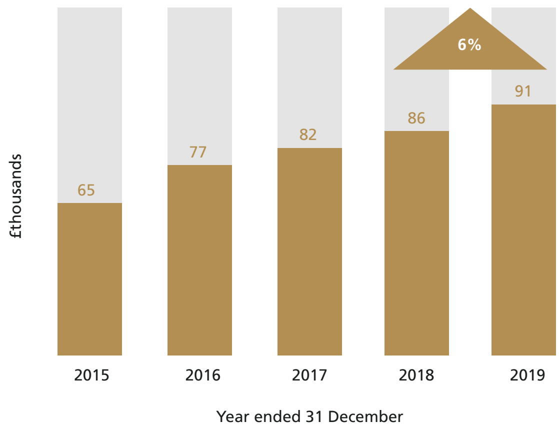
2019 Total Asset Breakdown



2019 total £2,247m (2018: £1,966m)

Customers remain at the heart of everything that the Bank does, and a focus on the customer journey has continued during the year. As a result, the Bank's customer base grew steadily, and the Bank's new digital app has seen increasing usage during late 2019 and into 2020.

Total Customers



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 service whilst producing 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 elements of the plan are as follows:

Ensure risk management continues to remain robust and fit for purpose	**Enhance customer experience and continuously improve the customer journey**	**Focus on the Bank's core strengths whilst developing its wholesale funding**	**Improve risk-adjusted return on capital employed (ROCE)**	**Define target markets by leveraging existing products and developing add-ons to existing products**

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

Measured growth in assets to be achieved whilst reducing reliance on retail deposits for funding

- Growth based primarily on incremental residential financing
- Focus on diversification of funding, to balance wholesale, structured and retail deposits to optimise the overall cost of funding

Enhancing the strength and efficiency of our operating model

- Each year, the Bank expects to reinvest profits to improve infrastructure for the growing requirements of the business, driving better customer experience and efficiency
- A focus on controlling costs will enable the Bank to improve its operating leverage and lower its cost to income ratio

Clearly defined target market

- Residents of, or entities incorporated in, the UK
- UK Expats living in countries within the Bank's risk appetite
- Residents of member countries of the Gulf Cooperation Council (GCC)

Improved profitability driven by operating leverage

- Achieving cost savings from technology focused, efficient operations and infrastructure, whilst achieving economies of scale through growth of financing assets

Enhancing the product proposition

- The Bank will seek to develop its existing products, exploring new themes and niches and enhance its understanding of its customer base

Robust Risk Management

- Utilising the strength of an embedded, enhanced risk management framework to allow the Bank to optimise reward whilst remaining within the desired risk appetite.

Distribution strategy

The Bank aims to provide its customers with a seamless experience through whichever distribution channel they choose to utilise.

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 A counter/cashiering service is provided for customers alongside sales of the Bank's range of personal and SME products at the Bank's branch network	**Digital** Web and mobile banking services to facilitate account opening, payment transactions and product information
Offices Localised offices providing one to one services, advice and support in respect of our home financing offerings	**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 high net worth 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 for Islamic finance products, as demonstrated by increasing competition in the sector, 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 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 the acquisition of stable funding through retail deposits, which are closely managed with well-priced products catering for the varied 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 sources which were previously unavailable
- The launch of a £250m asset backed sukuk, which completed in February 2018 with an AAA rating has continued to realise benefits for the Bank
- Further development of the dedicated Commercial office in central London, including the introduction of a dedicated wholesale funding team, has resulted in a more diversified wholesale customer mix

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 are in place for the identification, assessment and management of the principal risks facing the Bank.

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

Risk Management Framework

Robust risk management is a core foundation of the Bank's strategy. The Board of Directors has ultimate responsibility for determining the Bank's strategy and its associated risk appetite. The risk appetite comprises a suite of qualitative risk appetite statements and is supported by corresponding quantitative risk appetite metrics. These define the type and amount of risk that the Bank is prepared to accept in order to deliver its strategy in a safe and controlled way. The Bank's risk appetite is formally reviewed by the Board of Directors at least annually.

This is supported by the Bank's Risk Management Framework (RMF) and its underlying control systems. The RMF is the principal tool used to identify, measure, manage, and report on the risks to which the Bank is exposed, and aims to provide an integrated approach to managing risk across the Bank. This provides reasonable assurance against the risk of material misstatement or forward loss. The RMF comprises several key components, including:

- Robust corporate governance, committee structures and delegated authorities
- Risk management policies and procedures aligned to the principle risks that the Bank faces
- The three lines of defence model
- Key integrated risk process, such as Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP), Recovery Planning, stress testing and Risk and Control Self-Assessments (RCSAs)
- Management information, reporting and escalation mechanisms
- The promotion of a strong risk culture throughout the Bank

In 2018 the Bank 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, as well as enhancements to the overall RMF. Significant progress was made during 2019 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 within the risk appetite of the Bank. The RMF is 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 the Bank. The effectiveness of internal controls is regularly reviewed by the Board, supported by reporting from the business lines, Risk, Sharia Compliance 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 risks in line with the Bank's risk appetite, as well as ensuring appropriate controls are in place and operating effectively. Line management is also responsible for monitoring, reporting and escalating risks and issues, and for taking actions to address any risks or issues as appropriate.	Risk and Compliance functions provide risk management expertise to, and oversight of, the first line of defence in their performance of risk management activities. Oversight is performed through on-going independent reviews, monitoring and testing. The Risk and Compliance functions are also responsible for the development of the RMF, as well as for providing independent reporting on the efficacy of risk management controls. The Sharia compliance monitoring activities are also performed to provide a second line of defence by the Sharia compliance team.	The Bank's Internal Audit function is responsible for independently reviewing the effectiveness of the risk management structure and internal controls across both the first and the second line of defence. 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 internal audit work programme and receives reports on 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.

The RMF ensures the appropriate management of all principal risks that the Bank faces, which are outlined below. These risks are affected by the external environment, including Brexit and Covid-19, which are discussed in more detail in the "Outlook" section. Note that in this table, loss is defined to include financial losses, reputational damage and regulatory sanctions.

Principal Risk	Mitigations
Credit Risk The risk of loss resulting from (a) the failure of other parties to meet their financial obligations to the Bank and (b) the deterioration of creditworthiness of parties to which the Bank is exposed.	Conservative risk appetite framework and metrics, supporting policy with appropriate concentration risk limits A focus on the provision of products to markets where the Bank has specific expertise, and recruitment of specialist staff to assist with the development of new products and markets 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
Prudential Risk The risk of loss arising from unfavourable movements in market rates, an inability to fund assets or meet obligations, a sub-optimal quantity and quality of capital, or a failure to meet financial reporting requirements	Risk appetite framework and metrics, with supporting policies and key risk indicators (KRIs) Daily monitoring of the financial position of the Bank 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 balance sheet planning, including capital, liquidity and market risk sensitivity and stress testing Annual ICAAP and ILAAP process Active LIBOR transition planning Contingency funding, Liquidity Contingency Plan (LCP) and Recovery and Resolution Plan development
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events	Risk appetite, 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 Operational Resilience and Business Continuity Planning, including embedding and regular effectiveness testing Risk appetite, 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 Operational Resilience and Business Continuity Planning, including embedding and regular effectiveness testing Structured Risk Control Self-Assessment regime Regular monitoring of change and transition programmes 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 resilience and continuity plans are in place

Principal Risk	Mitigations
Compliance and Legal Risk The risk of loss resulting from failing to comply with laws, rules, regulations, standards and codes of conduct	Risk appetite, policies and processes are aligned to the Bank's structure and operating model Active monitoring of regulatory changes, including engagement with regulators and industry bodies to keep abreast of current and future developments Continuous horizon scanning and forward planning to ensure compliance with new regulatory requirements Development of simple, understandable products aligned to core offering Application of robust 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 Continued embedding of the second line of defence Compliance Operating Model, including Compliance advisory business partnerships and the delivery of the Board approved Compliance Monitoring Plan Ongoing staff awareness training (including as part of induction training) and assurance mechanisms (e.g. Compliance Monitoring Plan)
Financial Crime Risk The risk of loss through engaging with or facilitating criminal conduct in breach of financial crime laws, rules and regulations	Risk appetite, policies and processes are aligned to the Bank's structure and operating model, including dedicated policies, standards and guidelines across AML/Counter Terrorist Financing (CTF), Sanctions, Anti-Bribery and Corruption, Anti-Fraud, PEPs and Tax Transparency Financial Crime customer risk assessments, including the use of enhanced due diligence and enhanced governance via a risk-based approach On-going monitoring activities, including transaction monitoring, suspicious activity reporting (SAR), customer due diligence and sanctions screening Active monitoring of regulatory and legal changes, including engagement with regulators and industry bodies to keep abreast of current and future developments Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability Maintenance of system infrastructure and technology to meet operational requirements for customer due diligence and transaction monitoring Ongoing staff awareness training and assurance mechanisms, including dedicated Bank-wide Financial Crime training delivered during 2019
Information Risk The risk of loss resulting from the compromise of information relating to its confidentiality, integrity, accessibility, or availability	Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability Application of robust governance and rigour to data quality, confidentiality and accessibility, e.g. through a dedicated Information Risk Management Framework, the Data Governance Council and continued application of the Three Lines of Defence model Regular risk event and rapid loss escalation processes are in place, including reporting of incidents and remediation and follow up programmes Operational Resilience and Business Continuity Planning, including embedding and regular effectiveness testing Active monitoring of regulatory and legal changes, including engagement with regulators and industry bodies to keep abreast of current and future developments Ongoing staff awareness training and assurance mechanisms
Strategic Risk The risk of loss resulting from a failure to define or deliver the Bank's strategy	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 Continued review of external risks, including competitor analysis, the financial impact of climate change and operational dependencies on third parties Scenario modelling and stress testing 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 remain achievable
Sharia Non-Compliance Risk The risk of loss resulting from failing to comply with Sharia requirements	Products, services, policies, procedures, transactions and behaviours are aligned to Sharia principles and the ethical code of the Bank. Independent Sharia Supervisory Committee and their internal representative, monitoring, and providing 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

Brexit and Covid-19

The two external factors of Brexit and Covid-19 are expected to impact a number of risks detailed above, in particular credit, prudential, operational, and strategic risks. Whilst the uncertainty associated with these risks is increased by both events, the mitigations detailed above remain valid. Further information relating to the impact of these factors is detailed in the outlook section of the Strategic report on page 18, and in note 30.

Ethical Roadmap

Al Rayan Bank is committed to its environmental impact and is continually looking for new ways to improve its impact on the community. The Bank's ethical progress has historically been measured by the proportion of non-core customers.

In 2019 the Bank outlined a proposed 'Ethical Roadmap' to ensure it fully engages in areas considered ethical by all audiences. The United Nations' Sustainable Development Goals (UNSDGs) were used in addition to its existing Sharia ethical framework to further align the Bank's activities to ethical behaviours. Two UNSDGs were identified.

Climate action

By 2021 the Bank aims to ensure all energy consumed at its facilities comes from renewable sources – such as wind, solar or hydro - by engaging with its energy suppliers. Some of the other initiatives are outlined below:

- Retrofit the lighting systems of the Bank's facilities to energy efficient LED lighting before the end of 2020
- Reduce paper usage by 25% before the end of 2020 and fully eliminate single use plastics by 2022
- Fully eliminate supplier networks for conflicts with these policies

Gender equality targets

Al Rayan is committed to diversity and equal opportunities across the workforce. The Bank has set targets to further its commitment to its people. Some of the initiatives are outlined below:

- Ensure sufficient participation of women in decision-making and governance at all levels of the Bank
- Ensure at least one female candidate is interviewed for all management roles within the Bank, and increase diversity in leadership positions within the Bank
- Pay equal remuneration, including benefits, for work of equal value. Additionally, pay 'the real living wage' to all employees
- Operate a zero-tolerance policy towards all forms of violence at work, including verbal and/or physical abuse and prevent sexual harassment
- Expand business relationships with women-owned enterprises, including small businesses and women entrepreneurs

Section 172(1) Statement

In accordance with Section 172 of the Companies Act 2006, the Directors are required to act in a way they consider, in good faith, to be most likely to promote the success of the Bank for the benefit of its members as a whole and in doing so have had regard, among other matters, to:

- The likely consequence of any decision in the long term
- The interests of the Bank's employees
- The need to foster the Bank's business relationships with suppliers, customers and others
- The impact of the Bank's operations on the community and the environment
- The desirability of the Bank maintaining a reputation for high standards of business conduct
- The need to act fairly with members of the Bank

The Directors have taken into consideration these matters, and also considered the views and interests of other stakeholders, such as the Bank's regulators. The Directors approved the business plan for 2020 after ensuring these matters were given due consideration and the needs of all stakeholders were incorporated in the development of the business plan and future strategy of the Bank.

The Board regularly receives reports from management on issues concerning customers, the environment, suppliers, employees and regulators which it takes into account in its decision-making process. The Board also reviews the financial and operational performance of the Bank, including key risk areas and legal, Sharia and regulatory compliance.

Stakeholder engagement

The Board receives feedback from operational teams via various metrics on customer satisfaction and engagement, and feedback from customers has also driven the implementation of new projects, such as updates to Bank software and the launch of new products. The needs of customers have formed a core part of the Bank's ongoing business plan, particularly in respect of areas for investment. This includes streamlining processes to improve the customer experience, as well as identifying opportunities for growth through continued product development.

Employee reporting metrics are reviewed by the Board, and during the year employee representatives were appointed to feedback directly to the executive team, which includes Board representation, to raise issues on behalf of employees. This is in addition to the existing feedback and communications regarding the Bank received through an annual town hall event, as well as individual staff discussions with members of the Board.

The Bank holds an Annual General Meeting to meet with shareholders, and the Bank's ultimate parent company, MAR, has representation on the Board to ensure regular updates are received on the Bank's performance and planning. The Bank's parent is also a key stakeholder in respect of future growth plans and the Bank's future capital and other funding requirements.

As part of the 2020 business plan development, the Board also undertook a review into the Bank's procurement process. One of the first tasks undertaken was to review all existing contracts and establish relationship managers for each supplier to act as a primary point of contact between the Bank and the supplier. The Bank aims to make all payments to suppliers within 30 days of invoices being received, or in line with its payment terms if sooner, and the Bank does not engage in supplier financing arrangements.

The Board also engages regularly with the Bank's regulators due to its specialist nature as a provider of Sharia compliant finance. It is key for the Bank to try and ensure that the regulators can accommodate Islamic finance and Sharia compliant institutions within their frameworks and regulatory policies.

Outlook for 2020

Economic outlook

At the end of the year, the key economic uncertainty facing the Bank appeared to be Brexit. However, the focus has now changed to the more immediate impact of the outbreak of Covid-19 on the economy, and its effect on the Bank's operations and finances. Both factors have the potential to cause significant disruption during 2020 and beyond.

Covid-19

During the early part of 2020, the Covid-19 pandemic spread throughout the world, affecting the stability of the UK and world economy. Around the globe, strict containment measures have been brought in affecting the markets in which the Bank operates. The UK Government's response to the economic impact has been wide ranging and aimed at ensuring that the economy is best placed to bounce back once the disease is considered to be under control. However, even with these measures, the threat to businesses is considerable, and this may result in a longer term period of recession even after restrictions are lifted.

The effect of the restrictions placed on the population has essentially stopped activity within the UK property market, with transactions at a fraction of their pre-crisis levels. The opportunity to write new business has therefore been significantly reduced, and the future uncertainty with regard to house prices and employment means that the majority of Banks, including Al Rayan, have imposed tighter financing criteria until the longer term impacts are known. This will limit the amount of growth which will be achievable during 2020, with growth picking up again during late 2020 and 2021.

The Bank of England has also reduced its base rate in response to the economic slowdown, in an effort to support the economy. The reduction will impact the profitability of the Bank during 2020, as this benchmark rate reduction is passed on to our variable rental rate customers. Sensitivity to changes in base rate are detailed in note 29 (c), but the Bank will look to mitigate the impact of this change as much as possible.

Operationally, the Bank has also proved to be resilient, with the majority of roles being able to be performed remotely. As a smaller Bank, we have been able to capitalise on our agility, and redeploy colleagues from sales roles to support existing customers and answer their queries, many of which have related to the Government's payment holiday scheme.

As part of the response to Covid-19 the Board has further considered the impact on the Bank's profitability, capital and liquidity, as well as operational and IT resilience. The wider impact on the Bank's key suppliers and counterparties has also been taken into account. These factors have been used to inform the stress testing normally carried out as part of routine risk management, which has been run with more severe scenarios, and the Bank is confident that it has the financial and operational resilience to withstand the current economic environment.

Brexit

The UK's decision to leave the EU in 2016 brought about a significant level of uncertainty and volatility in financial markets. This uncertainty continued to cast a shadow on the economy in 2019 even before the impact of Covid-19. The economy proved to be broadly resilient after the Brexit vote, with economic indicators remaining relatively strong, but with reductions in investment in the UK as businesses waited for further clarification on the nature of Brexit.

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, had been incorporated by the Bank in its business plan for 2020. The Bank had also considered the general market consensus for GDP growth and rate changes, and expected continued profitability despite potential challenges to the economy, although the impact of Covid-19 is now expected to impact this further.

An economic downturn in the UK after Brexit or Covid-19 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 2019 in the region.

The Bank regularly engages in forward-looking stress testing and assesses risks based on both PRA defined stresses and management's own internal stress scenarios.

When the UK exited the EU on 31 January 2020 it entered a transition period until new rules take effect on 1 January 2021. The Bank has put in place measures to ensure continued undisrupted service to its customers during this transition period and beyond through its relationship with its clearing bank which has robust systems and contingencies in place to support the Bank during the provision.

Al Rayan Bank has ensured its existing Regulatory Reporting Framework is compliant with current EU requirements and is horizon scanning to ensure continued compliance with the relevant Regulatory Reporting Framework post the transition period. The Bank has also engaged with its supplier network to ensure continued service through the period.

The Bank minimises its currency exposure through hedging and is therefore not expected to be at risk from significant currency fluctuations.

Overall the full impact of Brexit on the UK economy and the financial services sector is still unknown – it is likely that further clarity will emerge only after the arrangements between the UK and EU are finalised.

The End of LIBOR

The way banks fund themselves has changed and it has been deemed that LIBOR is no longer a reliable benchmark rate and is expected to be discontinued at the end of 2021. As a result, users of LIBOR need to prepare by transitioning to alternative, more robust benchmarks, such as overnight risk-free rates.

As at 30 September 2019, the Bank held c£80m of LIBOR based assets maturing after December 2021, which were matched against the LIBOR linked Tolkien Sukuk securitisation issued by the Bank. In line with the issuance of the Sukuk, the Bank has been writing CPF transactions using LIBOR. This supports the Bank's management of its basis risk by matching LIBOR assets to LIBOR funding provided by the Tolkien Sukuk.

In Sterling markets, the primary alternative is SONIA, which is published by the Bank of England and based on an average of over £40bn of transactions each day. This supports a well-established and growing derivatives market and has rapidly become the benchmark of choice for floating rate bonds over the last year.

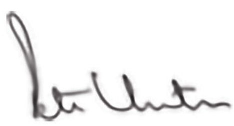
The Bank is generally prepared to transition from LIBOR to SONIA by 2021, and is considering any challenges that come with this transition to SONIA accordingly, in particular with regard to Sharia compliance.

A LIBOR Transition Working Group has been set up and is keenly observing the LIBOR transition trends and behaviours of major market participants, and will decide upon alternatives in line with market direction for Islamic Banks.

Business outlook

In 2019 the Bank invested heavily in strengthening its infrastructure ready for future growth. With this now in place the Bank has developed a new business strategy and plans to build on its current base as well as expand its product offerings. However, the uncertainty now present in the UK and world economy means that this expansion will be delayed, and profitability will consequently be impacted in 2020. Nevertheless, as and when the economic recovers, the Bank considers that its high-quality asset book, enhanced risk management framework and dedicated employees mean that it will be in as strong a position as possible to resume growth plans and capitalise on the work done this year.

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



Peter Horton
Chief Executive Officer

11 May 2020

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 2019.

Directors and Directors' interests

The Directors who held office during the year ended 31 December 2019 are as follows:

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

(a) Denotes member of Audit Committee at the date of signing

(b) Denotes member of Remuneration and Nomination Committee at the date of signing

(c) Denotes member of Board Risk Committee at the date of signing

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.

On 11 April 2019, Sultan Choudhury resigned as a Chief Executive Officer and was succeeded by Ahmed Swaleh Abdisheikh as Interim Chief Executive Officer

Patrick Newberry was appointed as a non-executive director on 7 January 2020.

Peter Horton was appointed as Chief Executive Officer on 21 April 2020

Adel Mustafawi and Ahmed Swaleh 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.

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 2019:

	2019	2018
	%	%
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% (2018: 70%) and Qatar Holding LLC 30% (2018: 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 5.

Dividends

The Directors do not recommend the payment of a dividend for the year ending 31 December 2019 (2018: £nil).

Political contributions

The Bank made no political contributions during the year ending 31 December 2019 (2018: £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 a regular townhall event 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 and intranet 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 also has appointed employee representatives within each area of the business who meet with the executive team to provide feedback from staff regarding areas of concern and suggestions regarding the business. As a result of feedback, the Bank has revised its employee healthcare scheme to promote health and wellbeing for staff as well as medical coverage.

The Bank operates an equal opportunities policy in all aspects of employment, recruitment and promotion, including in respect of race, age, gender and disability. The Bank offers flexible working opportunities for staff when possible in order to meet the needs of staff. The Bank accommodates staff needs to ensure access and a suitable working environment for all individuals.

An annual "people roadmap" is in place across the Bank to support 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.

As set out in the Chairman's Statement and the Strategic Report, the Bank has undertaken a number of initiatives to ensure gender diversity requirements are achieved.

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 is profitable on a sustained basis and generates additional regulatory capital once these profits have been verified. The growth of the Bank over recent years has been supported by a combination of these profits and capital injections from its parent, which include an amount of £3m received on 1 July 2019 which meets the criteria as set out within the Capital Requirements Regulation to be treated as Additional Tier 1 capital (AT1). The Bank has additional capital drawdowns available if required, subject to PRA Pre-Issuance notification.

The outbreak of Covid-19 following the year end has resulted in significant changes in the likely future macroeconomic environment in the UK, Europe and the rest of the world. Whilst it is certain that the short term impact will be severe, the expectations for the medium and long term impact are much less well understood. The Bank has modelled a range of possible macro-economic forecasts, incorporating scenarios which are significantly worse than those previously considered as the reasonable worst case, and produced capital and liquidity forecasts based on these models.

After performing the assessments above, the Directors concluded that it was appropriate for the Bank to continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

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 2019 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:

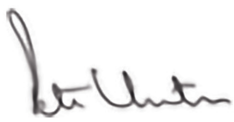
- so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditor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



Peter Horton
Chief Executive Officer

11 May 2020

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 Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU 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 Bank will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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 Bank 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 Bank'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

1. 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 2019 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 34.

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

2. 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Coronavirus ("Covid-19") non-adjusting post balance sheet event; • behavioural life assumption used in the Effective Profit Rate ('EPR') accounting; and • impairment of investment in financing assets;

	Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £458 thousand which was determined on the basis of adjusted profit before tax.
Scoping	All of the company's activities are based in and audited directly by the audit team in the UK.
Significant changes in our approach	The emergence and spread of the Covid-19 has brought about uncertainty, disruption to business activities and other wider implications on society. As a result we identified Covid-19 non-adjusting post balance sheet event as a key audit matter in the current year. We no longer consider securitisation accounting to be a key audit matter, as subsequent measurement of the securitisation transaction do not involve any significant judgement.

4. 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.

5. 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.

We identified securitisation accounting as a key audit matter in our audit report on 2018 financial statements which involved judgement in determining whether the transferred assets met the derecognition criteria at its initial recognition. The subsequent measurement of the securitisation transaction do not involve any significant judgement, hence we no longer consider it to be a key audit matter.

5.1. Covid-19 non-adjusting post balance sheet event

Key audit matter description	As disclosed in Note 30 to the financial statements, non-adjusting post balance sheet event, a global pandemic of a new strain of Covid-19 has emerged. The responses taken by organisations and governments to manage its spread in markets to which the group is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date. In response to Covid-19, management has made updates to its financial statements to disclose Covid-19 as a subsequent event, and has assessed the impact on going concern. To support this management performed actions to assess the financial and operational impacts of Covid-19 up to the date of approval of the financial statements. In making their assessment, management considered the company'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, and concluded that the going concern basis of accounting is appropriate and that there is no material uncertainty related to going concern. The company has modelled a range of possible macro-economic forecasts, incorporating scenarios which are significantly worse than those previously considered as the reasonable worst case, and produced capital and liquidity forecasts based on these models. Key assumptions underlying the forecasts are the unemployment rate and the house prices forecasts. The company has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards and company law. Due to the inherent management judgement in, and the increased level of audit effort, focused on the appropriateness of the financial statement disclosures, we considered this to be a key audit matter. Refer to management's disclosure in note 30 of the financial statements. Further detail is also included in the Directors' Report on page 22 and the Strategic Report on page 18.
How the scope of our audit responded to the key audit matter	We evaluated management's approach to assessing the impact of Covid-19 on the company and its financial statement disclosures by performing the following procedures: We made inquiries of senior management in relation to their assessment of the impacts of Covid-19 on the company, including further steps the company will take in case economic and other factors deteriorate further; We evaluated management's stress and scenario testing including reverse stress testing and challenged management's key assumptions in the forecasts, assessing its consistency with other available information and our understanding of the business; We evaluated management's assessment of the risks facing the company including liquidity risk, credit risk and operational matters involving our economics, treasury and prudential regulation specialists; We inspected correspondence between the company and its regulators related to the company's responses to the emergence of Covid-19; and Assessed the disclosures made by management in the financial statements against applicable accounting standards and guidance issued by the Financial Reporting Council, assessed management's judgment that Covid-19 is a non-adjusting event and evaluated the consistency of the disclosures with our knowledge of the group.
Key observations	We agree with management's judgment that Covid-19 is a non-adjusting post

	balance sheet event in respect of Effective Profit Rate accounting and impairment of investment in financing assets and consider the disclosure of the potential impact of Covid-19 in the financial statements to be appropriately stated.

5.2. Behavioural life 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 £66.3 million (2018: £58.4 million) as disclosed in note 6 on page 46 of the financial statements. The estimated behavioural life of CPF and HPP are sensitive assumptions and any changes in them can 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 39 of the financial statements respectively.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the process by undertaking a walk-through and reviewing management's judgement paper. Following identification of relevant controls we obtained an understanding of controls the company has in place to manage the risk of inappropriate behavioural life assumptions being used within the EPR model. We evaluated the behavioural life 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 of the financing assets. We assessed the reasonableness of the behavioural life by benchmarking them to industry data and performing scenario analysis of the assumptions used.
Key observations	We concluded that the behavioural life assumptions applied in the EPR model and the reported revenue figure is appropriate and in line with the requirements as outlined in IFRS 9.

5.3. Impairment of investment in financing assets

Key audit matter description	The company held provisions for impairment of investment in financing assets of £2.39 million (2018: £1.64 million) against financing to customers of £1,652 million (2018: £1,635 million) as disclosed in note 14 on page 49 of the financial statements. 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. The most significant assumptions and judgements applied in the impairment model are: • Reasonableness of the macro-economic scenarios and their weightages used in the impairment models, and • Completeness of 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 41 of the financial statements respectively.
How the scope of our audit responded to the key audit matter	We understood management's process and relevant controls around provision for impairment of financing assets by undertaking a walk-through and reviewing management judgement paper. Specifically, we assessed the relevant controls the company has in place surrounding the approval of macro-economic scenarios and their weightages in the model and overlays applied by management. We challenged the appropriateness of key assumptions used in the impairment model, in particular the assumptions used in the macro-economic scenarios 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 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 and their weightings, through involving our economics specialists and comparing modelled assumptions to publically available data and comparable peer data. We worked with our real estate specialist to challenge the reasonableness of impairment recorded against a sample of more complex and significant commercial property financing assets.
Key observations	The estimated provision level is appropriate and in line with the requirements as outlined in IFRS 9.

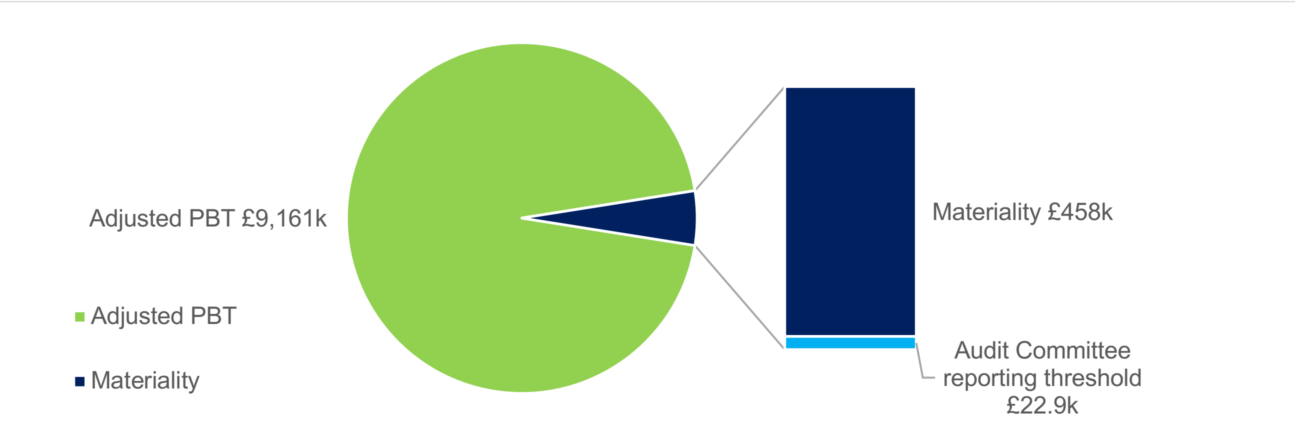
6. Our application of materiality

6.1. 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	£458 thousand (2018: £442 thousand)
Basis for determining materiality	5% of adjusted pre-tax profit Pre-tax profit is adjusted for the exceptional costs of £2.8 million (2018: £2.7 million) incurred during the year in relation to improving the Anti Money Laundering processes 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.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £22,900 (2018: £22,000), 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.

7. 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.

8. Other information

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.

We have nothing to report in respect of these matters.

9. 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.

10. 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 and non-compliance with laws and regulations 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.

11. 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.

11.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, IT, prudential regulatory, conduct risk, real estate and economics regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the behavioural life assumption used under the EPR accounting for revenue recognition and impairment of investment in financing assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's prudential regulatory requirements and capital, liquidity and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified behavioural life assumption used in the EPR accounting and impairment of investment in financing assets as key audit matters related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel 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 the 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

12. 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.

13. 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 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

15. Other matters

15.1. 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 three years, covering the years ending 31 December 2017 to 31 December 2019.

15.2. 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).

16. 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.

Kieren Cooper FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
11 May 2020

Financial Statements

Statement of comprehensive income

For the year ended 31 December 2019

	NOTE	2019 £'000s	2018 £'000s
Income from Islamic financing transactions	6	71,487	63,061
Returns to banks and customers	6	(30,951)	(25,468)
Net income from Islamic financing transactions		**40,536**	**37,593**
Fees and commission income	7	1,825	1,381
Fees and commission expense	7	(347)	(326)
Net fees and commission income		**1,478**	**1,055**
Gain / (Loss) on disposal of investment securities		626	(1)
Foreign exchange loss		(87)	(28)
Other (loss) / income		**539**	**(29)**
Total income		**42,553**	**38,619**
Impairment charge	14	(739)	(257)
Staff costs	8	(22,077)	(16,787)
General and administrative expenses		(10,723)	(14,230)
Depreciation	16	(2,062)	(713)
Amortisation	17	(465)	(516)
Total operating expenses		**(36,066)**	**(32,503)**
Profit before tax		6,487	6,116
Tax credit / (charge)	11	(376)	314
Profit for the financial year		**6,111**	**6,430**
Other comprehensive income:			
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of investment securities at FVOCI		2,370	(226)
Amounts transferred to the income statement		(626)	-
Other comprehensive gain / (loss) for the financial year		**1,744**	**(226)**
Total comprehensive income for the financial year		**7,855**	**6,204**

- The results from the year are derived entirely from continuing activities
- The notes on pages 38 to 69 are an integral part of these financial statements
- In accordance with the transitional provisions in IFRS 16 comparative figures have not been restated; see note 3 for details about changes in accounting policies

Statement of financial position

As at 31 December 2019

Assets	NOTE	2019 £'000s	2018 £'000s
Cash	12	**1,225**	2,327
Treasury placements and cash balances with banks	13	**339,511**	170,940
Consumer finance	14	**-**	18
Home Purchase Plans	14	**1,184,028**	1,154,158
Commercial Property Finance	14	**466,034**	478,989
Investment securities	15	**227,245**	139,846
Property and equipment	16	**14,422**	5,703
Intangible assets	17	**4,061**	2,941
Deferred tax asset	18	**5,846**	5,915
Derivative financial instruments	25	**1,285**	-
Other assets	19	**3,643**	4,841
Total assets		**2,247,300**	**1,965,678**
Liabilities and equity			
Liabilities			
Deposits from banks	20	**37,806**	23,917
Deposits from customers	21	**1,840,823**	1,547,456
Subordinated funding	22	**25,000**	25,000
Sukuk funding	14	**180,991**	219,145
Other liabilities	23	**16,859**	15,194
Total liabilities		**2,101,479**	**1,830,712**
Equity			
Share capital	24	**121,219**	121,219
Contingent convertible investment	24	**3,000**	-
Share premium		**54,807**	54,807
Revaluation reserve		**356**	(1,388)
Retained deficit		**(33,660)**	(39,769)
Profit stabilisation reserve		**99**	97
Total equity		**145,821**	**134,966**
Total liabilities and equity		**2,247,300**	**1,965,678**

The notes on pages 38 to 69 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 11 May 2020 and were signed on its behalf by:

Peter Horton
Chief Executive Officer

Al Rayan Bank PLC
Registration number: 04483430

Statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium	Contingent convertible investment	Reserve on investment securities	Retained deficit	Profit stabilisation reserve	Total
Note	24		24				
£'000s							
Balance at 1 January 2019	121,219	54,807	-	(1,388)	(39,769)	97	134,966
Profit for the year	-	-	-	-	6,111	-	6,111
Other comprehensive income	-	-	-	1,744	-	-	1,744
Additional Tier 1 investment received	-	-	3,000	-	-	-	3,000
Transfer to profit stabilisation reserve	-	-	-	-	(2)	2	-
Balance at 31 December 2019	**121,219**	**54,807**	**3,000**	**356**	**(33,660)**	**99**	**145,821**
Balance at 1 January 2018	121,219	54,807	-	(1,162)	(46,198)	96	128,762
Profit for the year	-	-	-	-	6,430	-	6,430
Other comprehensive income	-	-	-	(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 69 are an integral part of these financial statements

In accordance with the transitional provisions in IFRS 16, 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 2019

Cash flows from operating activities	NOTE	2019 £'000s	2018 £'000s
Profit before tax		6,487	6,116
Adjustments for:			
Depreciation	16	2,062	713
Amortisation	17	465	516
(Gain) / Loss on disposal of investment securities		(626)	1
Impairment charge and write-off on financial assets		739	257
Other non-cash items included in profit before tax		254	-
		9,381	7,603
Movement in:			
Consumer finance		3	(9)
Home Purchase Plans		(30,181)	(223,771)
Commercial Property Finance		12,555	(3,202)
Other assets		1,198	(2,808)
Derivative financial instruments		(1,285)	-
Deposits from banks		13,921	(38,359)
Deposits from customers		293,367	(49,200)
Other liabilities		(6,360)	6,522
Deferred tax asset		69	(370)
Taxation paid		(255)	(278)
Net cash inflow / (outflow) from operating activities		**292,413**	**(303,871)**
Cash flows from investing activities			
Net (purchases) / sales of investment securities		(85,029)	14,496
Purchase of property and equipment	16	(1,754)	(304)
Net investment in intangible assets	17	(1,585)	(2,741)
Net cash (outflow) / inflow from investing activities		**(88,368)**	**11,452**
Cash flows from financing activities			
Subordinated funding	22	-	15,000
Proceeds from issuance of sukuk funding	14	-	250,000
Repayment of sukuk funding	14	(38,154)	(30,855)
Issuance of contingent convertible financing	24	3,000	-
Payment of principal in respect of leases	16	(1,082)	-
Payment of financing in respect of leases	16	(218)	-
Net cash (outflow) / inflow from financing activities		**(36,454)**	**234,145**
Net change in cash and cash equivalents		**167,591**	**(58,275)**
Foreign exchange loss		(87)	(28)
Cash and cash equivalents at 1 January	12	172,235	230,538
Cash and cash equivalents at 31 December	12	**339,739**	**172,235**

▶ The notes on pages 38 to 69 are an integral part of these financial statements

In accordance with the transitional provisions in IFRS 16, 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 2019. 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

Future accounting developments

Benchmark Rate Reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'
Amendments to IFRS 9 and IAS 39 modify specific hedge accounting requirements were published in September 2019 and are effective for periods beginning on or after 1 January 2020. The Bank does not currently undertake hedge accounting, however these amendments may impact the future application of hedge accounting if undertaken by the Bank, and the Bank will apply any impact of these amendments from 1 January 2020 where applicable for hedge accounting.

IFRS 17 'Insurance Contracts'
IFRS 17 'Insurance Contracts' was published in May 2017 and is effective for periods beginning on or after 1 January 2020. The Bank does not undertake any activities which would fall within the scope of IFRS 17 and will not be impacted by the requirements of this standard.

Changes in accounting policies

IFRS 16 'Leases'
IFRS 16 'Leases' was applied effective 1 January 2019. This replaces IAS 17 'Leases' and under the new standard, there is no longer a distinction between finance and operating leases. The Bank has applied IFRS 16 on a modified retrospective basis without restating prior years.

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 Bank has elected not to apply the requirements of IFRS 16.22-49 in respect of short term leases or leases for assets of low value, applying the treatment available in IFRS 16.6 to account for these using similar accounting to IAS 17. These leases are recognised in other 'general and administrative expenses' on a straight line basis. The short term leases include leases which at the commencement of the standard had fewer than 12 months remaining, or had no fixed term remaining. Where such leases have subsequently been renegotiated, the revised lease has been accounted for in line with the accounting policy set out in Note 4 and treated as a new lease commencing during the financial year, based on their value and duration.

For other leases where the practical expedients are not available, the Bank is required to recognise:

- A lease liability, measured at the present value of remaining cash flows on the lease; and
- A right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received

Assets and liabilities arising from a lease are measured on a present value basis at commencement of the lease. On transition, the Bank opted to use the practical expedient on all contracts and determined the lease liabilities and ROU assets at the date of initial application.

The present value of lease payments was determined by discounting expected future lease payments using the rate implicit in the lease, if that rate can be determined, or the Bank's incremental cost of financing. The ROU asset was measured at an amount equal to the lease liability, adjusted for prepayments or accrued lease payments for all leases.

3. New standards and interpretations adopted by the EU (continued)

The lease liability will increase as the discounting applied is unwound, resulting in a constant rate of return throughout the life of the lease, and be reduced when cash payments are made on the lease. The ROU asset is expensed to the income statement over the expected life of the arrangement on a straight line basis and included as a component of depreciation. 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 relating to financing activities.

IFRS 16 does not result in any significant changes to lessor accounting, and the Bank does not hold any items as a lessor which would fall under the scope of IFRS 16. 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 these have continued to be accounted for under IFRS 9 as financial instruments recognised at amortised cost, and have not been impacted by the introduction of IFRS 16.

The impact on adoption was an increase in property, plant and equipment of £7.14m, and an increase in other liabilities of £6.96m, net of prepayments of £0.18m. Additional depreciation of £0.81m, and a finance charge of £0.22m was incurred during the year. There was no impact on retained earnings.

Amendment to IAS 12 'Income Taxes'
Amendments to IAS 12 'Income Taxes' was applied effective 1 January 2019. The amendment clarifies that tax consequences of dividends should be recognised where the transactions or events which generated the distributable profits are recognised. This amendment was applied from 1 January 2019 and has had no material impact, as the Bank does not currently have distributable profits. There has also been no impact on prior year comparative results.

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 is profitable on a sustained basis and generates additional regulatory capital once these profits have been verified. The growth of the Bank over recent years has been supported by a combination of these profits and capital injections from its parent, which include an amount of £3m received on 1 July 2019 which meets the criteria as set out within the Capital Requirements Regulation to be treated as Additional Tier 1 capital (AT1). The Bank has additional capital drawdowns available if required, subject to PRA Pre-Issuance notification.

The outbreak of Covid-19 following the year end has resulted in significant changes in the likely future macroeconomic environment in the UK, Europe and the rest of the world. Whilst it is certain that the short term impact will be severe, the expectations for the medium and long term impact are much less well understood. The Bank has modelled a range of possible macro-economic forecasts, incorporating scenarios which are significantly worse than those previously considered as the reasonable worst case, and produced capital and liquidity forecasts based on these models.

After performing this assessment, the Directors concluded that it was appropriate for the Bank to continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. Further details are contained in the Directors' report.

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.

4. Significant accounting policies (continued)

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, HPP only) and Murabaha (HPP and CPF) principles of Islamic financing. For Diminishing Musharaka, 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 based on an effective profit rate (EPR) 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.

4. Significant accounting policies (continued)

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. Balances are valued based on their amortised cost.

Derivative financial instruments

Derivative financial instruments are Sharia compliant forward foreign exchange arrangements based on the Wa'ad principle, where a promise is made for future exchange of currency amounts. These are treated as derivative financial instruments under IFRS 9 and recognised initially and subsequently remeasured at fair value through profit or loss (FVTPL).

Where derivatives are held with the same counterparty and have a right of offset through the relevant agreement, the net value of the derivative financial instruments is shown either as an asset or liability on the balance sheet depending on whether the derivatives are in a net gain or loss position within the same class of derivative.

While the derivative financial instruments held are used for risk management purposes to hedge foreign currency exposure, these are not hedge accounted for. The gain or loss on the instruments is shown through profit and loss, alongside the exchange movements in the underlying assets to which the risk management relates, as a component of foreign exchange gains and losses.

Derecognition of financial assets and liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, 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 or the cashflows or contractual terms are modified significantly. Any remaining beneficial 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.

Securitisation funding

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

4. Significant accounting policies (continued)

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 and 3) 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. 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 LGD 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, including off-balance sheet commitments.

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 in accordance with IAS 36. 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 the Bank has a present legal or constructive obligation, as a result of a past event, that gives rise to a probable outflow of economic benefit which can be reliably measured. 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.

4. Significant accounting policies (continued)

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	Up to 15 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.

Right of Use assets created under IFRS 16 are depreciated over the expected duration of the lease arrangement which was used to determine the lease asset and liability on commencement of the lease. Each lease is individually assessed for its expected life based on the terms of the lease agreement and the Bank's anticipated use of any extension or break clauses. Where subsequent changes to these expectations are made, the lease asset and liability will be adjusted to reflect the value of the revised lease payments.

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 of more than 1 year.

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 purchased software is three years. Internally developed software is amortised over three to five years.

Leases as a lessee (IFRS 16)

Short term leases and leases of low-value assets

The Bank assesses all new leases against the requirements of IFRS 16 and where the lease has a minimum fixed term of less than 12 months or meets the low value threshold, the lease payments are accounted for on a straight line basis over the duration of the lease, with incentives recognised as an integral part of the total lease expense over the term of the lease.

For leases which do not meet the criteria of short term or low value leases, the Bank recognises:

- A lease liability, measured at the present value of remaining cash flows on the lease, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental funding rate, and
- A right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. The ROU asset is subsequently measured at cost less accumulated depreciation and impairment

Lease cash flows include fixed payments, variable lease payments linked to an index or rate, initially measured using the index or rate at commencement date, amounts expected to be payable under residual value guarantees, lease payments during optional renewal periods where the Bank is reasonably certain to exercise an extension option, or penalties for early termination if the Bank expects to terminate early.

The lease liability is remeasured if there is a change in future lease payments arising from a change in an index or rate, or where the Bank changes its estimate of amounts expected to be payable either under residual guarantees or in respect of extension or termination options. A corresponding adjustment is made to the carrying value of the right of use asset.

4. Significant accounting policies (continued)

The lease liability is increased as the discounting applied is unwound, resulting in a constant rate of return throughout the life of the lease, and be reduced when cash payments are made on the lease. The ROU asset is amortised to the income statement over the expected life of the arrangement on a straight line basis, and included as a component of depreciation.

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 relating to financing activities.

Lease payments made (IAS 17)
For the comparative period ending 31 December 2018, the Bank recognised operating leases under IAS 17. Payments made under operating leases were recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense over the term of the lease. There was no asset or liability recognised on the statement of financial position. The operating lease disclosure only includes minimum cash flows due under operating lease agreements.

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.

5. Critical accounting judgements and key sources of estimation uncertainties (continued)

In 2019, 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 2019 from these sensitivities, and corresponding impact to profit is as follows:

Scenario	Profit impact (£'000s)
1 month increase in behavioural life – increase in profit	481
1 month decrease in behavioural life – reduction in profit	(355)

(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 are 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 estimating the variables used for the forecast macroeconomic scenarios, as well as the weighting of each scenario and any post-model management adjustments. The core estimates 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, moderate downturn and slight upturn scenarios against the ECL applied in the year.

A post-model management adjustment has been added to the calculated ECL for the core financing asset portfolios (HPP and CPF) as at 31 December 2019. The management adjustment relates to a number of factors which are not able to be captured in the underlying economic scenarios used in the model and to incorporate potential downside risk associated with sensitivity modelling. The level of the management adjustment has been based on historical information and trends observed by management, in order to capture these in the total provision. These primarily relate to 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 and the economic environment, which may not be fully captured by scenario modelling.

For the CPF adjustment, 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 adjustment to reduce the volatility produced by the staging model. The uncertainty in respect of Brexit and the economic environment on HPP customers has been determined by considering the weighted ECL calculated, with an adjustment applied based on modelling accelerated movements into stage 2 or 3 due to negative economic conditions, reflecting changes in the potential timing of recognition of staging movements in the near term.

(c) Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2019 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.

6. Net income from Islamic financing transactions

£'000s	2019	2018
Treasury placements	1,706	1,157
Consumer finance	-	1
Home Purchase Plan	44,022	38,125
Commercial Property Finance	22,230	20,297
Investment securities	3,529	3,481
Income from Islamic financing transactions	71,487	63,061
Deposits from banks	(2,849)	(1,835)
Deposits from customers	(28,102)	(23,633)
Returns to banks and customers	(30,951)	(25,468)
Net income from Islamic financing transactions	40,536	37,593

7. Net fees and commission income

£'000s	2019	2018
Fees and commission income		
Retail customer banking fees	1,624	1,287
ATM commission	88	94
Other	113	-
Total fees and commission income	1,825	1,381
Transaction fees	(347)	(326)
Total fees and commission expense	(347)	(326)
Net fees and commission income	1,478	1,055

8. Staff costs

£'000s	2019	2018
Wages and salaries	19,720	15,035
Social security costs	1,647	1,257
Contributions to defined contribution pension plans	672	429
Other staff costs	38	66
Total	22,077	16,787

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

	2019			2018		
	Front Office	Back Office	Total	Front Office	Back Office	Total
Average for the period	108	227	335	112	134	246

9. Auditor's remuneration

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

£'000s	2019	2018
Audit of these financial statements	208	165
Audit related assurance services	50	58
Other services	37	86
Total	295	309

10. Directors' emoluments

£'000s					
2019	Salary	Bonus	Benefits in kind	Pension contributions	Total
S Choudhury (resigned)	300	-	-	16	316
A S Abdisheikh*	140	200	-	-	340
	440	200	-	16	656
2018					
S Choudhury	199	100	2	22	323
	199	100	2	22	323

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

£'000s	2019	2018
Adel Mohammed Tayeb Mustafawi	28	24
Ahmed Swaleh Abdisheikh*	19	35
Malcolm Brookes	57	56
Richard Sommers	52	51
Robert Sharpe (resigned)	14	86
Simon Moore	100	-
Total	270	252

- The total amount paid to directors during the year ended 31 December 2019 was £926,000 (2018: £575,000)

*A S Abdisheikh received salary and fees as a director up to and including June and as Interim CEO from July onwards

11. Tax

£'000s	2019	2018
Current tax expense:		
Current tax on profits for the year	(275)	(63)
Adjustment in respect of prior years	(32)	7
Current Year	(307)	(56)
Deferred Tax:		
Current year	-	560
Adjustment in respect of previous periods	22	(24)
Effect of changes in tax rates	(91)	(166)
Deferred tax (charge) / credit	(69)	370
Total income tax (charge) / credit	(376)	314
Reconciliation of effective tax rate:		
Profit before tax	6,487	6,116
Tax on profit at standard UK tax rate of 19% (2018: 19.25%)	(1,233)	(1,162)
Effects of:		
Adjustments in respect of prior years:	(9)	(17)
Expenses not deductible	64	(31)
Tax rate changes	(91)	(167)
Exempt amounts	(192)	(33)
Amounts not recognised	1,281	1,460
Items relating to fair value through OCI	(196)	264
Income tax (charge) / credit	(376)	314

- Information relating to deferred tax is presented in note 18
- Finance Act 2016 included legislation to reduce the main rate of UK corporation tax to 17%, effective from 1 April 2020. The reduction was substantively enacted on 6 September 2016. The deferred tax asset at 31 December 2019 has been calculated using the applicable rates enacted at the balance sheet date
- On 11 March 2020 the UK Government announced that the planned rate reduction to 17% would not occur, and the corporation tax applicable from 1 April 2020 would remain at 19%

12. Cash and cash equivalents

£'000s	2019	2018
Cash	1,225	2,327
Balances with banks available on demand	171,589	113,901
Treasury placements with original maturity less than 3 months	166,922	56,007
Total cash and cash equivalents	339,739	172,235

- 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
- Included within the balances with banks above is a deposit of £5 million held as collateral against the structured funding liability, and cannot be withdrawn until full settlement of this balance has taken place

13. Treasury placements and cash balances with banks

£'000s	2019	2018
Repayable on demand	171,589	113,901
3 months or less but not repayable on demand	166,922	56,007
1 year or less but over 3 months	1,000	1,032
Total Commodity Murabaha and Wakala receivables and advances to banks	339,511	170,940

- 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 £1,000,227 (2018: £1,032,298) 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	2019			2018		
	Gross amount	Impairment Allowance (IFRS 9)	Carrying amount	Gross amount	Impairment Allowance (IFRS 9)	Carrying amount
Consumer finance	39	(39)	-	41	(23)	18
Home Purchase Plans	1,185,196	(1,168)	1,184,028	1,155,013	(856)	1,154,158
Commercial Property Finance	467,213	(1,179)	466,034	479,768	(779)	478,989

Impairment allowance on financing assets:

£'000s	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January 2019	865	721	72	1,658
Charge for the year	171	372	185	728
Amounts written off during the year	-	-	-	-
Balance as at 31 December 2019	**1,036**	**1,093**	**257**	**2,386**
Balance at 1 January 2018	673	640	83	1,396
Charge for the year	192	81	(11)	262
Amounts written off during the year	-	-	-	-
Balance as at 31 December 2018	**865**	**721**	**72**	**1,658**

- The total 'movement in net impairment on assets' of £739,000 (2018: £257,000) also includes a charge of £13,000 (2018: credit of £5,000) relating to treasury assets

14. Financing assets (continued)

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 SPV in respect of the underlying 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 2019 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. After the step-up date the margin will increase to 1.60% 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 due at year end.

Sukuk Financing capital movements

£'000s	
Balance at issuance, 22 February 2018	250,000
Principal payments during the year	(30,855)
Balance as at 31 December 2018	219,145
Principal payments during the year	(38,154)
Balance as at 31 December 2019	**180,991**

15. Investment securities

£'000s	**2019**	**2018**
Quoted Sukuk	**227,245**	139,846
	227,245	139,846

16. Property and equipment

£'000s	Computer Equipment	Office Equipment	Leasehold Improvements	Right of Use assets	Fixtures & Fittings	Land & Buildings	Total
Cost							
Balance at 31 December 2018	3,613	244	4,960	-	819	3,730	13,366
IFRS 16 opening adjustment	-	-	-	7,141	-	-	7,141
Balance at 1 January 2019	3,613	244	4,960	7,141	819	3,730	20,507
Additions	120	66	1,434	1,886	129	6	3,641
Balance at 31 December 2019	**3,733**	**310**	**6,394**	**9,027**	**948**	**3,736**	**24,148**
Depreciation							
Balance at 31 December 2018	3,299	182	3,502	-	563	117	7,663
IFRS 16 opening adjustment	-	-	-	-	-	-	-
Balance at 1 January 2019	3,299	182	3,502	-	563	117	7,663
Depreciation charge for the year	178	34	497	813	138	402	2,062
Balance at 31 December 2019	**3,477**	**216**	**3,999**	**813**	**701**	**519**	**9,726**
Net book value							
As at 31 December 2019	**256**	**94**	**2,395**	**8,214**	**247**	**3,217**	**14,422**
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**

The following assets and liabilities have been recognised under IFRS16:

Right of Use assets

£'000s	Depreciation	Carrying amount
Branches	**813**	7,238
IT infrastructure	**-**	976
Total	**813**	**8,214**

Maturity of lease liabilities

£'000s	2019
Maturity Analysis – Contractual undiscounted cash flows	
Less than one year	1,478
One to five years	4,338
More than five years	3,352
Total undiscounted lease liabilities at 31 December 2019	**9,168**

Lease liabilities included in the statement of financial position at 31 December 2019	**7,981**
Current	**1,428**
Non-Current	**6,553**

16. Property and equipment (continued)

The total expense included as part of general and administrative expenses in respect of short term and low value leases, including the VAT element of leases included as Right of Use assets above, was £565,000 for the year.

Operating lease balances for the year ended 31 December 2018 (IAS 17)
In the prior year the Bank recognised £1,267,245 recognised in the statement of comprehensive income in respect of operating leases, including VAT.

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

£'000s	2018
Less than one year	1,021
Between one and five years	3,487
More than five years	656
Total	5,164

Lease liabilities and future cash flows recognised for the year ended 31 December 2019 under IFRS 16 are based on the Bank's expected lease duration, including any expected extension periods. Lease commitments under IAS 17 are based on the minimum lease payments up to the point of any break clauses included in the lease. The opening liability at 1 January was £6,996,000, which was £1,832,000 higher than the minimum lease payments due to the impact of assumption changes £2,978,000 offset by discounting £1,146,000. The discount rates applied to leases are based on the cost of capital range between 2.37% and 3.16% depending on the remaining term of the lease.

The expected lease periods under IFRS 16 are longer than the minimum periods included in the IAS 17 disclosure as the Bank expects to utilise some of the extension options present in its lease agreements, resulting in additional cashflows being included in the calculation of the IFRS 16 lease liability than the future minimum lease payments disclosed under IAS 17.

17. Intangible assets

£'000s	Computer licences	Purchased & developed software	Work in progress	Total
Cost				
Balance at 1 January 2019	1,692	5,836	2,546	10,074
Additions	94	47	1,950	2,091
Write-down	-	-	(506)	(506)
Transfers	-	2,822	(2,822)	-
Balance at 31 December 2019	**1,786**	**8,705**	**1,168**	**11,659**
Amortisation				
Balance at 1 January 2019	1,574	5,559	-	7,133
Amortisation charge for the year	80	385	-	465
Balance at 31 December 2019	1,654	5,944	-	7,598
Net book value as at 31 December 2019	**132**	**2,761**	**1,168**	**4,061**
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**

- 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
- During the year there was a write-down of £506,000 relating to certain work in progress projects that the Bank no longer believes will provide the expected level of future economic benefit

18. Deferred tax asset

The movement on the deferred tax account is as follows:

£'000s	2019	2018
Asset at start of period	5,915	5,545
Adjustment in respect of prior years	22	(24)
Deferred tax credit / (charge) to profit for the period	(91)	395
Deferred tax asset as at 31 December	**5,846**	5,915

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 £33.3m have been utilised against tax profits in 2014 (£2.0m), 2015 (£5.3m), 2016 (£8.2m), 2017 (£7.3m), 2018 (£5.3m) and 2019 (£5.2m).

In the prior year the Bank had an unrecognised deferred tax asset that arose from unutilised losses of £6.8m.

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

19. Other assets

£'000s	2019	2018
Prepayments and other receivables	3,643	4,841
Total other assets	**3,643**	4,841

There are no receivables within other assets that are expected to be recovered in more than 12 months (2018: £nil).

20. Deposits from banks

£'000s	2019	2018
Repayable on demand	2,438	3,023
3 months or less but not repayable on demand	4,788	20,894
3 months to 1 year	29,080	-
Between 1 year and 4 years	-	-
Over 4 years	1,500	-
Total deposits from banks	**37,806**	23,917
Non-profit paying accounts	2,438	3,023
Profit sharing / paying accounts	35,368	20,894
Total deposits from banks	**37,806**	23,917

21. Deposits from customers

£'000s	2019	2018
Repayable on demand	864,649	863,692
3 months or less but not repayable on demand	151,007	169,307
1 year or less but over 3 months	457,822	351,790
2 years or less but over 1 year	270,787	162,640
3 years or less but over 2 years	95,436	27
4 years or less but over 3 years	1,122	-
Total deposits from customers	1,840,823	1,547,456
Comprising:		
Non-profit paying	262,739	317,855
Profit sharing / paying accounts	1,578,084	1,229,601
Total deposits from customers	1,840,823	1,547,456

22. Subordinated funding

£'000s	2019	2018
Subordinated funding	25,000	25,000
Total	**25,000**	**25,000**

Total returns paid on this funding for the year ended 31 December 2019 were £2,000,000 (2018: £1,573,698).
All returns were fully paid during the year and there was no outstanding payable as at 31 December 2019 (2018: £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. £25m was outstanding as at 31 December 2019, and there were no further drawdowns in 2019. The maturity of the facility is greater than 5 years and qualifies as tier 2 capital for regulatory capital purposes.

23. Other liabilities

£'000s	2019	2018
Trade payables	9	61
Social security and income tax	975	364
Accruals	4,665	6,448
Other creditors	3,229	8,321
Lease liabilities	7,981	-
Total	16,859	**15,194**

The 'Lease liabilities' line reflects amounts due on leases under IFRS 16 previously classified as Operating Leases under IAS 17. The Bank has taken the exemption not to restate the prior year figures, so there is no comparable balance as at 31 December 2018 in respect of this line. Previously these leases were disclosed as part of the operating lease note, which is included in Note 16 in the current year financial statements. This note also includes further details of assets held under leases at 31 December 2019.

24. Capital

Share Capital

Allotted, called up and fully paid (£'000s)	2019	2018
Issued ordinary share capital (12,121,870,000 ordinary shares of £0.01 each)	121,219	121,219

The Directors have authorised the allotment of up to 4,000,000,000 (£40,000,000 of £0.01 shares) either through additional subscriptions or conversions of securities. This authorisation will expire on the 25th April 2023.

Contingent Convertible Investment
On 1 July 2019 the Bank received £3m of contingent convertible investment as AT1 capital funding from MAR, its ultimate parent company. This investment is classified as Additional Tier 1 capital for the purposes of Prudential Regulatory Authority and European Banking Authority rules.

The investment features a profit rate of 8.5% plus the mid-swap rate for UK sterling swap transactions with a maturity of 5 years and has a reset date 5 years after the investment is made. The rate for the £3m investment received was set at 9.365% for the period to 1 July 2024.

The investment is convertible into Ordinary Shares of the Bank in the event of the Bank's Common Equity Tier 1 ratio falling below 7.5%. As the investment agreement contains no obligation on the Bank to make payments of principal or profit, the investment has been classified as additional equity investment under IAS 32, and has been included as a component of equity at the fair value of the proceeds received less any attributable direct costs associated with the investment.

As at 31 December 2019, £141,630 in profit had been incurred in respect of the AT1 capital investment based on the contractual profit rate. This profit has been committed to but has not been accrued in the financial statements, and had not been paid as at 31 December 2019.

25. Derivative Financial Instruments

2019 £'000s	Assets	Liabilities	Total	Notional Amount
Maturing 0-3 months	1,279	(286)	993	146,167
Maturing 3-6 months	292	-	292	16,670
Total	**1,571**	**(286)**	**1,285**	**162,837**

No derivative financial instruments were held at the end of the financial year ending 31 December 2018.

The Bank has entered into Sharia compliant forward foreign exchange contracts in order to manage foreign currency exposures. All foreign exchange contracts are used for hedging purposes between GBP and either USD or EUR depending on the exposure.

The Bank monitors foreign exchange exposure on a daily basis to minimise foreign exchange exposure and enters into foreign exchange forward contracts when required to hedge open exposures.

The foreign exchange forward contracts are entered into for periods which match the underlying currency exposure and the corresponding exchange gains or losses on the exposures are included as part of the foreign exchange movements in the Statement of Comprehensive Income.

26. Related parties

(a) Transactions with key management personnel

At 31 December 2019, Directors of the Bank and their immediate relatives have no shareholding in the Bank (2018: £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	2019	2018
Key management emoluments including social security costs	2,533	1,517
Bank contributions to pension plans	56	56
Total	**2,589**	**1,573**

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £1,737,554 as at 31 December 2019 (2018: £1,739,711). Total returns paid on these accounts during the year were £13,685 (2018: £8,324).

Outstanding consumer finance and Home Purchase Plan balances relating to key management personnel and immediate relatives totalled £382,425 as at 31 December 2019 (2018: £399,370). No specific impairment has been recognised in relation to the outstanding financing provided to related parties.

Income recognised during the year for these accounts was £10,813 (2018: £9,106). 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 which are the only consolidated financial statements in which the Bank's results are reported. These statements are available to the public.

	Less than 1 month	1-3 months	Less than 1 month	1-3 months
£'000s	2019	2019	2018	2018
Placements with MAR	20,000	40,000	17,820	7,820
Deposits from MAR	-	-	-	26,343

During the year the Bank purchased $10m nominal value of sukuk issued by MAR from the market, which was still held at year end as part of the Investment Securities balance. Profit accrued on this balance during the year was £32,200.

As at 31 December 2019 there was an outstanding subordinated financing balance payable to MAR of £25m (2018: £25m). See note 22 for further details of this facility.

A Contingent Convertible Investment of £3m was made during the year with an outstanding balance at year end of £3m (2018: nil). At 31 December 2019 £141,630 of contractual profit had accrued in respect of the investment agreement. See note 24 for further details.

The counterparty on the Bank's derivative financial instruments held for hedging purposes is MAR. The outstanding balances and positions at year end are included in note 25 and all transactions relate to agreements with MAR.

27. Assets and liabilities denominated in foreign currency

Assets denominated in foreign currencies are included within treasury placements, cash balances with banks, financing assets and investment securities.

Deposits denominated in foreign currencies are included within deposits from banks and customers.

£'000s equivalent	USD	EUR	QAR
31 December 2019			
Assets	234,265	53,167	1,960
Deposits	(118,458)	(5,733)	(1,960)
Net on balance sheet exposure	115,807	47,434	-
Forward foreign exchange contracts	115,177	47,660	-
31 December 2018			
Assets	155,232	33,175	1,517
Deposits	(155,247)	(33,521)	(1,511)
Net on balance sheet exposure	(15)	(346)	6
Forward foreign exchange contracts	-	-	-

While the Bank holds other currencies in addition to those above, these balances are not material on a gross or net basis individually or in aggregate.

The Bank manages its foreign currency exposure within its set risk appetite. As at 31 December 2019 the Bank held derivative forward foreign exchange instruments to hedge its exposure to USD and EUR balances to minimise net exposure as part of its foreign exchange risk management. For additional details see note 25.

28. Financial Instruments

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

Categories of financial instruments

£'000s	Amortised Cost	Fair Value through OCI	Other liabilities at amortised cost	Fair value through profit or loss	Total carrying amount
At 31 December 2019					
Cash	1,225	-	-	-	1,225
Treasury placements and balances with banks	339,511	-	-	-	339,511
Consumer finance	-	-	-	-	-
Home Purchase Plans	1,184,028	-	-	-	1,184,028
Commercial Property Finance	466,034	-	-	-	466,034
Investment securities	-	227,245	-	-	227,245
Derivatives held for risk management	-	-	-	1,571	1,571
Total	**1,990,798**	**227,245**	**-**	**1,571**	**2,219,614**
Deposits from banks	-	-	37,806	-	37,806
Deposits from customers	-	-	1,840,823	-	1,840,823
Derivatives held for risk management	-	-	-	286	286
Total	**-**	**-**	**1,878,629**	**286**	**1,878,915**

£'000s	Amortised Cost	Fair Value through OCI	Other liabilities at amortised cost	Fair value through profit or loss	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
Derivatives held for risk management	-	-	-	-	-
Total	**1,806,432**	**139,846**	**-**		**1,946,277**
Deposits from banks	-	-	23,917	-	23,917
Deposits from customers	-	-	1,547,456	-	1,547,456
Derivatives held for risk management	-	-	-	-	-
Total	**-**	**-**	**1,571,373**	**-**	**1,571,373**

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 2019 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, valued at Level 1 in the fair value hierarchy, and derivatives held for risk management in respect of exchange rate exposures, valued at Level 2 using comparable market rates prevailing at year end.

28. Financial Instruments (continued)

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

£'000s	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities	227,245	-	-	227,245
Derivatives held for risk management	-	1,571	-	1,571
As at 31 December 2019	227,245	1,571	-	228,816
Financial Liabilities				
Derivatives held for risk management	-	286	-	286
As at 31 December 2019		286		286
Financial Assets				
Investment securities	139,846	-	-	139,846
Derivatives held for risk management	-	-	-	-
As at 31 December 2018	139,846	-	-	139,846
Financial Liabilities				
Derivatives held for risk management	-	-	-	-
As at 31 December 2018	-	-	-	-

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 Risk 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.

29. Financial risk management (continued)

(i) Management of credit risk
The Board of Directors has delegated responsibility for the management of credit risk to the Credit Risk Committee and the Executive Risk Committee. 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
The Bank's maximum exposure to credit risk from financing activities is set out in the table below as the gross total financing assets. The Bank also has derivative contracts with a positive value as at 31 December 2019, which are set out in note 25.
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 incurs 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 41.

The Bank has used five scenarios to support its assessment of ECL for its core financing asset portfolios; these includes a base case, and four other scenarios 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.

29. Financial risk management (continued)

Total financing assets and ECL at 31 December 2019

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	339,514	-	-	339,514	(3)	339,511	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3		-	-	-	-	-	-
Total	**339,514**	**-**	**-**	**339,514**	**(3)**	**339,511**	**0.00%**
Investment securities							
- Stage 1	227,262	-	-	227,262	(17)	227,245	0.01%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**227,262**	**-**	**-**	**227,262**	**(17)**	**227,245**	**0.01%**
Home Purchase Plans							
- Stage 1	-	-	1,079,495	1,079,495	(639)	1,078,856	0.06%
- Stage 2	-	-	101,809	101,809	(311)	101,498	0.31%
- Stage 3	-	-	3,892	3,892	(218)	3,674	5.60%
Total	**-**	**-**	**1,185,196**	**1,185,196**	**(1,168)**	**1,184,028**	**0.10%**
Commercial Property Finance							
- Stage 1	-	-	394,077	394,077	(397)	393,680	0.10%
- Stage 2	-	-	73,136	73,136	(782)	72,354	1.07%
- Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**467,213**	**467,213**	**(1,179)**	**466,034**	**0.25%**
Consumer Finance							
- Stage 1	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	39	39	(39)	-	100.00%
Total	**-**	**-**	**39**	**39**	**(39)**	**-**	**100.00%**
Total Financial Assets							
- Stage 1	566,776	-	1,473,572	2,040,348	(1,056)	2,039,292	0.05%
- Stage 2	-	-	174,945	174,945	(1,093)	173,852	0.62%
- Stage 3	-	-	3,931	3,931	(257)	3,674	6.54%
Total	**566,776**	**-**	**1,652,448**	**2,219,224**	**(2,406)**	**2,216,818**	**0.11%**

Of the £174.9m (2018: £123.4m) of total gross financial assets in stage 2 that have experienced a significant increase in credit risk, £17.9m (2018: £16.7m) are included in stage 2 due to arrears of 30 days or more past due, and the remaining £157.0m (2018: £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-.

29. Financial risk management (continued)

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	2.16%
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	-	-	1	1	-	1	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	40	40	(23)	17	57.50%
Total	**-**	**-**	**41**	**41**	**(23)**	**18**	**55.00%**
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%**

29. Financial risk management (continued)

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	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**
At 1 Jan 2019	**1,509,104**	**865**	**123,408**	**721**	**2,270**	**49**	**1,634,782**	**1,635**
ECL on consumer financing matured/ redeemed during the period	(203,251)	(221)	(17,802)	(41)	-	-	(221,053)	(262)
Transfers of financial instruments:								
Transfers from Stage 1 to Stage 2	(70,312)	(34)	70,312	34	-	-	-	-
Transfers from Stage 2 to Stage 1	62,588	136	(62,588)	(136)	-	-	-	-
Transfers to Stage 3	(1,432)	(1)	(1,203)	(2)	2,635	3	-	-
Transfers from Stage 3	-	-	986	23	(986)	(23)	-	-
Net transfers	**(9,156)**	**101**	**7,507**	**(81)**	**1,649**	**(20)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage	-	(98)	-	340	-	151	-	393
Net new financing/payments and remeasurement of continuing customer ECL	176,875	389	61,832	154	(27)	38	238,680	581
At 31 Dec 2019	**1,473,572**	**1,036**	**174,945**	**1,093**	**3,892**	**218**	**1,652,409**	**2,347**
ECL income statement (charge)/ release for the period on customer financing		**(171)**		**(372)**		**(169)**		**(712)**
ECL movements on other assets								(27)
Total income statement (charge)/ release in ECL provision for the period on assets								**(739)**

	Stage 1		Stage 2		Stage 3		Total	
Customer financing - HPP and CPF £'000	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**
At 1 Jan 2018	**1,264,349**	**673**	**143,974**	**640**	**1,758**	**60**	**1,410,081**	**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)**

29. Financial risk management (continued)

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:

	2019	2018
3 Month LIBOR	0.65%	0.9%
Annual Unemployment	4.3%	4.7%
Annual House Price Index (HPI) Growth	2.3%	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	Weightings	
	2019	2018
Base case	40%	40%
Moderate downturn – increase in unemployment, reduction in HPI	20%	20%
Downturn – large increase in unemployment, reduction in HPI	10%	10%
Slight upturn – small decrease in unemployment, increase in HPI	20%	20%
Strong upturn – large decrease in unemployment, strong increase in HPI	10%	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 individual scenarios at 100% weighting, to illustrate sensitivities to model weightings is shown below, along with the weighted scenarios with no post-model management adjustment applied.

31 December 2019	Weighted scenario ECL, no adjustment	Base case, no adjustment	Slight upturn scenario	Strong upturn scenario	Moderate downturn scenario	Downturn scenario
	£'000	£'000	£'000	£'000	£'000	£'000
HPP	1,046	617	560	516	1,794	2,765
CPF	1,085	520	500	484	1,741	3,805
Total	**2,131**	**1,137**	**1,060**	**1000**	**3,535**	**6,570**

29. Financial risk management (continued)

(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 2019, £nil (2018: £nil) 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 2019 is £3,108m (2018: £3,136m).

Home Purchase Plan exposure by FTV (finance to value) band:

2019	Gross exposure	ECL Total	Net balance	ECL coverage
FTV band	**£'000**	**£'000**	**£'000**	
<=60%	499,665	182	499,484	0.036%
60%-70%	384,564	608	383,956	0.158%
70%-80%	233,356	256	233,100	0.110%
>80%+	67,610	122	67,488	0.181%
Total	**1,185,195**	**1,168**	**1,184,028**	**0.099%**

2018	Gross exposure	ECL Total	Net balance	ECL coverage
FTV band	**£'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

2019	Individuals	Corporate	Bank	Total
Treasury placements and balances with banks	-	-	339,511	339,511
Investment securities	-	146,910	80,335	227,245
Consumer finance	-	-	-	-
Home Purchase Plans	1,184,028	-	-	1,184,028
Commercial Property Finance	27,570	438,464	-	466,034

2018				
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

29. Financial risk management (continued)

(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 location:

£'000s	UK	Europe	Asia	Middle East	Total
2019					
Treasury placements and balances with banks	**230,511**	-	-	**109,000**	**339,511**
Investment securities	**2,887**	-	**88,690**	**135,668**	**227,245**
Consumer finance	-	-	-	-	-
Home Purchase Plans	**1,183,822**	**206**	-	-	**1,184,028**
Commercial Property Finance	**464,247**	**1,787**	-	-	**466,034**
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

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 2019, 55 of the facilities within the secured finance portfolios were in arrears (31 December 2018, 49).

(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 such resources 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 difference in the nature of long term assets funded by short-term, mostly on demand accounts, results in structural mismatches which can put pressure on resources. To mitigate this risk, the Treasury department maintains sufficient liquid resources made up of cash and on demand and short term Treasury placements to meet the normal day-to-day operations of the business and, in addition, maintains a buffer of high quality liquid assets which can be converted quickly into cash to cover outflows in severely stressed conditions. All liquidity policies and procedures are subject to review and sanction at ALCO and approved by the Board.

The Board reviews, at least annually, the adequacy of its liquidity under the Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP specifies the daily processes that the Bank will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stressed scenarios. The Bank regularly tests both the current balance sheet and the latest projections to ensure that actual and forecast liquidity remain within appetite. Treasury maintains liquid resources at the greater of the LCR requirement or that indicated by the ILAAP.

An additional 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.

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	3 years – 4 years	4 years – 5 years
2019										
Deposits from banks	**20**	**37,805**	**38,371**	**7,228**	-	**29,485**	-	-	-	**1,658**
Deposits from customers	**21**	**1,840,823**	**1,861,950**	**905,653**	**110,550**	**463,527**	**279,723**	**101,319**	**1,178**	-
		1,878,628	**1,900,321**	**912,881**	**110,550**	**493,012**	**279,723**	**101,319**	**1,178**	**1,658**
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**	**-**	**-**

29. Financial risk management (continued)

(c) Market risk

Market risk is the risk of changes in the value of, or loss of income arising from adverse 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/profit 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.

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.

In line with regulatory requirements and best practice, the impact of a parallel shift in rates are considered monthly, including a 0.50% 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.

0.50% increase - Rate rise from 0.75% BBR to 1.25%

0.50% decrease - Rate drop from 0.75% BBR to 0.25%

£'000s	0.50% parallel increase	0.50% parallel decrease
31 December 2019	**1,809**	**(1,773)**
31 December 2018	935	(997)

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 0.5% increase and a 0.5% decrease in rates.

£'000s	0.50% parallel increase	0.50% parallel decrease
31 December 2019	**949**	**(1,315)**
31 December 2018	1,045	(1,316)

Basis risk

Basis risk assesses the impact of a 0.50% 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 on the right:

£'000s	0.50% widening
31 December 2019	**907**
31 December 2018	1,102

(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 Risk 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.

29. Financial risk management (continued)

e) Capital management

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, includes ordinary share capital, share premium, additional tier 1 capital, 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:

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

£'000s	2019	2018
Tier 1 capital		
Total equity	145,821	134,966
Less intangible assets	(4,061)	(2,941)
Less deferred tax	(5,846)	(5,915)
Less additional value adjustments	(227)	(140)
	135,687	125,970
Tier 2 capital		
Subordinated funding	25,000	25,000
Total regulatory capital	**160,687**	**150,970**

30. Events after the reporting period

Covid-19

Subsequent to the year end, the UK has been impacted by the novel coronavirus which is now classified as a worldwide pandemic. This has had a significant and immediate impact on the UK and world economy, as well as the normal way of life and work around the globe. As a result of this, the UK Government has announced a package of measures to support the economy, which, along with the pandemic, will impact the Bank in a number of ways.

On 11 March 2020, the Bank of England announced a cut in the UK base rate to 0.25% from 0.75%. Subsequent to this, on 19 March 2020 a reduction in the base rate was announced of 0.15%, taking the base rate to 0.10%. This will impact the future profitability of the Bank, and the sensitivity of the Bank's profit to base rate is detailed in note 29.

Also on the 11 March 2020, the UK government announced a number of actions to support the UK economy which included measures aimed at banks and banking customers, including payment holidays for home finance customers. The Bank has been supporting its customers in line with the rest of the industry and has been facilitating payment holidays for Home Finance and Buy to Let customers in need of assistance. This support is expected to result in a moderate reduction in cash inflows for the Bank, however the Bank's strong liquidity position means this is not expected to impact the Bank's underlying operations and ability to service its customers as normal.

In addition, the general economic scenario is expected to result in reduced economic growth and an increase in customer credit risk. At the time of signing these financial statements it is too early to accurately determine the likely medium and long term economic outlook, however the likelihood of adverse scenarios is clearly higher than at the balance sheet date. Consequently, it can be expected that the Bank's ECL position will increase, and the sensitivity analysis in note 29 indicates the potential magnitude of this increase in the event of an economic downturn.

30. Events after the reporting period (continued)

As a result of the economic uncertainty and measures taken by governments around the world, the value of Sterling has been volatile since year end against key currencies in which the Bank holds balances. These are primarily the Euro and the US Dollar. As the Bank is almost fully hedged in its exposure to these currencies, and has maintained a fully hedged position since year end, there has been no material impact from currency movements between 31 December 2019 and the date of signing of the financial statements. The Bank intends to continue to hedge its currency exposure on an ongoing basis and does not expect to be materially impacted by any future currency fluctuations between GBP and other currencies.

The Bank's investment securities are primarily Sukuk denominated in US dollars, and form part of the hedged foreign currency balances. These held a fair value reserve at year end of £356,000. Subsequent to the year end, there has been no overall material movement in the underlying US Dollar fair value of the Sukuk held by the Bank, and the Bank does not currently expect there to be a significant risk in the values of these assets at a portfolio level.

The Bank's transition to a new data centre in January means that the Bank has resilience to operational disruption and is able to continue business as usual. The Bank has undertaken actions to ensure that key staff are able to work remotely to support the Bank's operations and ensure customers are not adversely impacted, and has engaged with its key suppliers to ensure continuity of service. There has been no material impact to the Bank in relation to the activities undertaken to enable staff to work remotely when required.

As a result of the change in economic outlook, the Bank has completed a number of stress tests, which indicate that the Bank is well placed to deal with the range of macro-economic scenarios which are currently considered to be possible.

Other Events

The UK Government also announced that the planned corporation tax rate reduction to 17% would not occur, and the corporation tax applicable from 1 April 2020 would remain at 19%. This increase in the future corporation tax rate will increase the value of the deferred tax asset recognised.

31. Contingent liabilities and other commitments

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 has progressed significantly its AML process and controls programme of work and expects to complete the programme this year. Regulatory review remains ongoing at the date of signing these financial statements. As such, the final outcome is not yet known and while no provisions are held in relation to this matter, a future outflow of economic benefit remains possible.

Under the terms of some of the Bank's Commercial Property Financing, there are undrawn capital amounts relating to development financing projects. The outstanding undrawn amounts in respect of these agreements at 31 December 2019 was £12,387,000 (2018: £24,139,000).

32. Zakatable Assets (unaudited)

The Bank does not pay zakat on behalf of its shareholders and it is the sole responsibility of the individual shareholders to make their zakat payments. Zakatable assets are calculated on the basis of net zakatable assets/net assets methodology according to AAOIFI standard. Therefore, zakatable assets are based on the reported balance sheet, with adjustments made to remove non-zakatable items including property plant and equipment, intangible assets, market adjustments to investment securities and derivative financial instruments, prepayments, lease liabilities and deferred tax. After these adjustments, net zakatable assets are £124,215,842, and total Zakat due would be £3,201,042 on a 2.577% basis, and the amount of zakat due per share is £0.0003.

33. 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	Al Rayan Bank PLC Providing Sharia compliant banking services in the UK
Turnover (£'000s)	£73,225
Number of employees on a full-time equivalent basis	295
Profit or loss before tax (£'000s)	£6,487
Tax (credit) on profit (£'000s)	£376
Public subsidies received	£0

34. 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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