AL RAYAN BANK

Annual Report and Financial Statements

For the year ended 31 December 2020

Al Rayan Bank PLC | Registered number 04483430 (England & Wales)

Banking you can believe in

Contents

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 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 delivering value for customers. 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 expected profit rates.

The Bank services its customers through a variety of channels, including telephone, online and mobile, and in person, including through its Premier branch in Knightsbridge and a dedicated Commercial office in the heart of London's West End. The Bank prides itself on delivering value for customers, 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.

Chairman's statement

As we look back on an unprecedented year, I want to begin by thanking all my colleagues at Al Rayan Bank for the incredible dedication, determination and strength they have shown, which has enabled us to continue to deliver services to our customers throughout the pandemic.

The banking sector, like many others within the UK economy, has faced significant challenges in recent times. Evolving customer expectations and behaviour, the growth and proliferation of new technologies and shifts in how we shop, live and work all continue to affect how businesses operate, but events of the past twelve months have undoubtedly accelerated these changes and required us all to adapt rapidly.

Whilst the pandemic will have long term impacts on the economy and society and all banks have faced disruption, Al Rayan Bank has remained resilient. We are confident that we have the people, the leadership and the determination, supported by our parent and a strong balance sheet, to flourish as the economy recovers from the pandemic.

Throughout the pandemic the Bank's focus has been on supporting customers and colleagues. With many businesses and jobs directly impacted, we have worked on an individual basis with customers who found themselves in financial difficulty, redeploying many of our colleagues to new roles to help manage the increase in customer enquiries. This was particularly important in the early stages of the pandemic when there was such uncertainty among the general public.

While many organisations struggled to maintain customer service levels during the onset of the pandemic, I am proud that our approach saw us reduce customer wait times to an average of just 74 seconds in April 2020, during the height of the first wave.

The Bank also established a 'key workers' hotline' to allow our customers, who were often working in critical front-line roles, to have their calls answered as a priority.

Our colleagues have been at the heart of our Covid-19 strategy, and we have put in place a range of measures to support their wellbeing, from Covid-19 secure workspaces to mental health first aiders, to new work from home guidelines. As social restrictions were introduced, it was necessary to shift the operations of the Bank, with a large percentage of our colleagues moving to home working. We also changed the opening hours of some of our branches to allow our colleagues in branch to avoid travelling at the busiest times of the day. As a result of the agility and determined attitude demonstrated by colleagues, the Bank was able to ensure continuity of service for all our customers, despite the significant changes to working practices.

The Bank's financial performance has clearly been impacted by the Covid-19 pandemic with earnings suppressed due to a significantly reduced base rate (which we use as benchmark to price our HPP products), and increased provisions against financing assets. Despite these pressures, the bank returned a respectable profit of £4.2m before tax for 2020 (2019: £6.5m), representing a credible performance in these unprecedented times, and continuing the trend of annual profitability achieved since the Bank was acquired by Masraf Al Rayan in 2014. The Bank will implement a range of activities in 2021, designed to improve its cost-to-income ratio.

During 2020 the Bank's balance sheet showed modest growth with Commercial leading the way. Our Premier offering was impacted by the travel restrictions imposed during the lockdown.

While this growth is positive, the Board continues to acknowledge that expansion also brings risk. The Bank has therefore continued to invest in and strengthen its Anti Money Laundering (AML) and financial crime prevention processes and controls, including the implementation of transaction monitoring systems, allowing the Bank to manage its risks more effectively.

We have also helped our customers to avoid the threat of fraud or scams by significantly increasing communication on the risks that exist and the steps they can take to better protect themselves. For example, the Bank produced specific guidance around the heightened risk of fraud during Ramadan, having identified that lockdown restrictions and the move to online or telephone donations may lead to more people being vulnerable.

As our customers' needs and expectations have evolved, we have invested heavily in the channels through which we engage with them. Following the launch of Digital Banking in 2019, the Bank released two new versions of the Mobile Banking app in 2020, and now in excess of 25,000 customers use Digital Banking for their day-to-day banking. We also launched a new corporate website early in 2021, which includes "chatbot" functionality to further improve existing and potential customers' experience when using our services.

Of course, it is only right that we continue to consider how best to serve our customers in light of changing market conditions. Following continuing decline in usage and footfall across our branch network, our Manchester and Leicester branches closed in September 2020. Branch closures are not taken lightly, but they do reflect how our customers are increasingly choosing to bank with us through online and mobile platforms, and will help ensure that we continue to operate as effectively and efficiently as possible in the future.

As the UK's largest and longest-established Sharia-compliant bank, Al Rayan Bank occupies a unique position in the UK financial system. An ethical and responsible approach to banking is integral to the Bank's approach and throughout

2020 we have gone further in minimising the environmental impact of our operations, committing to reduce single use plastic with the goal of eliminating it all together by 2022.

We will continue to look at ways in which we can play our part in protecting the environment, and this includes ensuring that the financial risks of climate change are fully embedded in the Bank's Risk Management Framework.

These measures form part of the Bank's ethical roadmap, which also covers our efforts to encourage gender equality. The Bank is committed to ensuring equal pay to all our employees and increasing the proportion of women employed across all levels of the Bank. We are also committed to supporting female-owned enterprises and will continue to make progress in these areas.

In addition to welcoming Peter Horton as CEO and director, there were other changes to the Board due to either completion of a three year term or resignation. In October 2020, Richard Sommers resigned following completion of his three year term. Also in October, Simon Moore resigned as Chairman, and Patrick Newberry resigned in January 2021. The Board also took the opportunity during 2020 to review the Board's composition and governance by commissioning a review from an external consultant. Recommendations from this report are being implemented, and we have informed our regulators and kept them updated throughout this process. In addition, we have appointed culture consultants to identify ways to enhance and assist with defining values, conduct and accountability for all employees to ensure we remain an employer of choice. I am pleased to say the review of Board composition resulted in diversification of the Board membership as I welcomed Kathryn Kerle and Caroline Bradley as independent non-executive directors. Their experience and expertise will be instrumental in constructively challenging the Bank operationally and culturally as it develops.

Outlook

At the time of writing, the UK's vaccine rollout is continuing at pace and a roadmap for easing, and ultimately removing, restrictions has been communicated by the Government. This gives cause for optimism that the recovery from the pandemic will be sustained.

However, we must also be cautious in our outlook and recognise that there is uncertainty over how the pandemic may proceed. This presents the risk that there may be prolonged disruption, particularly within those sections of the economy that are more exposed to the reintroduction of restrictions in the future. We also have to be cognisant of how the pandemic may impact the UK economy in the medium and long-term and be prepared to adapt the Bank's business model appropriately.

Even though it is a UK bank, Al Rayan Bank has not felt an immediate, direct impact of Brexit. However, we recognise that while the trade agreement signed in December 2020 removed the most pressing and immediate risks around the UK's exit from the EU, the full impact of this will only become clear over time.

We have 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 our strong asset base and the specific profile of our customers and counterparties, we are confident that the Bank is well-positioned to deal with any period of continued uncertainty or volatility.

The Bank also constantly reviews both its risk appetite and strategy, particularly in light of the evolving impact of the pandemic, and the Board and Executive Management will continue to consider how best to meet our customers' needs and build on our strengths for the long-term benefit of the Bank. Until the newly reconstituted Board is in place and have settled into their roles we do not expect material changes to the strategy of the bank.

I would like to thank Simon Moore for his tenure as Chairman, and the directors who left the Bank last year for their service as non-executive directors, and Masraf Al Rayan, our parent bank, for its ongoing and continued support and vison for the Bank.

I would also like to express my gratitude to all our other stakeholders including the Sharia Supervisory Committee of scholars for their guidance. The Board also offers its condolences following the passing of Sheikh Dr Abdul Sattar Abu Ghuddah, who served as Chairman of the Sharia Supervisory Committee.

Finally, I want to reiterate my thanks to all our colleagues for their incredible dedication and determination in delivering on the Bank's objectives against the most challenging backdrop in 2020.

Malcolm Brookes
Interim Chairman
4 May 2021

Report of the
Sharia Supervisory Committee

It is with great sadness and sorrow that we announce the passing of the Chairman of the Sharia Supervisory Committee, Sheikh Dr Abdul Sattar Abu Ghuddah.

Sheikh Dr Abdul Sattar Abu Ghuddah was one of the world's leading scholars in the field of Islamic finance. He held a PhD in Islamic Law from Al Azhar University, Cairo, Egypt.

Sheikh Dr Abu Ghuddah had been with the Bank since inception in 2003 before the Bank was granted its regulatory license to operate as Islamic Bank of Britain. He played a very important role in the history of the Bank as well as many others globally.

بسم الله الرحمن الرحيم

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

السلام عليكم ورحمة الله و بركاته

To the shareholders and customers of Al Rayan Bank PLC
For the period from 1 January 2020 to 31 December 2020

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and contracts relating to the transactions and applications introduced by Al Rayan Bank during the period ended 2020. We have also conducted our review to form an opinion as to whether Al Rayan Bank has complied with Sharia rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

Al Rayan Bank's management is responsible for ensuring that the financial conducts its business in accordance with Sharia rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of Al Rayan Bank, and to report to you.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by Al Rayan Bank.

We planned and performed our review to obtain all the information and explanation which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Al Rayan Bank has not violated Sharia rules and principles.

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 beg Allah the Almighty to grant us all the success and straightforwardness.

و السلام عليكم ورحمة الله و بركاته

(Wassalamu Alaykum Wa Rahmatu Allah Wa Barakatuh)

Sheikh Nizam Muhammed Saleh Yaqoobi
Acting Chairman of the Sharia Supervisory Committee
25 March, 2021

Mufti Abdul Qadir Barakatulla
Sharia Supervisory Committee Member
25 March, 2021

In our opinion:

A The contracts, transactions and dealings entered into by Al Rayan Bank during the year ended 2020 that we have reviewed are in compliance with the Sharia rules and principles;

B The allocation of profit and charging of losses relating to investment account conform to basis that had been approved by us in accordance with Sharia rules and principles;

C All the Sharia compliance audit issues found during the 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.

D All earnings that have been realised from sources or by means prohibited by Sharia rules and principles will be disposed of to charitable causes.

Strategic report

As noted in the Chairman's statement, 2020 has been dominated by Covid-19 and the impact it has had on everyone's lives and the world economy. As we enter 2021, it appears that vaccine rollouts will begin to allow the return to relative normality, although significant uncertainty remains. Against this backdrop, the UK has signed a new deal with the EU to shape the post-Brexit relationship, which is now in the early stages of implementation. These events have altered the outlook for the economy, and consequently the Bank, to a considerable extent. Further details of the impact on the Bank are laid out on page 8, but on the basis of forecasts and stress testing, the Board is confident that the Bank's underlying resilience will enable it to emerge from this period of uncertainty well-placed to develop and adapt its strategy to the new landscape.

Key milestones and achievements of the year

Despite the many challenges during 2020 the Bank remained profitable and continued to grow its financing asset book. This growth was primarily in the area of commercial property financing (CPF), which finished the year 20% larger than at the end of 2019. Home financing also grew slightly, although the significant slowdown in the housing market during the first half of the year meant that despite the increased demand as a result of the stamp duty holiday during the second half of the year only a modest increase of 1% was seen. Home financing from Gulf Cooperation Council countries (GCC) was also supressed due to the travel restrictions in place across the globe. However, once these are lifted it is expected that demand will return relatively quickly. The results indicate the continued appeal of the Bank to new customers and underline its ability to continue to offer a compelling proposition, despite the difficult external conditions.

Whilst the asset book grew, the reduction in the Bank of England base rate to an historic low of 0.1% meant that this increase did not result in corresponding income growth, and this also contributed to net profit margin compression. In addition, the worsening economic outlook resulted in an increase in provisions under IFRS 9, with an expectation that higher levels of default will be seen in future periods. The Bank's assets have so far remained resilient, however, and whilst payment holidays were offered and taken up by customers in line with Government guidance, the vast majority of customers have returned to paying normally after these temporary reliefs have ended. Over 750 customers were given payment holidays, which was around 14% of our total home financing customers, with just over 50 still on payment holidays at the year end. Where customers have required further assistance following the end of their payment holidays, we have worked with them on a case-by-case basis to achieve the best possible outcome depending on their circumstances.

Shortly before the Covid-19 pandemic took hold, the Bank completed the launch of its new digital platform. The significant investment included a new mobile app for personal and business consumers as well as continued development of 'behind the scenes technology' to support Open Banking and Strong Customer Authentication as part of the Payment Services Directive 2 (PSD2) requirements. These upgrades have enabled the Bank to improve the robustness of its fraud and risk detection and monitoring, which are of growing significance across the banking industry. The large numbers of customers adopting the digital app was undoubtedly of benefit to many in light of the restrictions present for much of the year.

During the first quarter of 2020 the Bank also completed its migration to a third party hosted data centre, providing enhanced capability to strengthen operational resilience and increase security, whilst also offering the Bank a more stable and scalable solution to support continued growth. This migration formed a key element of the Bank's ability to transition from working in an office environment to having almost all of the Bank's staff working from home during the pandemic.

In response to the pandemic, one of the immediate actions for the Bank was to ensure the safety of staff. Prior to the first UK lockdown, the Bank took steps to minimise travel and avoid unnecessary contact, and when the UK Government announced the lockdown in March, the Bank sought to provide all staff with the equipment necessary to work from home. Where possible and appropriate, staff have been encouraged to continue to work from home, in line with Government guidance. Where it is necessary for staff to be on site, additional measures have been put in place to provide as secure and safe an environment as possible.

As the Bank has adapted to working remotely, a review of the head office space requirement has been carried out. With flexible working expected to reduce the Bank's desk space requirement permanently, additional office space which was purchased in 2018 has been identified as being surplus to requirements, and as a result has been made available for sale.

With the move towards online access across the industry, the Bank reviewed its branch network and made the difficult decision to close Manchester and Leicester branches. The changing ways in which customers interact with the Bank mean that we are constantly evaluating the best way to ensure we can offer the personal service that our customers value, whilst also ensuring that we keep costs at levels which allow us to continue to offer competitive, attractive expected profit rates to liability customers and attractive rental rates to asset customers.

The rollout of the Bank's new online banking platform and mobile app coincided with the pandemic in the UK, as well as a busy ISA period and the effective closure of the UK home finance market. This led to significant pressures on the Bank's customer services team at the same time as the Bank was arranging for as many people as possible to work from home. The combination of higher call volumes and reduced staff availability resulted in high levels of complaints in the first half of the year, a trend seen across the industry. However, by Q4, a 55% reduction in customer complaints from Q1 was seen as these issues were resolved.

The key focus areas for the Bank during 2020 were:	
Operational Resilience	The key challenge faced at the start of the pandemic was ensuring all staff had the required computer hardware to work from home, and the Bank responded quickly to source additional laptop computers, ensuring that all staff were able to work remotely and continue to support customers. The Bank's investment in operational resilience was realised in 2020 as the off-site data centre allowed the Bank to ensure that staff were able to work remotely with reliable infrastructure, and uninterrupted access to the Bank's systems.
Leadership Team	The Bank has seen a number of changes in its leadership team in 2020, with Peter Horton being welcomed as the new CEO in April, who was immediately faced with the challenges of Covid-19. Peter Horton took over from interim CEO Ahmed Swaleh Abdisheikh, who continued to work with the Executive team throughout the year, before stepping back to resume a role as a Non-Executive Director (NED) in January 2021. The Bank also welcomed its first female NED, Kathryn Kerle in December 2020 as Patrick Newberry prepared to step down in January 2021. She was joined by Caroline Bradley in January 2021. Simon Moore and Richard Sommers both stepped down from the Board in October 2020, after 18 months and over three years with the Bank respectively, with Malcolm Brookes taking over the role of Chairman on an interim basis while the Bank looks for a new permanent chair.
Investment and Project Delivery	The Bank launched its new mobile app at the start of the year and continued to invest in upgrades and enhancement over the course of the year, with plans to continue to improve the available features going forwards. The Bank completed upgrades to its telephony platform and complaints management systems in the year to ensure a higher quality of service for customers. The Bank also made significant investment in regulatory projects, and has implemented measures to ensure compliance with the most recent EU Payment Services Directive (PSD2), with further elements to be completed during 2021. In addition, a number of internal anti money laundering (AML) and financial crime compliance upgrades were completed in the year to ensure that the Bank's systems are robust and able to support regulatory requirements, and improve risk management, on an ongoing basis.
Risk Management Enhancement Plan	The extensive work undertaken during 2018 and 2019 entered the embedding phase during 2020, with policies, governance and controls all now entering a phase of continuous improvement. The bank will continue to maintain a strong AML and financial crime focus to ensure that the benefits of the investment made in this area over the last three years are fully realised. The Bank also underwent an Internal Controls on Financial Reporting (ICFR) review as part of its reporting to its parent.

Financial Performance

The financial statements for the year ended 31 December 2020 are shown on pages 34 to 70.

Profit before tax for the year of £4.20m (2019: £6.49m) declined by £2.29m from 2019, driven primarily by the impact of Covid-19. Bank of England base rate (which we use as benchmark to price our HPP products) changes resulted in the Bank reducing its variable rental rate products, in line with the market, but did not pass on the full impact of expected profit rate reductions to savers, reducing the net income for the year. In addition, the deterioration in the wider economy and outlook resulted in additional provisions being recognised against financial assets. Despite this challenging economic climate, the Bank was able to grow its CPF book significantly, with the enlarged book providing a solid base for the future. Profits were boosted in 2020 by the realisation of gains on the sale of sukuk, and while overall costs reduced from the prior year, there were several one-off charges linked to work on the Bank's strategy and related actions. These two non-recurring items broadly offset each other, and the Bank remained profitable on a core basis.

As noted above, net income was adversely affected by the reduction in the Bank of England base rate, with a significant proportion of asset rental rates reducing almost immediately, whilst returns paid to depositors were subject to a notification period of 60 days. The Bank also chose not to pass on the full base rate reduction to depositors, which ensured it continued to offer some of the best available expected profit rates on the market. Towards the end of the year, the Bank began to build its deposit base, to maintain sufficient liquidity to facilitate the call of the Tolkien Sukuk, which was made on April 20th 2021.

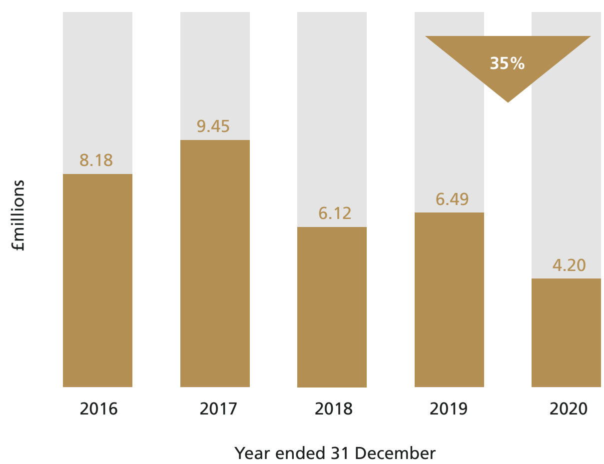
The Bank managed to reduce its operating cost base despite the challenges introduced by Covid-19, as well as the impact of a number of one-off costs relating to strategic consultancy. The Bank continued to invest in its core and digital technology base, which is expected to result in higher levels of amortisation in the future but will enable it to offer customers the flexible interactions expected in the current market.

The uncertainty attributable to Covid-19 also resulted in the Bank increasing its expected credit loss provision (ECL), primarily driven by the commercial book. There was a 14% increase in the HPP ECL, with coverage moving to 0.11% (2019: 0.10%), and a 117% increase in CPF ECL with coverage of 0.46% (2019: 0.25%). The CPF increase was partly driven by the growth in the book, with the impact of revised economic conditions driving 84% of the increase. The primary driver of the provision increase was the impact of economic uncertainty, most significantly the impact on non-residential CPF collateral values. The economic challenges have had a lower impact on the HPP book and residential CPF financing, as the continued increase in house prices has meant that average finance to value ratios have fallen. While unemployment has increased and is expected to continue to do so, Government support measures, among other factors, has meant that so far, no significant increase in customers in arrears has been seen.

Additionally, the Bank's recent ICAAP has concluded that the Bank has more than adequate capital to meet regulatory requirements and also to satisfy the Overall Pillar 2 Rule and the PRA's threshold conditions. The assessment takes into account the current macroeconomic (Covid-19) conditions and also looks at the Bank's capital position should these macroeconomic factors see further significant deterioration.

The Bank has supported customers with payment holidays in line with government requirements. Income has continued to be recognised for these customers, and while over 90% of payment holidays had completed before year end, there were still a number of customers on payment holidays at year end. The Bank has not automatically recognised an increase in ECL for customers on payment holidays unless there is evidence that there have been other relevant changes to circumstances that indicate more prolonged financial difficulties.

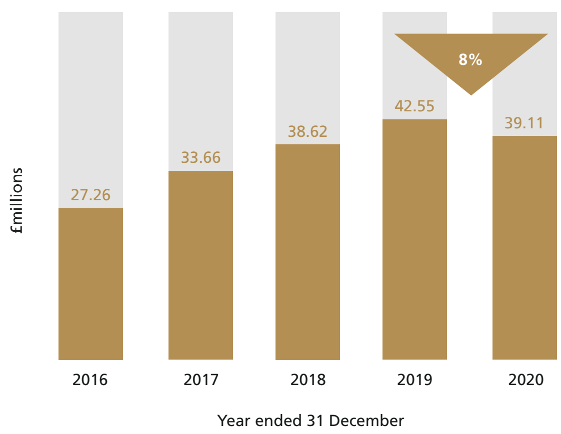
Profit Before Tax



Key performance indicators for 2020 are summarised below:

Key Financial Metric	Basis of Calculation	2020	2019
Profit before tax		£4.2m	£6.5m
Profit after tax		£3.8m	£6.1m
Cost to income ratio	Total operating expenses for the year (including depreciation and amortisation) divided by total income.	89%	85%
Return on equity	The ratio of profit for the year (after tax) to average equity, expressed as a percentage.	2.45%	4.4%
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.	13.4%	13.2%
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.	288%	517%

Total Income Growth



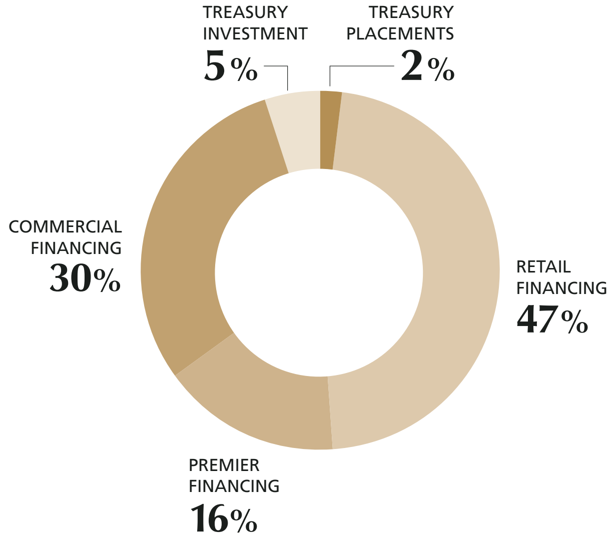
As set out above, total income decreased in the year due to the impact of both Bank of England base rate changes, and also by the overall global decrease in yields for placements and sukuk investments.

The reduction in Base rate impacted income in the year due to the absolute impact on returns and also the timing of rental rate cuts on assets, which were enacted more quickly than those on liabilities. In addition, for liabilities, the full base rate reductions were not passed on to all account types. The timing of changes also impacted the LIBOR-linked Tolkien sukuk, with LIBOR rates not falling significantly until after the April rate reset, meaning higher outflows continued on Tolkien until July 2020.

The Bank expects to grow income over 2021 driven by growth in the CPF book. This is expected to be combined with a reduction in outflows due to lower liabilities following the redemption of Tolkien, and lower average expected profit rates being paid.

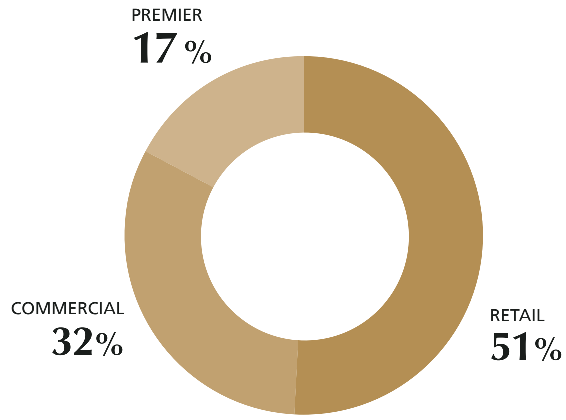
The charts on the following page illustrate the split of financing assets and income.

Income from Islamic Financing Transactions by Type



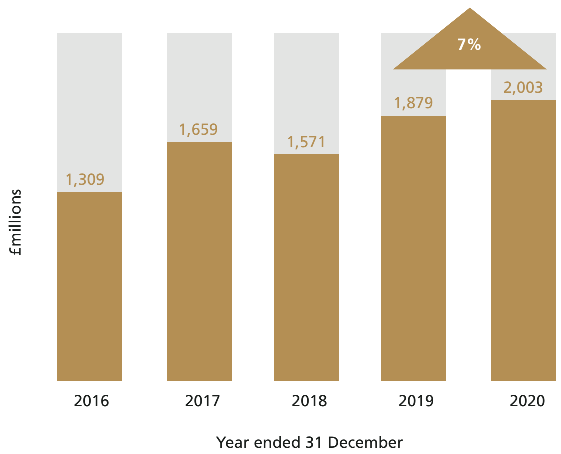
2020 total £65.90m (2019: £71.49m)

2020 Financing Assets by Sector



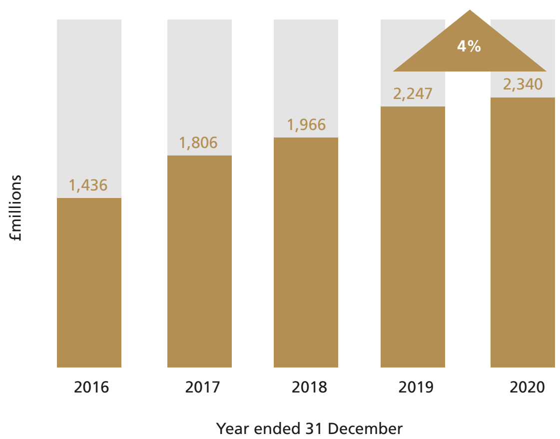
2020 total £1,751m (2019: £1,650m)

Total Deposits

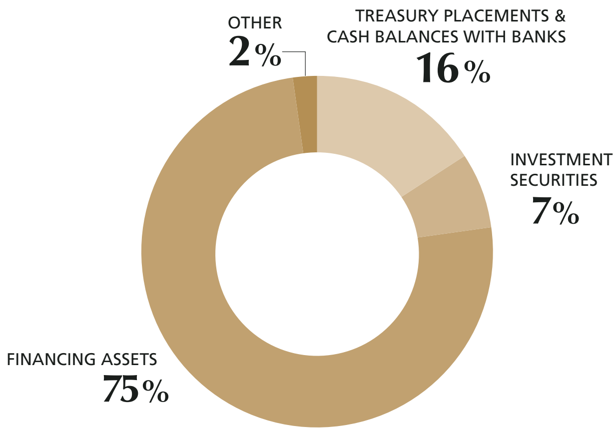


The result of the growth in deposits was that the Bank's total balance sheet grew by 4.1% during 2020, finishing the year at £2.34bn (2019: £2.25bn).

Total Assets



2020 Total Asset Breakdown



2020 total £2,340m (2019: £2,247m)

The Strategic Plan

The Bank's strategic intent is to implement strong and robust risk management and operational resilience capability across the Bank, 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:

Enhance customer experience and continuously improve the customer journey	**Ensure continued enhancement and maintenance of risk management**	**Ensure continued enhancement and maintenance of risk management**	**Improve risk-adjusted return on capital employed (ROCE)**	**Leveraging existing products and developing add-ons to existing products**

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

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 cost to income ratio

Clearly defining 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 GCC

Improving profitability driven by operating leverage

- Achieving cost efficiency from technology-focused, efficient operations and infrastructure, whilst achieving economies of scale through focussed financing

Enhancing the product proposition

- The Bank will seek to enhance its understanding of its customer base in order to develop its existing products, exploring new themes and niches to meet the needs of those customers

Managing risk

- Utilising the strength of an embedded, enhanced risk management framework to allow the Bank to optimise reward whilst remaining within the desired risk appetite.
- Managing the impact of the Covid-19 driven macro-economic situation

Our market and competition

The Bank is well-positioned to help shape the future of Sharia compliant and responsible 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 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 range of Sharia compliant products in the UK, and the main provider of Islamic home finance in the UK
- 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 expected rates of return
- has established a loyal customer base amongst Muslims and non-Muslims alike, demonstrating the popularity of ethical banking across all faiths
- 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 the 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 has ample liquidity to meet the needs of its customers, as well as regulatory requirements. The Bank has developed a plan to ensure that liquidity requirements are effectively managed, and meet all applicable regulations and planned asset growth.

The Bank is expecting to participate in the upcoming Sharia compliant Alternative Liquidity Facility from the Bank of England to support its liquidity management during the course of 2021.

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 customer needs.

Expected rates of return are monitored and managed to attract a longer 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 has continued to seek diversified wholesale funding through its dedicated Commercial office in central London. Whilst the Covid-19 pandemic has resulted in some companies withdrawing and utilising their cash reserves, the impact on the Bank has not been significant.

Tolkien sukuk

The Bank issued the Tolkien sukuk in 2018 to diversify its funding base. While this has served the Bank well over the last few years, providing a low cost funding source, the change in market rates after the outbreak of the Covid-19 pandemic has resulted in the Bank deciding to call the sukuk and fully redeem it in April 2021. The margin rate was scheduled to increase from 0.8% to 1.6%, which would make the sukuk uncompetitive with other available funding. The Bank has sufficient available funding from retail and wholesale sources to replace this funding and has been preparing for the redemption during the latter half of 2020.

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 when delivering its strategy in a safe and controlled way. The Bank's risk appetite is formally reviewed by the Board of Directors at least annually.

The review 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 includes several key components, including:

- Robust corporate governance, committee structures and delegated authorities
- Risk management policies and procedures aligned to the principal risks that the Bank faces
- The three lines of defence model
- Key integrated risk process, such as Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), Recovery & Resolution Planning (RRP), 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 to the overall RMF. Significant progress was made during 2019 and 2020 in implementing and embedding improvements to the overall RMF. 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:

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.

Second line of defence:

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 also provide a second line of defence from the Sharia compliance team.

Third line of defence:

The Bank's Internal Audit function is responsible for independently reviewing the effectiveness of the risk management structure and internal controls 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 Chair 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 Covid-19 and climate change, 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 sanction.

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 or (b) the deterioration of creditworthiness of parties to which the Bank is exposed. Credit risk has been impacted by the Covid-19 pandemic, with increased economic uncertainty having the potential to increase risk.	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 and reviews of affordability 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 Additional monitoring the impact of Covid-19 on the portfolio, and review of products in the light of expected deterioration in the economy
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. Covid-19 has resulted in enhanced monitoring of capital and liquidity metrics, given the potential impact of external factors on the Bank's financial position	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, stress testing 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 management Contingency funding, Liquidity Contingency Plan (LCP) and RRP development Profit rate swaps to fix rate risk, partly in response to Covid-19 and to reduce overall rate risk exposure, specifically after significant Bank of England base rate and market rate changes
Operational Risk and Resilience The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Covid-19 has forced significant changes in the operational environment, which may affect the risk of loss.	Risk appetite, policies and processes are aligned to the Bank's structure and operating model Regular risk event and rapid loss escalation processes, including reporting of incidents and remediation and follow up programmes Operational Resilience and Business Continuity Planning, including embedding and regular effectiveness testing Continuous review of Operational Risks arising from Covid-19 Structured Risk Control Self-Assessment regime Regular monitoring of change and transition programmes Outsourcing and third party management to ensure operational resilience and business continuity Transition to full work-from-home ability for the majority of staff, with second line review of changes in processes and controls that result
Conduct Risk The risk of loss resulting from unfair customer outcomes. Covid-19 has resulted in a higher number of customers suffering financial difficulties. The Bank has provided assistance and forebearance whenever appropriate.	Risk appetite, policies and processes are aligned to the Bank's structure and operating model Detailed monitoring and management of the Bank's nine defined key customer conduct outcomes 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 and Treating Customers Fairly principles Ongoing staff awareness training (including as part of induction training), supported by a clearly defined risk culture which is actively monitored and continually assessed Strong internal communication and controls around processing of payment holidays and updated guidance around dealing with customers in financial difficulty to ensure compliance with frequently updated PRA and FCA requirements during the Covid-19 pandemic Collaborative working across the bank to ensure that customers were offered appropriate support during the pandemic

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 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 Covid-19 has resulted in an increase in the prevalence of fraud targeted at customers across the industry.	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, Politically Exposed Persons (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 the year
Information Risk The risk of loss resulting from the compromise of information relating to its confidentiality, integrity, accessibility, or availability. Increased home working has resulted in some changes to information risk the working environment is now subject to fewer controls.	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 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 Continuous review of Operational Risks arising from Covid-19 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. The change in the external environment following Covid-19 has resulted in significant challenges to the Bank's existing plans.	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 Review of the overall market and competitor analysis to inform the strategic plan and approach to market and continual update of 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 Monitoring, oversight and challenge of the Bank's activities by an independent Sharia Supervisory Committee and internal Sharia compliance department. Review of products and initiatives prior to changes being implemented to ensure continuing Sharia compliance across all areas of the business and product offerings

Ethical Roadmap

Al Rayan 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

As a result of the pandemic, the Bank saw a significant shift in communication, moving to online meetings and having a greatly reduced environmental impact from travel. From April to December, the Bank reduced its travel costs by over 90% as a result of a reduction in in-person. There was also a reduction of more than 30% in electricity usage across the Bank due to staff primarily working from home. The Bank's report on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 is set out below. In compiling this information, the Bank has used the GHG Protocol Corporate Accounting and Reporting Standard and energy supplier invoice information. Greenhouse gas emissions are reported as a single total, by converting them to the equivalent amount of carbon dioxide using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2017.

	2020 Carbon Dioxide (tonnes)
Scope 1 – direct emissions from combustion of fuel (heating gas and vehicle fuel)	14
Scope 2 – indirect emissions from electricity purchased	174
Total Scope 1 and 2 emissions	**188**
Environmental intensity indicator (tonnes of carbon dioxide per £1m income)	**2.9**

As the end of the pandemic comes in sight, the Bank is looking at its environmental strategy given the success of new ways of working during the pandemic, to identify core areas where the Bank can continue to minimise its climate footprint and maintain the positive effects that have resulted despite the challenge of conditions during 2020.

In addition to the work relating to the Bank's internal activities, the Bank is currently undertaking a comprehensive assessment of the financial risks of climate change. This work will be ongoing during 2021 and will consider the potential impacts on the economy as a whole, as well as the specific risks relating to the Bank's activities, in particular property.

Gender equality targets

Board diversity – in line with our Board diversity aspirations at least one female candidate was interviewed for any board vacancies in 2020. During 2020, the Bank welcomed its first female board member, Kathryn Kerle, as a NED as part of its commitment to gender diversity. Kathryn was joined by Caroline Bradley in January 2021.

Al Rayan is also 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
- Operate a zero-tolerance policy towards all forms of violence at work, including verbal and/or physical abuse and sexual harassment

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 and actions during the year, 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. The Bank, in line with the rest of the industry, put a temporary halt to sales of higher FTV products shortly after the first Covid-19 lockdown in the UK. This action was to assess its position in light of the base rate changes and economic uncertainty and ensure it could continue to comply with regulatory requirements. Following this assessment it was able to reintroduce these in July 2020 to continue to support customers. Rental rates were also reduced on fee-assist products to make these more affordable to customers. The Bank also introduced a five year product in the year in response to customer demand.

Employee reporting metrics are reviewed by the Board, and during the year employee representatives were appointed to feed back 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. As a result of the Covid-19 pandemic the Bank ensured regular communication with staff to provide updates on the Bank's plans in respect of working arrangements, and supported staff in working from home as much as possible. The Bank also engaged with staff on their experiences working from home, and has used feedback and experience to inform the Bank's future plans and requirements for staff and increasing the flexibility of working arrangements.

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.

The Bank has established 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. During the pandemic, in recognition of the cashflow difficulties that many smaller companies in particular were facing, the Bank undertook to pay all suppliers as soon as possible on receipt of an invoice, and ahead of terms if possible.

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. As a result of the engagement between the Islamic finance sector and the Bank of England, a new Sharia compliant Alternative Liquidity Facility was announced in December 2020 which is expected to be available for Islamic banks in early 2021 to support banks in managing their liquidity requirements.

Outlook for 2021

Economic outlook

The economic conditions facing the UK and world economy as we enter 2021 are characterised by significant uncertainty. Whilst there are some grounds for optimism with the continued roll out of vaccines in the UK, many parts of the world are likely to take considerably longer to return to normality. The key economic indicators which impact the Bank are unemployment, residential and commercial property prices and central bank base rates. Whilst some deterioration in unemployment and house prices is expected, and base rates are likely to remain low for the foreseeable future, it is still very difficult to predict how quickly the economy will return to pre-pandemic levels.

House prices have continued to rise throughout 2020, despite widely forecast falls. The majority of economic forecasts indicate that a cooling of the housing market is likely, although, when, and how significant any correction is, remains uncertain. Commercial property prices have fallen during 2020, and changes in working patterns and retail markets mean that prices are likely to remain volatile for some time. However, the majority of the Bank's financing assets are backed by residential property, and as such residential property prices remain the most significant factor affecting performance. The current forecasts used by the Bank in its IFRS 9 expected credit losses are detailed in note 29, along with a sensitivity analysis of the effect of changes.

Unemployment can also impact the Bank's performance, as it can affect the ability of customers to pay financing agreements. Whilst unemployment is also forecast to rise during 2021 as the full impact of the pandemic is felt on the economy, at present the Government's intervention in the employment market has limited the impact. As this support is gradually withdrawn, it is likely that unemployment will continue to rise, although, as with house prices, the extent is subject to significant uncertainty. The Bank has incorporated a range of forecasts into its expected credit loss model, and these are again detailed in note 29, along with sensitivities.

The Bank entered into a number of Sharia compliant Profit Rate Swaps (PRS) during 2020 in order to reduce its exposure to profit rate risk across the portfolio, driven in part by the significant changes in rates which came about in response to the Covid-19 pandemic and subsequent actions taken to mitigate the economic impacts. Current forecasts are for sustained low rates, and the Bank of England has entered into discussions with the industry in preparation for the potential of negative central bank rates. As a result of the rate changes early in 2020 and the expectation of continued low rates, the Bank has taken steps to redeem the Tolkien sukuk at the step up date.

Against the backdrop of the pandemic, the UK's transition period for leaving the EU ended on 31 Dec 2020, with a trade deal being agreed. As a UK-focused Bank with links to the Middle East through its parent, the primary exposures the Bank has to Brexit are through its impact on the general state of the UK economy. Whilst the impact of the future trading relationship with the EU is still in the process of being fully understood, and many of the effects have undoubtedly been masked by the ongoing Covid-19 restrictions, the presence of a trade deal should result in the medium-term impact on the wider economy being mitigated. The deal did not include financial services and leaves some degree of uncertainty over the UK's future rules in respect of financial services, however this is not expected to have a significant impact on the Bank due to its primary focus on the UK and Middle East.

The Bank's links to the Middle East market have been challenged by the travel restrictions in place due to the pandemic, with the level of new financing curtailed by the inability of potential customers to access the UK. However, it is expected that when restrictions are eased, this market will bounce back strongly, and may be subject to increased activity as a result of pent up demand. In addition, the easing of tensions between Qatar and other GCC nations may also have a positive impact on the Bank.

The End of LIBOR

The way banks fund themselves has changed and it has been deemed that LIBOR is no longer a sustainable benchmark rate. On 5 March 2021, the Bank of England announced that after 31 December 2021 the majority of LIBOR rates, including all sterling LIBOR rates would either cease to be provided by an administrator, and publication of most LIBOR settings will cease immediately after these dates. As a result, users of LIBOR need to prepare by transitioning to alternative, more robust benchmarks, such as overnight risk-free rates. The FCA will consult during 2021 on using proposed new powers that the Government is legislating to grant to it under the Benchmarks Regulation (BMR), to require continued publication on a 'synthetic' basis for some sterling LIBOR settings, which may be used in respect of already in place LIBOR linked contracts which have not been amended ahead of LIBOR publication ceasing.

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 the benchmark from LIBOR to SONIA before the end of 2021 and is considering any challenges that come with this transition to SONIA accordingly, in particular with regard to Sharia compliance. The Bank has already undertaken SONIA linked profit rate swaps as part of its risk management, as these closely mirror current LIBOR rates, and on its commercial financing book has begun to incorporate transitional arrangements into new financing deals and on rollover of existing deals. The call of the Tolkien sukuk in April 2021, which is LIBOR-linked, means no further planning is required to transition its benchmark rate.

Business outlook

The Bank has been investing heavily in its infrastructure during 2019 and 2020, to ensure it is well-placed to take advantage of future opportunities as they arise. The combination of Covid-19 and Brexit has resulted in what are likely to be significant changes in the UK economy. However, until activity begins to return to normal, it is very difficult to identify the extent to which the Bank's key markets will be affected. As such, the level of uncertainty is higher than normal, which is reflected in the Bank's forecasts, which are wider-ranging, and less focussed on the central scenario than in previous years. Nonetheless, a strong capital base, well-collateralised asset portfolio, and low historic default rates, mean that the Bank is well placed to benefit from the inevitable bounce back of the economy, whether that is in 2021 or beyond.

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

Peter Horton
Chief Executive Officer

4 May 2021

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 2020.

Directors and Directors' interests

The Directors who held office during the year ended 31 December 2020 are as follows:

- Adel Mohammed Tayeb Mustafawi (b)
- Ahmed Swaleh Abdisheikh (a) (c)
- Malcolm Brookes (Interim Chairman) (a) (b) (c)
- Peter Horton (a) (b) (c)
- Kathryn Kerle (a) (b) (c)
- Caroline Bradley (a) (c)
- Simon Moore (Chairman) (resigned)
- Richard Sommers (resigned)
- Patrick Newberry (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 23 October 2020, Simon Moore resigned as Chairman of the Board and as a Director. Malcolm Brookes was appointed as Interim Chairman of the Board on 23 October 2020.

On 1 October 2020, Richard Sommers resigned as a Director.

Patrick Newberry was appointed as a non-executive director on 7 January 2020 and resigned on 23 January 2021.

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

Kathryn Kerle was appointed as a non-executive director on 12 December 2020.

Caroline Bradley was appointed as a non-executive director on 26 January 2021.

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 2020:

	2020	2019
	%	%
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% (2019: 70%) and Qatar Holding LLC 30% (2019: 30%).

Sharia Supervisory Committee members

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

- Dr. Abdul Sattar Abu Ghuddah (Chairman until his passing in October 2020)
- Sheikh Nizam Yaqoobi (Acting Chairman from October 2020)
- 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 2020 (2019: £nil).

Political contributions

The Bank made no political contributions during the year ending 31 December 2020 (2019: £nil).

Employees

The Bank recognises the importance of effective communication with staff. Communication includes employee feedback and is encouraged through a variety of methods 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 Employee Opinion survey is undertaken on a regular basis 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. How the Bank engages with wider stakeholders, and required reporting of carbon emissions is also included within the Strategic Report.

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 from these profits. 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 continued uncertainty as a result of Covid-19 during the year has resulted in significant uncertainty in the likely future macroeconomic environment in the UK, Europe and the rest of the world. The Bank has modelled a range of possible macro-economic forecasts, and produced capital and liquidity forecasts based on these models. Reverse stress testing has been carried out which indicate that the Bank has sufficient capital and liquidity buffers available to continue in the worst case scenarios modelled.

The Bank has also demonstrated its operational resilience during the past 12 months, with the ability to operate from remote locations, whilst maintaining customer service throughout.

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 2020 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:

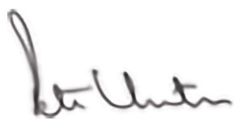
- so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditor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

4 May 2021

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

Directors' responsibilities statement

The Directors are responsible for preparing the Annual 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 the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK 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 UK 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' or the 'Bank'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

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. The non-audit services provided to the company for the year are disclosed in note 9 to the financial statements. 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: • effective profit rate income recognition; • impairment of investment in financing assets; and • going concern 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 £450,000 (2019: £458,000) which was determined using 0.3% of net assets.
Significant changes in our approach	We have introduced a new key audit matter relating to going concern in the current period. In light of the resignation of the Chairman and resignation or retirement of two independent non-executive directors in the second half of 2020, we consider there is a heightened risk that the Board's oversight and discipline in relation to developing strategy in alignment with the Bank's current resources and capabilities is not maintained effectively. Our key audit matter relating to COVID-19 non-adjusting post balance sheet events has been removed for the current year. This is as expected given the timing of the onset of the pandemic in Q1 2020 and reduced uncertainty as at the date of approval of the financial statements. Additionally we have changed the benchmark used for determining materiality. In previous years we have adopted 5% of profit before tax as the basis for determining materiality, however, we have transitioned to using 0.3% of net assets capped at our prior year materiality level, as our materiality benchmark. Please refer to section 6 for further details.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.3.

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.

5.1. Effective profit rate income recognition

Key audit matter description	The financing assets portfolio comprises investments in Commercial Property Finance (CPF) and Home Purchase Plans (HPP). Income from financing assets is recognised on an amortised cost basis using the Effective Profit Rate (EPR) method, in accordance with IFRS 9: Financial instruments. The income recognised from financing assets during the year was £61.2 million (2019: £66.3 million). Management apply judgement in determining the key assumptions relating to the behavioural lives, specifically the time HPP and BTL customers will spend on standard variable rate (SVR) after their incentive rate period ends. Reasonable movements in the behavioural life are able to create material swings in the net income from Islamic financing transactions recognised and we have therefore identified a fraud risk in relation to this key audit matter. In FY20, the onset of COVID-19 and the subsequent impact on customer behaviour and lending conditions further increases the level of difficulty in predicting customer behaviour and therefore increases the risk that inappropriate estimates are adopted within the EPR models. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. Net income from Islamic financing transactions is included in note 6 on page 46 to the financial statements, with management's associated accounting policies detailed within note 4 on page 38. The behavioural life is further disclosed as a key source of estimation uncertainty, within note 5 on page 44 of the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over EPR income recognition with particular focus on controls over significant management assumptions and judgements used in the EPR method. We engaged our analytics specialists to independently rebuild the behavioural lives based on historical redemption data. As part of this we tested the accuracy and completeness of the historical redemption data. We challenged the behavioural life of products by reference to both historical and forecast data – this included our challenge over the data set used to calculate the lives and specifically the redemption trends observed since the onset of Covid-19. As part of our wider assessment of EPR income recognition we used our data analytics specialists to perform a full recalculation of the EPR balances, using an independently generated EPR model. We also tested the completeness and accuracy of the data inputs feeding into the EPR model. We assessed the treatment of fees and charges arising on financial assets and the appropriateness of their inclusion or exclusion in the Bank's EPR model, in line with IFRS 9 requirements.
Key observations	Based on the evidence obtained, we conclude EPR income recognition and the behavioural lives adopted by management to be appropriate. We consider the underlying methodology used for the calculation of EPR for both the HPP and CPF portfolios to be materially compliant in the context of the accounting policies adopted by the Bank and the requirements of IFRS 9.

5.2. Impairment of investment in financing assets

Key audit matter description	The company held allowances for the impairment of financing assets of £3.9 million (2019: £2.4 million) against financing assets of £1,754.9 million (2019: £1,652.4 million).

	For financial assets measured at amortised cost, IFRS 9 requires the carrying value to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses ('ECL') is complex and involves a number of judgements and estimates relating to probability of default, exposure at default, loss given default, significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour, credit bureau data and management's experience. They are also affected by management's consideration of the future economic environment. The most significant assumptions and judgements applied in the impairment model are: • The application of macroeconomic scenarios, including underlying forecasts and the applied weightings; • The completeness of management overlays, including any overlays that are required to ensure that the model is fully capturing the impact of COVID-19; and • The application and determination of stages under IFRS 9, specifically on those accounts who utilised one or more available payment holidays. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. There is an increased level of risk since the prior year in light of COVID-19 and its impact on multiple components of management's impairment provisioning methodology. Impairment of financing assets is included in note 14 of the financial statements. Management's associated accounting policies are detailed within note 4, with sources of key estimation uncertainty disclosed in note 5.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the allowance for impairment with particular focus on controls over significant management assumptions and judgements used in the calculation of ECL. For the macroeconomic scenarios we: • assessed the appropriateness of management's scenarios and probability weightings, leveraging our economic specialists to challenge the company's economic outlook by reference to other available economic outlook data; and • performed a benchmarking exercise to compare the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were unemployment and the house price index ("HPI"). For the completeness of management overlays, we engaged our internal credit risk specialists to perform a full model methodology and implementation review, which specifically considered whether any identified model weaknesses needed addressing by means of an overlay. For the determination and application of the staging of the financing asset portfolios, we challenged the judgements made by management with reference to the performance of customers after the expiry of their payment holiday, along with engaging our internal credit risk specialists to challenge the treatment applied by management.

	More widely, our credit risk specialists assessed compliance of the modelling approach with IFRS 9 and verified whether the modelling approach was being implemented in practice within the models themselves. Our work was further supported by testing a sample of loans and key input data fields, to assess whether the data used in the ECL calculation was complete and accurate.
Key observations	Based on the evidence obtained, we consider that the assumptions underpinning the allowance for impairment are determined and applied appropriately and the recognised provision is materially reasonable. We also consider the underlying methodology to be materially compliant in the context of the accounting policies adopted by the Bank and the requirements of IFRS 9.

5.3. Going concern

Key audit matter description	During 2020, the company has seen a number of director retirements and resignations. The Board has also been addressing a number of recommendations raised within the Board effectiveness and governance review, which was commissioned by the Board and performed by an external advisor. Throughout this period the Board has kept the regulator updated on progress against the recommendations. The potential negative impact that these factors could have on the effective oversight and decision making by those charged with governance, along with the impacts of the Covid-19 pandemic on the general economic environment, has led to an increased risk regarding the appropriate adoption of the going concern basis of accounting. Going concern is included as a key audit matter for the first time in FY20 given the matters outlined above and the increase in our audit effort in this area. Note 4 on page 38 sets out management's accounting policy and conclusions relating to the adoption of the going concern basis of accounting. Management has assessed the company's financial position, cash flow requirements, access to funding and key assumptions and their associated risks; coupled with the implementation of the recommendations raised within the Board effectiveness and governance review, this has led the directors to conclude that the going concern basis of accounting is appropriate.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the adoption of the going concern assumption, with particular focus on controls surrounding the review, challenge and approval of financial forecasts. We engaged our prudential specialists to review the latest versions of the company's ICAAP and ILAAP as part of our overall assessment of capital and liquidity resources. As part of this, we have additionally challenged the achievability of the underlying forecasts, specifically considering the current economic uncertainties and projected adherence with key regulatory metrics. We reviewed key correspondence between the company and its regulators, the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA'). Bilateral meetings were also held with both parties throughout our audit. This was

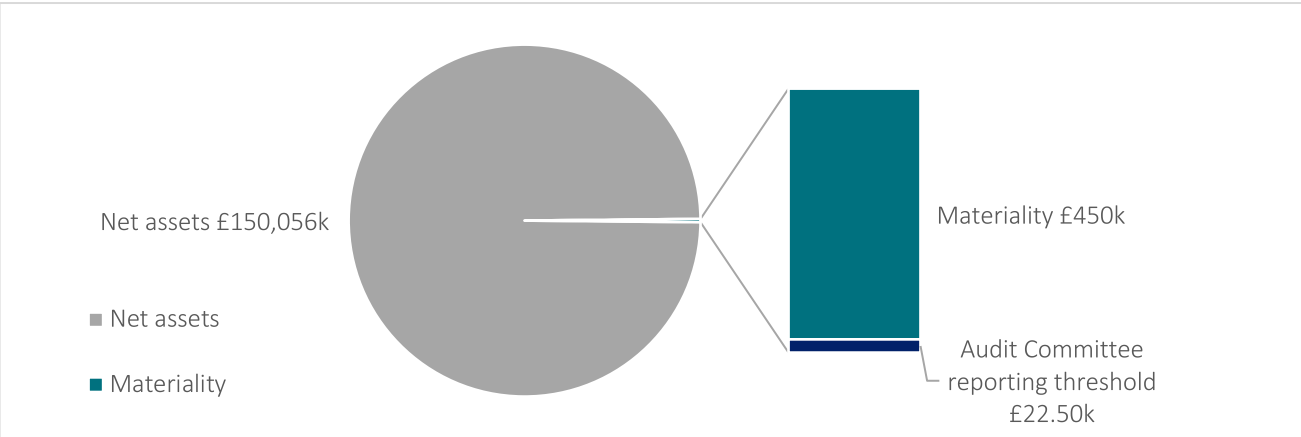
	supported by a review of the latest version of the external advisor's report, and we also challenged the progress against identified actions. We reviewed progress against the actions identified by the external Board effectiveness and governance review as well as progress on the replacement of the Chair and non-executive Board positions.
Key observations	We have found the adoption of the going concern basis of accounting to be appropriate.

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	£0.45 million (2019: £0.45 million)
Basis for determining materiality	0.3% of net assets, capped at our prior year materiality level (2019: 5% of profit before tax)
Rationale for the benchmark applied	We changed the materiality benchmark from the prior year because we expect net assets to provide a more stable benchmark than profit before tax which is subject to current and future volatility as a result of the COVID-19 pandemic. Further, net assets is also a key metric for users of the financial statements given the capital requirements arising from being a regulated Bank.



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 2020 audit (2019: 70%). In determining performance materiality, we considered a number of factors including: our understanding of the control environment and controls reliance obtained; our understanding of the business; and the number of uncorrected misstatements identified in the prior year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £22,500 (2019: £22,900), 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

7.1. Scoping

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 UK based and all material balances are audited directly by our UK audit team.

7.2. Our consideration of the control environment

We identified a key IT system for the company in respect of the core banking and general ledger application. We worked with our IT specialists to perform testing of the general IT controls ('GITCs') associated with this system and relied upon IT controls across the system identified.

We planned to take a controls reliance approach in relation to both the financing assets and customer deposits business cycles. This is consistent with 2019. We tested the relevant automated and manual controls for these business cycles and were able to adopt a controls reliance approach, as planned. We did not plan or obtain controls reliance over EPR income recognition, impairment of financing assets or going concern.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 relevant internal specialists, including real estate valuations, IT, prudential risk, economic, fraud risk and credit risk regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- management's response to the Board effectiveness and Governance review (see page 4).

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 within the EPR method of accounting for revenue recognition and the impairment of 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 and 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 regulation set by the Financial Conduct Authority and by the Prudential Regulation Authority relating to regulatory capital and liquidity requirements, which are fundamental to the company's ability to continue as a going concern.

11.2. Audit response to risks identified

As a result of performing the above, we identified effective profit rate income recognition and the impairment of 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 HMRC, the FCA and the PRA;
- holding direct inquiries with the Bank's regulators, the FCA and PRA;
- reviewing the externally commissioned Board effectiveness report, including progress against identified actions;
- holding direct inquiries with the third party who performed the Board effectiveness review; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

In our opinion the information given in note 33 to the financial statements for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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

13.1. 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.

13.2. 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.

14. Other matters which we are required to address

14.1. 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 four years, covering the years ending 31 December 2017 to 31 December 2020.

14.2. 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).

15. 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
4 May 2021

Financial Statements

Statement of comprehensive income

For the year ended 31 December 2020

	NOTE	2020 £'000s	2019 £'000s
Income from Islamic financing transactions	6	**65,896**	71,487
Returns to banks and customers	6	**(29,682)**	(30,951)
Net income from Islamic financing transactions		**36,214**	**40,536**
Fees and commission income	7	**1,157**	1,825
Fees and commission expense	7	**(363)**	(347)
Net fees and commission income		**794**	**1,478**
Gain on disposal of investment securities		**2,941**	626
Foreign exchange loss		**(840)**	(87)
Other income		**2,101**	**539**
Total income		**39,109**	**42,553**
Impairment charge	14	**(1,544)**	(739)
Staff costs	8	**(17,686)**	(22,077)
General and administrative expenses		**(11,329)**	(10,723)
Depreciation	16	**(3,040)**	(2,062)
Amortisation	17	**(1,312)**	(465)
Total operating expenses		**(34,911)**	**(36,066)**
Profit before tax		**4,198**	**6,487**
Tax charge	11	**(360)**	(376)
Profit for the financial year		**3,838**	**6,111**
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		**3,338**	2,370
Amounts transferred to the income statement		**(2,941)**	(626)
Other comprehensive income for the financial year		**397**	**1,744**
Total comprehensive income for the financial year		**4,235**	**7,855**

▶ The results from the year are derived entirely from continuing activities.

▶ The notes on pages 38 to 70 are an integral part of these financial statements.

Statement of financial position

As at 31 December 2020

Assets	NOTE	2020 £'000s	2019 £'000s
Cash	12	**2,638**	1,225
Treasury placements and cash balances with banks	13	**383,864**	339,511
Home Purchase Plans	14	**1,193,727**	1,184,028
Commercial Property Finance	14	**557,267**	466,034
Investment securities	15	**170,751**	227,245
Property and equipment	16	**11,198**	14,422
Intangible assets	17	**5,069**	4,061
Deferred tax asset	18	**5,977**	5,846
Sharia compliant derivative financial instruments	27	**5,137**	1,285
Other assets	19	**4,193**	3,643
Total assets		2,339,821	**2,247,300**
Liabilities and equity			
Liabilities			
Deposits from banks	20	**37,867**	37,806
Deposits from customers	21	**1,965,001**	1,840,823
Subordinated funding	22	**25,000**	25,000
Sukuk funding	14	**146,944**	180,991
Other liabilities	23	**14,948**	16,859
Sharia compliant derivative financial instruments	27	**5**	-
Total liabilities		2,189,765	**2,101,479**
Equity			
Share capital	24	**121,219**	121,219
Contingent convertible investment	24	**3,000**	3,000
Share premium		**54,807**	54,807
Revaluation reserve		**753**	356
Retained deficit		**(29,823)**	(33,660)
Profit stabilisation reserve		**100**	99
Total equity		150,056	**145,821**
Total liabilities and equity		2,339,821	**2,247,300**

The notes on pages 38 to 70 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 4 May 2021 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 2020

	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 2020	121,219	54,807	3,000	356	(33,660)	99	145,821
Profit for the year	-	-	-	-	3,838	-	3,838
Other comprehensive income	-	-	-	397	-	-	397
Transfer to profit stabilisation reserve	-	-	-	-	(1)	1	-
Balance at 31 December 2020	**121,219**	**54,807**	**3,000**	**753**	**(29,823)**	**100**	**150,056**
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**

▶ The notes on pages 38 to 70 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2020

Cash flows from operating activities	NOTE	2020 £'000s	2019 £'000s
Profit before tax		4,198	6,487
Adjustments for:			
Depreciation		3,040	2,062
Amortisation		1,312	465
Gain on disposal of investment securities		(2,941)	(626)
Impairment charges on financial assets		1,544	739
Other non-cash items included in profit before tax		1,092	254
		8,245	9,381
Movement in:			
Treasury Placements		(126)	1,200
Consumer finance		-	3
Home Purchase Plans		(9,860)	(30,181)
Commercial Property Finance		(92,616)	12,555
Other assets		(150)	1,198
Derivative financial instruments		(3,852)	(2,485)
Deposits from banks		61	13,921
Deposits from customers		124,178	293,367
Other liabilities		(1,053)	(6,360)
Deferred tax asset		131	69
Taxation paid		(432)	(255)
Net cash inflow from operating activities		**24,526**	**292,413**
Cash flows from investing activities			
Net sales / (purchases) of investment securities		60,009	(85,029)
Purchase of property and equipment		(250)	(1,754)
Net investment in intangible assets		(2,319)	(1,585)
Net cash inflow / (outflow) from investing activities		**57,440**	**(88,368)**
Cash flows from financing activities			
Repayment of sukuk funding		(34,046)	(38,154)
Issuance of contingent convertible financing		-	3,000
Payment of principal in respect of leases		(1,096)	(1,082)
Payment of financing in respect of leases		(347)	(218)
Net cash outflow from financing activities		**(36,454)**	**234,145**
Net change in cash and cash equivalents		**46,477**	**167,591**
Foreign exchange loss		(840)	(87)
Cash and cash equivalents at 1 January		339,739	172,235
Cash and cash equivalents at 31 December		**385,376**	**339,739**

▶ The notes on pages 38 to 70 are an integral part of these financial statements.

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 2020. 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 issued by the IASB and approved by the Directors' and are presented on a historical cost basis as modified by the recognition of Sharia compliant derivative financial instruments at fair value through profit or loss and investments at fair value through other comprehensive income.

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 UK

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.

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 from these profits. 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.

Covid-19 has caused significant uncertainty during the year relating to the likely future macroeconomic environment in the UK, Europe and the rest of the world. The Bank has modelled a range of possible macro-economic scenarios, 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
Fee and commission income that relates mainly to transaction and service fees is recognised as the related services are performed as required under IFRS 15.

Directly attributable fees and costs relating to Commercial Property Finance (CPF) deals and Home Purchase Plan (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 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.

4. Significant accounting policies (continued)

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. These are assets where the business model is to hold the assets to collect the contractual cash flows and those cash flows represent solely payments of principal and profit.

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 is comprised 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 accounts where there is a balance due from customers on a wa’ad (promise) basis for the customer to pay the outstanding balance, with no profit charged or chargeable.

Consumer finance assets will be recognised when the transaction occurs which gives rise to the payable balance. 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, as there is no applicable profit rate.

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 bank’s 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 adjusted. Rental income is recognised based on an effective profit rate (EPR) measured against the expected life of the contract 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.

Sharia compliant derivative financial instruments
The Bank has two types of Sharia compliant derivative financial instruments used for risk management purposes. The Bank holds Sharia compliant forward foreign exchange arrangements based on the Wa'ad principle, where a promise is made for future exchange of currency amounts. The Bank also has profit rate swap arrangements through Murabaha trades.

These are both 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.

Where the derivative financial instruments held are used for risk management purposes to hedge foreign currency and profit rate exposure, these are not hedge accounted for. For profit rate swaps, the net profit payments or receipts are shown as part of financing income or financing expense balances, as this is where the profit on the hedged items is recognised. Foreign exchange movements are shown as part of the foreign exchange line.

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 expected 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.

4. Significant accounting policies (continued)

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. Exposures may be deemed to be impaired if they are more than 90 days past due or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). Criteria of application is consistent with the definition of default used for internal credit risk management purposes. The impairment provision is determined using the same calculation as stage 2, but with the PD set to 100%.

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

Assets in stage 2 or 3 can be transferred 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 be transferred 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 rate, 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.

Where the ECL model does not capture specific risk elements relating to financing assets, a post model adjustment may be incorporated into the overall ECL figure. These typically relate to specific assets or asset classes, or scenarios where additional factors above the standard economic modelling are expected to impact either the PD, LGD or EAD. These post model adjustments are calculated using similar inputs and methodologies to the core ECL calculation, but may have adjustments applied which are reviewed by management and subject to oversight. See note 5 for further details of the judgements relating to the overlay provisions.

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 inflows 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 in accordance with IAS 37 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. Where a reliable estimate of the expected future cash flows cannot be made, a contingent liability is disclosed but no value is recognised.

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.

4. Significant accounting policies (continued)

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

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

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

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

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

Property and equipment
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and required to bring the asset to its intended condition and location.

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

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

Computer equipment	3 Years
Fixtures, fittings and office equipment	5 Years
Leasehold improvements	Up to 15 Years or over the life of the lease whichever is shorter
Leasehold 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 initially depreciated over the expected duration of the lease arrangement which was used to determine the lease asset and liability on commencement of the lease or the useful life of the asset, whichever is shorter. 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 where these are different from initial recognition. Where the expected useful life of the asset has been reassessed and this does not alter the expected payments, the Right of Use asset will be impaired and remaining depreciation revised to reflect the new expected useful life, without adjustments to the cost of the Right of Use asset or the lease liability.

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 one 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.

4. Significant accounting policies (continued)

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 as part of the short term lease exemption allowed under the standard, which the Bank has opted to utilise.

Other leases
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.

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 is 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 are 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.

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.

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 change in value of the amortised cost in the functional currency attributable to exchange rate movements. 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 key estimate within this calculation is the expected behavioural life of the customer.

Management updates the estimates on expected behavioural life and product switch behaviours to incorporate additional customer information as the customer portfolios 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.

The main judgemental element relates to HPP contracts, since CPF calculations only take into account the amortisation of fees, which is inherently less reliant on judgment.

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. The impact on the balance sheet as at 31 December 2020 from these sensitivities, and corresponding impact to profit is as follows:

Scenario	Profit impact (£'000s)
1 month increase in behavioural life – increase in profit	316
1 month decrease in behavioural life – decrease in profit	(291)

As required by the Financial Conduct Authority (FCA), the Bank has provided payment holidays to a number of customers during the year.

The process of applying these holidays has been to capitalise the rental payments which would have been due from these customers during the holiday period, increasing the outstanding financing balance due from the customer. The Bank has recognised these deferred amounts as income through EPR as part the income from Islamic Financing Transactions line on an EPR basis by adjusting the cash flows to reflect the timing of payments and receipts of cash, in the same way as profit which will be due on development financing when capitalised. The total financing balance at year end includes the capitalised holiday amounts which have been recognised in the year.

The payment holidays have not been considered as a significant modification to the terms of the transaction as profit has continued to be charged but has been capitalised instead of being received through cash payments, and this has not resulted in changes in present value exceeding the 10% derecognition threshold. No changes have been made in the presentation of these deals in the year except where other changes to terms may result in the criteria being met, such as a product switch.

(b) Allowance for expected credit losses

Key Estimates

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 significant increases in credit risk and calculation of ECL are complex and both incorporate forward-looking information and require significant management judgement. The Bank uses two key estimates in calculating its impairment provisions. The two key estimates are the loss given default (LGD) and probability of default (PD).

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.

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

Key Judgements

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 and house price movements, as well as the ability of the Bank to recover outstanding balances in default situations, net of associated costs of recovery.

Judgement is also required for assessing a significant increase in credit risk resulting in a transfer from stage 1 to stage 2. For home financing the threshold is a doubling of the PD from origination, or a decrease in credit score to below the Bank's minimum underwriting requirements. For commercial property financing this assessment is done on a per-customer basis, considering multiple factors including the relevant coverage ratios and economic factors which may impact the commercial sector the customer is active in.

The Bank has used four core scenarios to model the ECL based on different macroeconomic parameters (2019: five). These scenarios are discussed in further detail in note 29, and sensitivity analysis has been performed showing the impact of the scenarios against the ECL applied in the year.

Judgement is also involved in the post model management adjustment, which has been added to the calculated ECL. In 2020 this relates to the CPF portfolio (2019: CPF and HPP). 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.. In 2020 the post model adjustment relates to retail commercial exposure where there is a large degree of specific economic uncertainty which is not captured by the overall economic scenarios. The residential CPF portfolio has not had an overlay included in the ECL balance. The overlay is related to the ongoing impacts of Brexit and Covid-19 on both the ability of the UK population to access physical retail stores, as well as ongoing economic uncertainty among businesses and their ability to continue to trade. In 2019, an overlay was included relating to both HPP and CPF portfolios due to uncertainty over Brexit and the economic environment. In 2020, these impacts were captured as part of the macroeconomic scenario models and model updates.

As required by the Financial Conduct Authority (FCA), the Bank has provided payment holidays to a number of customers during the year.

A customer requesting a payment holiday has not been used on its own to determine a significant increase in credit risk for ECL purposes, unless accompanied by other information which indicates there has been a significant increase in credit risk. As such, customers on payment holidays may have remained as stage 1 exposures, on the basis that the request for a payment holiday is due to temporary cash flow shortages directly as a result of the UK wide restrictions. Should other factors indicate that the difficulties are more long term in nature, then the exposure may be moved to stage 2.

The overall economic impact of Covid-19 has also been incorporated through changes in the ECL scenarios and weightings.

(c) Deferred tax asset recognition

The deferred tax asset (£6.0m) recognised at 31 December 2020 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, and regulatory changes that may have an impact on the utilisation of these losses.

The Bank has consistently made profits since 2014, and expects to continue to do so. As such it has recognised the full asset in relation to the losses incurred prior to 2014. However, the reduction in profits in 2020 as a result of the impact of Covid-19 and the reduction in the Bank of England base rate means that the utilisation of these losses may now take longer than previously envisaged. This change in timescale means that there is increased uncertainty in the timing of the realisation of the deferred tax asset held. However, the directors remain confident that sufficient profits will be realised in the future to utilise all remaining losses.

During the year, the planned reduction in future corporation tax rate was cancelled, and the rate is now expected to remain at 19%. This resulted in an increase to the deferred tax asset recognised. Subsequent to the year end, a further increase in the future corporation tax rate was announced which will further increase the value of the deferred tax asset. Further details can be found in note 34.

6. Net income from Islamic financing transactions

£'000s	2020	2019
Treasury placements	1,438	1,706
Home Purchase Plan	41,577	44,022
Commercial Property Finance	19,595	22,230
Investment securities	3,286	3,529
Income from Islamic financing transactions	65,896	71,487
Deposits from banks	(2,894)	(2,849)
Deposits from customers	(26,788)	(28,102)
Returns to banks and customers	(29,682)	(30,951)
Net income from Islamic financing transactions	36,214	40,536

7. Net fees and commission income

£'000s	2020	2019
Fees and commission income		
Retail customer banking fees	940	1,624
ATM commission	69	88
Other	148	113
Total fees and commission income	1,157	1,825
Transaction fees	(363)	(347)
Total fees and commission expense	(363)	(347)
Net fees and commission income	794	1,478

8. Staff costs

£'000s	2020	2019
Wages and salaries	15,508	19,720
Social security costs	1,498	1,647
Contributions to defined contribution pension plans	663	672
Other staff costs	17	38
Total	17,686	22,077

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

	2020			2019		
	Front Office	Back Office	Total	Front Office	Back Office	Total
Average for the period	82	204	286	108	227	335

9. Auditor's remuneration

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

£'000s	2020	2019
Audit of these financial statements	245	208
Audit-related assurance services	262	50
Other services	-	37
Total	507	295

10. Directors' emoluments

£'000s					
2020	Salary	Bonus	Benefits in kind	Pension contributions	Total
Peter Horton	243	75	-	-	318
A S Abdisheikh*	78	-	-	-	78
Total	321	75	-	-	396

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

£'000s	2020	2019
Adel Mohammed Tayeb Mustafawi	16	28
Ahmed Swaleh Abdisheikh*	11	19
Malcolm Brookes	57	57
Richard Sommers (resigned)	39	52
Robert Sharpe (resigned 2019)	-	14
Simon Moore (resigned)	106	100
Patrick Newberry (resigned)	52	-
Kathryn Kerle	4	-
Total	285	270

▶ The total amount paid to directors during the year ended 31 December 2020 was £285,000 (2019: £270,000).

*Ahmed Swaleh Abdisheikh received salary as Interim CEO up to and including April 2020 and fees from May 2020 onwards.

11. Tax

£'000s	2020	2019
Current tax expense:		
Current tax on profits for the year	(664)	(275)
Adjustment in respect of prior years	(3)	(32)
Current Year	(667)	(307)
Deferred Tax:		
Current year	(420)	-
Adjustment in respect of previous periods	(122)	22
Effect of changes in tax rates	673	(91)
Deferred tax (charge) / credit	131	(69)
Total income tax (charge) / credit	(536)	(376)
Charged to income statement	(360)	(376)
Charged to other comprehensive income	(176)	-
Reconciliation of effective tax rate:		
Profit before tax	4,198	6,487
Tax on profit at standard UK tax rate of 19% (2019: 19%)	(798)	(1,233)
Effects of:		
Adjustments in respect of prior years through profit and loss	(125)	(9)
Expenses not deductible	(174)	64
Tax rate changes	673	(91)
Exempt amounts	(4)	(192)
Amounts not recognised	-	1,281
Items relating to fair value through OCI	(109)	(196)
Income tax (charge) / credit	(536)	(376)

- Information relating to deferred tax is presented in note 18.
- On 11 March 2020 the UK Government announced that the corporation tax applicable from 1 April 2020 and 1 April 2021 would be 19%, unchanged from 1 April 2019. The deferred tax asset at 31 December 2020 has been calculated using the applicable rates enacted at the balance sheet date. On 3 March 2021, the UK government presented the 2021 budget which included a proposal to increase the corporation tax rate to 25% from April 2023. This would have a material impact on the value of the deferred tax asset relating to carried forward losses if it is passed into law, see note 31 for further details.

12. Cash and cash equivalents

£'000s	2020	2019
Cash	2,638	1,225
Balances with banks available on demand	113,995	164,405
Balances with banks subject to encumbrance	8,268	7,187
Treasury placements with original maturity less than 3 months	260,475	166,922
Total cash and cash equivalents	385,376	339,739

- 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 subject to encumbrance above. Also included in encumbered balances is a deposit of £5 million held as collateral against the structured funding liability, which cannot be withdrawn until full settlement of the structured funding has taken place.

13. Treasury placements and cash balances with banks

£'000s	2020	2019
Repayable on demand	122,263	171,589
3 months or less but not repayable on demand	260,475	166,922
1 year or less but over 3 months	1,126	1,000
Total Commodity Murabaha and Wakala receivables and financing to banks	**383,864**	339,511

- 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 £1,126,381 (2019: £1,000,227) 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	2020			2019		
	Gross amount	Impairment Allowance	Carrying amount	Gross Amount	Impairment Allowance	Carrying amount
Consumer finance	40	(40)	-	39	(39)	-
Home Purchase Plans	1,195,056	(1,329)	1,193,727	1,185,196	(1,168)	1,184,028
Commercial Property Finance	559,830	(2,563)	557,267	467,213	(1,179)	466,034

Impairment allowance on financing assets:

£'000s	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January 2020	915	1,173	274	2,362
Charge for the year	763	672	112	1,547
Amounts written off during the year	-	-	-	-
Balance as at 31 December 2020	**1,677**	**1,845**	**386**	**3,909**
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**

- The total 'movement in net impairment on assets' of £1,544,000 (2019: £739,000) also includes a credit of £3,000 (2019: credit of £13,000) 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 to the SPV. The Bank also purchased some of the outstanding notes in the year, see note 15 for details.

Sukuk Financing capital movements

£'000s	
Balance as at 31 December 2018	219,145
Principal payments during the year	(38,154)
Balance as at 31 December 2019	180,991
Principal payments during the year	**(34,047)**
Balance as at 31 December 2020	**146,944**

15. Investment securities

£'000s	**2020**	**2019**
Quoted Sukuk	**170,751**	227,245
	170,751	227,245

- The quoted sukuk balance includes £11.66m nominal outstanding of Tolkien sukuk purchased from the market, which has been held as part of the bank's asset portfolio as at 31 December 2020. The Bank purchased £12.75m nominal of sukuk on 5 June 2020 and has subsequently received principal payments in the year as a sukuk noteholder of £1.09m, and recognised profit income of £61,000 in the year. The sukuk financing liability balance is held at amortised cost, while the quoted sukuk asset is held at fair value through other comprehensive income. The quoted sukuk balance at year end comprised £11.64m at amortised cost, £20,000 of accrued profit, and a fair value element of £40,000. As there is no right of offset of the sukuk balance as all payments are swept through the Tolkien sukuk service provider and the sukuk are held in a nominee account, these amounts have been shown gross in the financial statements.

16. Property and equipment

£'000s	Computer Equipment	Office Equipment	Leasehold Improvements	Right of Use assets	Fixtures & Fittings	Long leasehold Land & Buildings	Total
Cost							
Balance at 1 January 2020	3,733	310	6,394	9,027	948	3,736	24,148
Additions	172	43	10	-	26	-	251
Disposals	-	-	(546)	-	-	-	(546)
Reclassified as held for sale (note 19)	-	-	(522)	(173)	(36)	-	(731)
Balance at 31 December 2020	**3,905**	**353**	**5,336**	**8,854**	**938**	**3,736**	**23,122**
Depreciation and impairment							
Balance at 1 January 2020	3,476	216	3,999	813	702	518	9,724
Depreciation charge for the year	166	41	443	1,253	123	127	2,153
Impairment charges	-	1	444	428	14	-	887
Disposals	-	-	(510)	-	-	-	(510)
On assets reclassified as held for sale (note 19)	-	-	(231)	(78)	(21)		(330)
Balance at 31 December 2020	**3,642**	**258**	**4,145**	**2,416**	**818**	**645**	**11,924**
Net book value							
As at 31 December 2020	**263**	**95**	**1,191**	**6,438**	**120**	**3,091**	**11,198**
Cost							
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 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**

- Assets reclassified for sale relate to the leasehold asset 23 Calthorpe Road, which has been included as part of Other Assets in note 19. The asset is available for sale on an as-is basis, including internal fittings and furniture, with the buyer taking on the current leasehold, which runs to 2036.

The following carrying balances and charges have been recognised under IFRS16:

Right of Use assets

£'000s	Depreciation	Impairments	Reclassification	Carrying amount
Branches	851	428	(78)	5,864
IT infrastructure	402	-	-	574
Total	**1,253**	**428**	**(78)**	**6,439**

- Impairments on branches relate to branch leases and have been recognised in respect of the revised expectations for the use of the Bank's branch network.
- The lease liabilities reflect outstanding lease payments still owed under the contractual terms of the leases, including those no longer expected to be used. There have been no changes to the expected lease duration on any of the bank's branches, and therefore no remeasurements of the cost of the right of use assets or lease liabilities.

16. Property and equipment (continued)

Maturity of lease liabilities

£'000s	2020	2019
Maturity Analysis – Contractual undiscounted cash flows		
Less than one year	1,422	1,478
One to five years	3,852	4,338
More than five years	2,509	3,352
Total undiscounted lease liabilities at 31 December 2019	**7,783**	**9,168**

Lease liabilities included in the statement of financial position at 31 December	**6,884**	**7,981**
Current	**1,399**	**1,428**
Non-Current	**5,485**	**6,553**

- 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 £355,000 for the year (2019: 565,000).

17. Intangible assets

£'000s	Computer licences	Purchased & developed software	Work in progress	Total
Cost				
Balance at 1 January 2020	1,786	8,705	1,168	11,659
Additions	-	32	2,288	2,319
Write-downs	-	-	-	-
Transfers	-	2,519	(2,519)	-
Balance at 31 December 2020	**1,786**	**11,257**	**937**	**13,980**
Amortisation				
Balance at 1 January 2020	1,655	5,944	-	7,599
Amortisation charge for the year	70	1,242	-	1,312
Balance at 31 December 2020	**1,725**	**7,186**	**-**	**8,911**
Net book value as at 31 December 2020	**61**	**4,071**	**937**	**5,069**
Cost				
Balance at 1 January 2019	1,692	5,836	2,546	10,074
Additions	94	47	1,950	2,091
Write-downs	-	-	(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**

- 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. Additions relating to existing work in progress projects are included in work in progress during the year, and shown as transfers upon completion of the asset.

18. Deferred tax asset

The movement on the deferred tax account is as follows:

£'000s	2020	2019
Asset at start of period	5,846	5,915
Adjustment in respect of prior years	(122)	22
Deferred tax credit / (charge) to profit for the period	253	(91)
Deferred tax asset as at 31 December	5,977	5,846

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable. £176,000 (liability) of the deferred tax asset relates to fair value movements on investments recognised in other comprehensive income.

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 £34.5m have been utilised against tax profits in 2014 (£2.0m), 2015 (£5.3m), 2016 (£8.2m), 2017 (£7.3m), 2018 (£5.3m), 2019 (£5.2m) and 2020 (£1.2m).

19. Other assets

£'000s	2020	2019
Prepayments and other receivables	3,793	3,643
Available for sale assets	400	-
Total other assets	4,193	3,643

- The available for sale assets relate to 23 Calthorpe Road, see note 16 for further details. There are no receivables within other assets that are expected to be recovered in more than 12 months (2019: £nil).

20. Deposits from banks

£'000s	2020	2019
Repayable on demand	2,381	2,438
1 months or less but not repayable on demand	3,668	4,788
1-3 months	1,006	
3 months to 1 year	29,253	29,080
1 year to 2 years	-	-
Between 2 year and 5 years	1,559	1,500
Over 5 years	-	-
Total deposits from banks	37,867	37,806
Non-profit paying accounts	2,381	2,438
Profit sharing / paying accounts	35,486	35,368
Total deposits from banks	37,867	37,806

21. Deposits from customers

£'000s	2020	2019
Repayable on demand	710,756	864,649
1 months or less but not repayable on demand	58,913	43,293
1-3 months	246,257	107,714
3 months to 1 year	603,422	457,822
1 year to 2 years	288,655	270,787
Between 2 year and 5 years	56,998	96,558
Over 5 years	-	-
Total deposits from customers	**1,965,001**	1,840,823
Comprising:		
Non-profit paying	284,863	262,739
Profit sharing / paying accounts	1,680,138	1,578,084
Total deposits from customers	**1,965,001**	1,840,823

22. Subordinated funding

£'000s	2020	2019
Subordinated funding	25,000	25,000
Total	**25,000**	**25,000**

Total returns paid on this funding for the year ended 31 December 2020 were £2,000,000 (2019: £2,000,000).
All returns were fully paid during the year and there was no outstanding payable as at 31 December 2020 (2019: £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 2020, and there were no further drawdowns in 2020. The maturity of the facility is greater than 5 years and qualifies as tier 2 capital for regulatory capital purposes.

23. Other liabilities

£'000s	2020	2019
Trade payables	2	9
Social security and income tax	465	975
Accruals	3,701	4,665
Other creditors	3,896	3,229
Lease liabilities	6,884	7,981
Total	**14,948**	**16,859**

The 'Lease liabilities' line reflects the present value of balances due on leases under IFRS 16. Note 16 includes further details of assets held under leases.

24. Capital

Share Capital

Allotted, called up and fully paid (£'000s)	2020	2019
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 profit 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 profit 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 2020, £423,349 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 2020.

25. Related parties

(a) Transactions with key management personnel

At 31 December 2020, Directors of the Bank and their immediate relatives have no shareholding in the Bank (2019: £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	2020	2019
Key management emoluments including social security costs	1,943	2,533
Bank contributions to pension plans	64	56
Total	**2,007**	**2,589**

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £1,640,138 as at 31 December 2020 (2019: £1,737,554). Total returns paid on these accounts during the year were £13,685 (2019: £8,324).

Outstanding consumer finance and Home Purchase Plan balances relating to key management personnel and immediate relatives totalled £nil as at 31 December 2020 (2019: £382,425). 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 £nil (2019: £10,813). 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.

	Cash	Less than 1 month	1-3 months	Cash	Less than 1 month	1-3 months
£'000s	2020	2020	2020	2019	2019	2019
Placements with MAR	10,010	40,500	29,000	-	20,000	40,000
Deposits from MAR	2,367	-	-	-	-	-

At the start of the year, the Bank held $10m nominal value of sukuk issued by MAR, purchased from the market. This was sold during the year.

As at 31 December 2020 there was an outstanding subordinated financing balance payable to MAR of £25m (2019: £25m). See note 22 for further details of this facility.

25. Related parties (continued)

A Contingent Convertible Investment of £3m was made during 2019 and has remained unchanged in the year, with an outstanding balance at year end of £3m (2019: £3m). At 31 December 2020 £423,349 of contractual profit had accrued in respect of the investment agreement. See note 24 for further details.

MAR is the counterparty on some of the Bank's forward foreign exchange contracts held for hedging purposes. The balances held with MAR had a notional value of £61m, with a positive fair value gain of £4.0m. These are included as part of the forward exchange rate contracts in note 27. In 2019, all forward exchange contracts were held with MAR.

The Bank purchased £12.75m of the Tolkien sukuk from the market in the year at prevailing market prices, and held £11.66m at year end, after receipt of amortisation payments. This balance is included as part of the Investment Securities balance at year end in note 15, and is included as part of the balance owed in the sukuk financing liability disclosed in note 14 as there is no right of offset on these balances.

26. 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 2020			
Assets	218,207	13,704	68
Deposits	(99,408)	(14,000)	-
Net on balance sheet exposure	118,799	(296)	68
Forward foreign exchange contracts (revalued nominal)	120,182	-	-
31 December 2019			
Assets	234,265	53,167	1,960
Deposits	(118,458)	(5,733)	(1,960)
Net exposure	115,807	47,434	-
Forward foreign exchange contracts (revalued nominal)	115,177	47,660	-

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. For additional details see note 27.

27. Sharia compliant derivative financial instruments

Balances with right of offset are shown net on the statement of financial position, but are shown gross in the tables below.

£'000s	Assets	Liabilities	Total	Notional Amount
2020				
Forward exchange rate contracts	5,122	-	5,122	115,060
Profit rate swaps	15	(5)	10	140,000
Total	5,137	(5)	5,132	
2019				
Forward exchange rate contracts	1,571	(286)	1,285	162,837
Profit rate swaps	-	-	-	-
Total	1,571	(286)	1,285	

Maturity	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
2020					
Forward exchange rate contracts	25,650	54,965	34,445	-	-
Profit rate swaps	-	-	40,000	100,000	-
2019					
Forward exchange rate contracts	7,882	138,285	16,670	-	-
Profit rate swaps	-	-	-	-	-

27. Sharia compliant derivative financial instruments (continued)

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 risk management purposes to minimise currency risk between GBP and USD (2019: USD and EUR). 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.

The Bank has also entered into Sharia compliant profit rate swap contracts in order to manage its exposure to profit rate risk and change in base rates. The profit rate swap contracts are used for hedging purposes on a floating to fixed rate basis with reference to SONIA GBP swap rates, and are done against the financing portfolio to reduce net profit rate exposure. The profit rate swap instruments are accounted for at fair value through profit and loss.

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 2020					
Cash	2,638	-	-	-	2,638
Treasury placements and balances with banks	383,864	-	-	-	383,864
Consumer finance	-	-	-	-	-
Home Purchase Plans	1,193,727	-	-	-	1,193,727
Commercial Property Finance	557,267	-	-	-	557,267
Investment securities	-	170,751	-	-	170,751
Sharia compliant derivatives held for risk management	-	-	-	5,137	5, 137
Total	**2,137,497**	**170,751**	**-**	**5,137**	**2,313,564**
Deposits from banks	-	-	37,867	-	37,867
Deposits from customers	-	-	1,965,001	-	1,965,001
Sharia compliant derivatives held for risk management	-	-	-	5	5
Total	**-**	**-**	**2,002,868**	**5**	**2,002,873**

£'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
Sharia compliant 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
Sharia compliant derivatives held for risk management	-	-	-	286	286
Total	**-**	**-**	**1,878,629**	**286**	**1,878,915**

28. Financial Instruments (continued)

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. Investment securities: These are measured at fair value after initial recognition through other comprehensive income and comprise the investment securities held for the purpose of collecting contractual cash flows and for selling (see note 15). These are valued at Level 1 in the fair value hierarchy based on market pricing.

Sharia compliant derivatives held for risk management: The derivatives held are forward foreign exchange rate contracts and profit rate swaps (see note 27). These are valued at Level 2 and priced using comparable market rates prevailing at year end. Where a right of offset exists, these are presented net on the statement of financial position, but have been shown gross in the table below.

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	170,751	-	-	170,751
Sharia compliant derivatives held for risk management (gross)	-	5,137	-	5,137
As at 31 December 2020	170,751	5,137	-	175,888
Financial Liabilities				
Sharia compliant derivatives held for risk management	-	5	-	5
As at 31 December 2020	-	5	-	5
Financial Assets				
Investment securities	227,245	-	-	227,245
Sharia compliant derivatives held for risk management (gross)	-	1,571	-	1,571
As at 31 December 2019	227,245	1,571	-	228,816
Financial Liabilities				
Sharia compliant derivatives held for risk management (gross)	-	286	-	286
As at 31 December 2019	**-**	**286**	**-**	**286**

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.

(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 2020, which are set out in note 27.

At initial recognition, financial assets are categorised as stage 1 and an impairment provision is required for ECL resulting from default events expected 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.

29. Financial risk management (continued)

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 is in 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.

Customers who, during the year, entered into a payment holiday arrangement with the Bank have not automatically been considered to have entered stage 2 based on the criteria above. A payment holiday is not considered to be an indicator of a significant increase in credit risk on its own, but may be when combined with other factors. The non-payment during the payment holiday period is also not considered to be arrears as it has been agreed with the Bank but is not a forbearance arrangement, and is not considered a trigger to move a customer being moved to stage 2 or 3 unless the customer enters a separate forbearance arrangement during or after the payment holiday period.

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 multiple scenarios to support its assessment of ECL for its core financing asset portfolios; these includes a base case, and 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)

(ii) Exposure to credit risk (continued)
Total financing assets and ECL at 31 December 2020

Treasury placements and deposits with banks	Investment grade £'000s	Below investment grade £'000s	Unrated financial assets £'000s	Gross Total £'000s	ECL £'000s	Net Total £'000s	Coverage (%)
- Stage 1	383,864	-	-	383,864	-	383,864	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**383,864**	**-**	**-**	**383,864**	**-**	**383,864**	**0.00%**
Investment securities							
- Stage 1	170,769	-	-	170,769	(18)	170,751	0.01%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**170,769**	**-**	**-**	**170,769**	**(18)**	**170,751**	**0.01%**
Home Purchase Plans							
- Stage 1	-	-	1,125,082	1,125,082	(769)	1,124,313	0.07%
- Stage 2	-	-	65,372	65,372	(230)	65,142	0.35%
- Stage 3	-	-	4,601	4,601	(329)	4,272	7.15%
Total	**-**	**-**	**1,195,056**	**1,195,056**	**(1,329)**	**1,193,727**	**0.11%**
Commercial Property Finance							
- Stage 1	-	-	520,379	520,379	(1,028)	519,352	0.20%
- Stage 2	-	-	39,451	39,451	(1,535)	37,916	3.89%
- Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**559,830**	**559,830**	**(2,563)**	**557,267**	**0.46%**
Consumer Finance							
- Stage 1	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	40	40	(40)	-	100.00%
Total	**-**	**-**	**40**	**40**	**(40)**	**-**	**100.00%**
Total Financial Assets							
- Stage 1	554,633	-	1,645,461	2,200,094	(1,815)	2,198,279	0.08%
- Stage 2	-	-	104,823	104,823	(1,765)	103,058	1.68%
- Stage 3	-	-	4,642	4,642	(369)	4,272	7.95%
Total	**554,633**	**-**	**1,754,926**	**2,309,558**	**(3,949)**	**2,305,609**	**0.17%**

Of the £104.8m (2019: £174.9m) of total gross financial assets in stage 2 that have experienced a significant increase in credit risk, £14.9m (2019: £17.9m) are included in stage 2 due to arrears of 30 days or more past due, of which 100% of balances relate to HPPs (2019: 100%), and the remaining £89.9m (2019: £157.0m) 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)

(ii) Exposure to credit risk (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	Gross Total £'000s	ECL £'000s	Net Total £'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%**

29. Financial risk management (continued)

A reconciliation of movements in the ECL from the opening position as at 1 January to the closing position as at 31 December in each year for customer financing products (HPP and CPF) is set out below:

2020	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 2020	**1,473,572**	**1,036**	**174,945**	**1,093**	**3,892**	**218**	**1,652,409**	**2,347**
ECL on customer financing matured/ settled during the period	(159,768)	(203)	(27,250)	(71)	(222)	(5)	(187,241)	(279)
Transfers of financial instruments:								
Transfers from Stage 1 to Stage 2	(20,861)	(11)	20,861	11	-	-	-	-
Transfers from Stage 2 to Stage 1	83,672	266	(83,672)	(266)	-	-	-	-
Transfers to Stage 3	(2,807)	(1)	(500)	(0)	3,306	1	-	-
Transfers from Stage 3	130	3	2,358	186	(2,487)	(189)	-	-
Net transfers	**60,134**	**257**	**(60,953)**	**(69)**	**819**	**(188)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		(199)		(125)		110		(213)
Net new financing/payments and remeasurement of continuing customer ECL	271,524	907	18,081	937	133	194	289,718	2,037
At 31 Dec 2020	**1,645,461**	**1,797**	**104,823**	**1,765**	**4,601**	**329**	**1,754,886**	**3,891**
ECL income statement (charge)/ release for the period on customer financing		**(763)**		**(672)**		**(111)**		**(1,545)**
ECL movements on other assets								1
Total income statement (charge)/ release in ECL provision for the period on assets								**(1,544)**

2019	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 customer financing matured/ settled 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)**

29. Financial risk management (continued)

The ECL adjustment for assets matured or settled 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 payments 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 economic 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 and applicable profit rates, 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 market rates. 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 multiple economic scenarios which have been weighted according to considered likelihood. The table below shows the weightings and peak values of the key variables used within the scenarios, based on a 5-year forecast:

2020		**Base case**	**Downturn**	**Moderate downturn**	**Slight upturn**	**Strong upturn**
Scenario weighting		**35%**	**35%**	**10%**	**20%**	**0%**
LIBOR/replacement rate	**Highest rate**	**0.10%**	**0.03%**	**0.20%**	**1.42%**	**-**
Unemployment	**Peak**	**6.80%**	**12.16%**	**10.40%**	**4.70%**	**-**
House price index	**Peak to trough**	**(8.30)%**	**(17.50)%**	**(14.00)%**	**+ve**	**-**

2019						
Scenario weighting		40%	20%	10%	20%	10%
LIBOR/replacement rate	Highest rate	0.77%	0.77%	0.77%	0.77%	0.77%
Unemployment	Peak	4.60%	9.34%	7.80%	4.60%	4.60%
House price index	Peak to trough	+ve	(17.46)%	(12.13)%	+ve	+ve

29. Financial risk management (continued)

Key economic variables:

		2021	2022	2023	2024	2025	2020 Average	2019 Average
Base case	LIBOR/replacement rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.65%
	Unemployment	6.80%	6.50%	5.40%	4.50%	4.40%	5.52%	4.33%
	HPI growth	-8.30%	2.00%	7.00%	6.60%	5.40%	2.54%	2.29%
Downturn	LIBOR/replacement rate	0.01%	0.02%	0.02%	0.03%	0.03%	0.02%	0.65%
	Unemployment	12.16%	9.63%	7.26%	6.63%	5.99%	8.33%	5.66%
	HPI growth	-17.50%	-2.60%	3.00%	2.80%	2.70%	-2.32%	-2.32%
Moderate downturn	LIBOR/replacement rate	0.10%	0.15%	0.20%	0.20%	0.20%	0.17%	0.65%
	Unemployment	8.40%	10.40%	7.90%	5.60%	5.20%	7.50%	5.28%
	HPI growth	-14.00%	3.00%	7.00%	6.60%	5.40%	1.60%	-0.99%
Slight upturn	LIBOR/replacement rate	0.21%	1.15%	1.42%	0.92%	0.92%	0.92%	0.65%
	Unemployment	4.70%	3.90%	4.00%	4.10%	4.10%	4.16%	4.30%
	HPI growth	0.58%	6.60%	5.51%	4.40%	3.99%	4.22%	2.63%
Strong upturn	LIBOR/replacement rate	-	-	-	-	-	N/A	0.65%
	Unemployment	-	-	-	-	-	N/A	4.27%
	HPI growth	-	-	-	-	-	N/A	2.76%

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. Due to the uncertainties during 2020 and looking forward into 2021 due to both Covid-19 and the longer term impact from Brexit, the scenarios modelled included only a "slight upturn" scenario, and the "strong upturn" incorporated previously was not included. The weightings have also moved to reflect the greater level of uncertainty, with an increased weighting for the "moderate downturn" scenario.

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 fifth 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 (2020 post-model overlay £262,000, 2019: £216,000).

31 December 2020	Weighted scenario ECL, no adjustment	Base case, no adjustment	Slight upturn scenario	Strong upturn scenario	Moderate downturn scenario	Downturn scenario
	£'000	£'000	£'000	N/A	£'000	£'000
HPP	1,328	963	470	N/A	1,654	3,189
CPF	2,301	1,388	664	N/A	2,731	7,264
Total	**3,629**	**2,351**	**1,133**	**N/A**	**4,385**	**10,453**

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**	**1,000**	**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 2020, £nil (2019: £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 secured property held as collateral against financial assets as at 31 December 2020 is £3,374m (2019: £3,108m). For the majority of home purchase plans the value is based on the indexed value of the property. For high value individual properties or commercial property financing separate valuations are obtained at least every three years in line with regulatory requirements. For some financing arrangements the Bank also has rights to cash balances held either by the Bank or by third parties as additional security balances.

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

2020	**Gross exposure**	**ECL Total**	**Net balance**	**ECL coverage**
FTV band	**£'000**	**£'000**	**£'000**	
<=60%	616,536	244	616,292	0.040%
60%-70%	328,580	402	328,178	0.122%
70%-80%	195,107	472	194,635	0.242%
>80%+	54,833	211	54,622	0.384%
Total	**1,195,056**	**1,329**	**1,193,727**	**0.111%**

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%**

(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

2020	**Individuals**	**Corporate**	**Bank**	**Total**
Treasury placements and balances with banks	-	-	**383,864**	**383,864**
Investment securities	-	**100,261**	**70,490**	**170,751**
Consumer finance	-	-	-	-
Home Purchase Plans	**1,190,193**	**3,531**	-	**1,193,727**
Commercial Property Finance	**29,517**	**527,751**	-	**557,267**

2019				
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

29. Financial risk management (continued)

Concentration by location:

£'000s	UK	Europe	Asia	Middle East	Total
2020					
Treasury placements and balances with banks	**212,854**	**-**	**-**	**171,010**	**383,864**
Investment securities	**11,705**	**-**	**72,431**	**86,615**	**170,751**
Consumer finance	**-**	**-**	**-**	**-**	**-**
Home Purchase Plans	**1,193,520**	**207**	**-**	**-**	**1,193,727**
Commercial Property Finance	**556,053**	**1,214**	**-**	**-**	**557,267**
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

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 2020, 67 of the facilities within the secured finance portfolios were in arrears (31 December 2019, 55).

(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 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.

£'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
2020										
Deposits from banks	**20**	**37,867**	**38,129**	**6,053**	**1,008**	**29,388**	**-**	**-**	**1,680**	**-**
Deposits from customers	**21**	**1,965,001**	**1,994,298**	**761,124**	**248,461**	**625,435**	**299,920**	**59,342**	**16**	**-**
		2,002,868	**2,032,427**	**767,177**	**249,469**	**654,823**	**299,920**	**59,342**	**1,696**	**-**
2019										
Deposits from banks	20	37,806	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**

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 does not have residual exposure to any material foreign currency risk, as any exposure is actively managed through forward foreign exchange instruments to reduce exposures. 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 Bank'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 0.10% BBR to 0.60% (2019: 0.75% to 1.25%)

0.50% decrease - Rate drop from 0.10% BBR to 0.00% (2019: 0.75% to 0.25%)

£'000s	0.50% parallel increase	0.10%/0.50% parallel decrease
31 December 2020	**2,667**	**(120)**
31 December 2019	949	(1,315)

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 2020	**(700)**	**(1,617)**
31 December 2019	1,809	(1,773)

Basis risk

Basis risk assesses the impact of a 0.50% widening of profit reference rates (BBR vs SONIA) used as a basis for asset and liabilities pricing measured over a 12-month period. SONIA is used as a replacement and equivalent for LIBOR in the basis risk assessment where assets are still linked to LIBOR rates.

The maximum negative impact is shown below:

£'000s	0.50% widening
31 December 2020	**623**
31 December 2019	907

(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 (unaudited)

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the EU's Capital Requirements Regulation (CRR), together with local rules and guidance set by the PRA, the Bank's 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, revaluation 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 Total Capital Requirement (TCR) to be met. The PRA sets out ICR for all banks operating in the United Kingdom by reference to its Capital Resources Requirement and monitors the available capital resources in relation to the ICR requirement. The Bank's capital requirements are monitored by the Executive team and the Board.

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

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

£'000s	2020	2019
Tier 1 capital		
Total equity	146,954	145,821
Less intangible assets	(5,069)	(4,061)
Less deferred tax	(5,977)	(5,846)
Less additional value adjustments	(170)	(227)
	138,737	135,687
Tier 2 capital		
Subordinated funding	25,000	25,000
Total regulatory capital	**163,737**	**160,687**

30. Events after the reporting period TBC

Brexit

The UK formally left the European Union (EU) on 31 January 2020, with the transition period ending on 31 December 2020. Therefore, on the 1 January 2021, the UK started its new relationship with the EU. The full impact of the new arrangements is still to be experienced, however, the Bank does not expect there to be a significant impact on its operations, and the likely wider impact on the UK economy is considered to be incorporated within the Bank's existing economic forecasts.

Parent Company Merger

On 7 January 2021, the Bank's parent company, Masraf Al Rayan, confirmed its merger with Al Khaliji Bank. The proposed merger was initially announced during 2020. The merger is not expected to have a significant impact on the operations of the UK entity.

Branch Closures

On 20 April the Bank entered into consultation with employees around the closure of the Small Heath and Whitechapel branches. Any closures would not affect the current carrying value of fixed assets or right of use assets, which reflect the Bank's expected future usage of the premises at 31 December 2020.

Tolkien Sukuk

On 26 March 2021 a Trustee Call was issued on the Tolkien Funding Sukuk No.1 Plc as at the step up date of 20 April 2021 to fully repay all outstanding note balances through a distribution. Further details are contained in note 31.

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. On 26 March 2021 a Trustee Call was issued on the Tolkien Funding Sukuk No.1 Plc as at the step up date of 20 April 2021 to fully repay all outstanding note balances through a distribution.

The Trustee Call event gives 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 the Trustee Call will result in the outstanding balance being repaid in full. This has only impacted the timing of capital repayments to the SPV, and does not materially impact the value of the outstanding Sukuk Financing liability.

The Bank has continued to upgrade its AML and Sanctions systems and controls during the year, and has now embedded the changes within its day to day operations. The formal regulatory review of these systems and controls has been completed in the year. This 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 2020 was £15,529,000 (2019: £12,387,000).

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 standards. 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 Sharia compliant derivative financial instruments, prepayments, lease liabilities and deferred tax. After these adjustments, net zakatable assets are £125,448,796, and total Zakat due would be £3,233,443 on a 2.5775% basis (the Zakat has been calculated on the basis of a solar year with 366 days), 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)	**£67,053**
Number of employees on a full-time equivalent basis	**286**
Profit or loss before tax (£'000s)	**£4,198**
Tax (credit) on profit (£'000s)	**£360**
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 https://www.alrayan.com/english/investor-relations/financials/annual-reports or from Masraf Al Rayan (Q.P.S.C) Al-Atya Building, Grand Hamad Street, PO Box 28888, Doha, Qatar.

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