AL RAYAN BANK

Pillar 3 Disclosures

31 December 2020

1 Executive Summary

1.1 Background to the Bank

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

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

"Banking you can believe in"

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

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

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

The Bank has it own Board of Directors, which consists of directors representing the major shareholders and of directors independent of the shareholders. The chairman is an independent director. The Board has delegated responsibility for day to day management to the executive team, led by the Chief Executive Officer.

1.2 Purpose of the Pillar 3 Disclosures

This document comprises the Bank's Pillar 3 disclosures on Capital and Risk Management as at 31 December 2020. It has two principal purposes:

- To provide useful information on the capital and risk profile of the Bank; and
- To meet the regulatory disclosure requirements under the Capital Requirements Regulation ("CRR"), Part 8 – Disclosure by institutions and the rules of the PRA set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed, including Remuneration Code disclosures.

1.3 Summary metrics

Capital ratios have remained in excess of regulatory requirements throughout the year and as at 31 December 2020, Common Equity Tier 1 (CET1) ratio is 13.4% (2019: 13.2%) and Total Capital Ratio is 16.2% (2019: 16.3%).

The leverage ratio is calculated per the Capital Requirements Directive IV (CRD IV) which measures the relationship between capital resources and total assets, to supplement risk-based capital requirements. At present, the Bank is not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. The Bank does not have a Board risk appetite limit for the leverage ratio, but nevertheless maintains a prudent risk appetite limit well above the PRA prescribed minimum leverage ratio requirement for larger institutions.

Under the European Banking Authority's (EBA) rules on leverage, the leverage ratio is calculated by dividing Tier 1 capital by on-balance sheet and off-balance sheet assets. The leverage ratio remained above regulatory requirements throughout the year, and as at 31 December 2020 is 5.9% (2019: 6.0%).

As at 31 December 2020, the Bank's Liquidity Coverage Ratio (LCR) was 288% (2019: 517%). The LCR exceeds the UK regulatory minimum requirement.

Full details regarding the Bank's overall financial position can be found in the Annual Report and Financial Statements for the year ended 31 December 2020 (the Accounts). A summary of the key metrics is shown below.

Key metrics

Table 1: Available capital £m

	2020	2019
Total Risk Weighted Assets (RWA)	1,012.5	983.6

Common Equity Tier 1	135.7	132.7
Additional Tier 1*	3.0	3.0
Tier 1	138.7	135.7
Tier 2	25.0	25.0
Total Capital	163.7	160.7

**Additional Tier 1 capital was drawn down from the ultimate parent company during 2019*

Table 2: Capital ratios as a percentage of RWA

	2020	2019
Common Equity Tier 1 Ratio	13.4%	13.5%
Tier 1 Ratio	13.7%	13.8%
Total Regulatory Capital Ratio	16.2%	16.3%

Table 3: CRR Leverage ratio (£m/%)

	2020	2019
Total Leverage Ratio Exposure	2,354.5	2,253.2
Leverage Ratio	5.9%	6.0%

Table 4: Liquidity Coverage Ratio (%)

	2020	2019
Liquidity Coverage Ratio	288%	517%

Table 5: Profit after tax (£m)

	2020	2019
Profit after tax	3.8	6.1

2 Introduction

2.1 Background

The Basel III regulatory framework is implemented through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), together referred to as CRD IV. The framework came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA).

The CRD IV framework includes three 'pillars':

Pillar 1	Minimum capital requirements relating to credit, market and operational risks;
Pillar 2	Firm's own internal assessment of additional capital requirements relating to specific risks not covered by the Pillar 1 minimum capital requirement. This additional capital requirement is subject to review by the PRA;
Pillar 3	Disclosure of information relating to the risk assessment process and resulting capital adequacy. The Pillar 3 Disclosures are designed to promote market discipline through external disclosure of a firm's risk management framework and risk exposures

2.2 Scope of application

The Bank has no trading subsidiaries; therefore, this document only contains the Pillar 3 disclosures for Al Rayan Bank PLC.

2.3 Basis and frequency of disclosures

Unless stated otherwise, all data is at or for the year to 31 December 2020, with 31 December 2019 comparatives. The term CRD IV is used throughout these disclosures as a collective term for CRD IV, CRR and the PRA's policy statements. This report is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8).

This document will be updated annually and will be based on the Bank's most recent audited financial statements. However, the disclosures may differ from similar information in the Bank's Accounts which are prepared in accordance with International Financial Reporting Standards (IFRS). Therefore, the information in these disclosures may not be directly comparable.

Both the Accounts and the Pillar 3 disclosures can be found on the Bank's website.

2.4 Verification

These disclosures have been reviewed and approved by the Bank's Executive Management Committee, Board Audit Committee and the Board.

2.5 External audit

The disclosures provided in this document have been internally verified by management but have not been subjected to external audit.

2.6 Board responsibility for risk management

The Board has overall accountability for ensuring that the Bank has an appropriate system of risk management in place to ensure risks in the bank are quantified, identified, assessed, managed, mitigated and reported.

The Board considers that, as at 31 December 2020, it had in place adequate systems and controls regarding the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined regulatory limits for risk exposure throughout the year for all principal risks.

3 Risk Management Framework

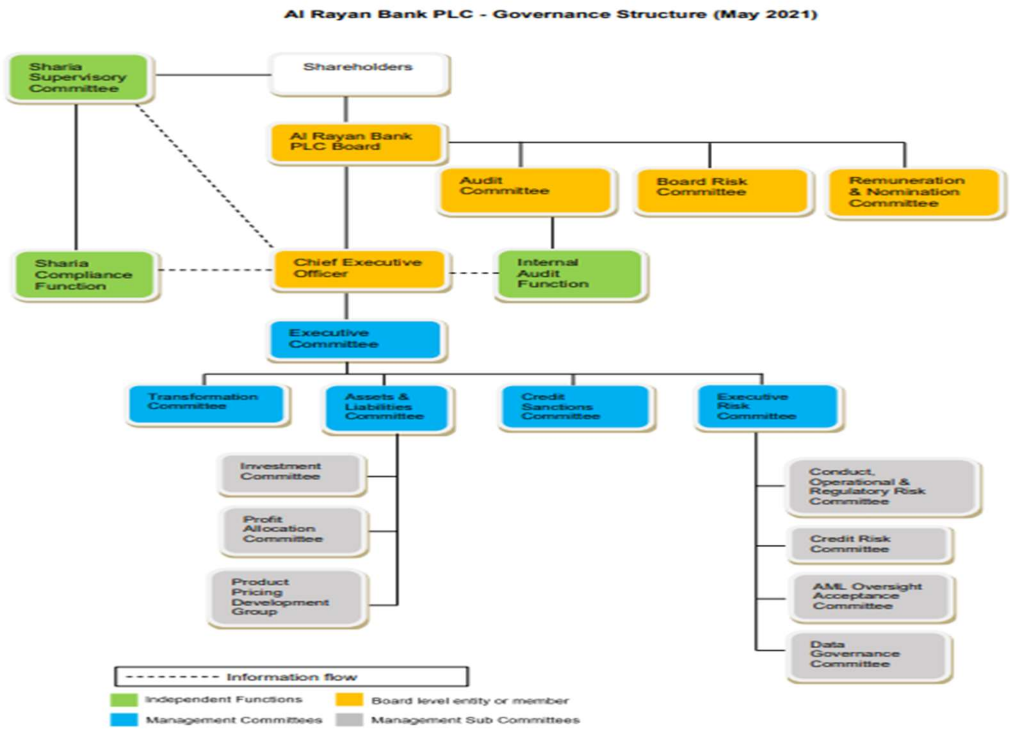
The Bank has established an Enterprise Wide Risk Management Framework ("RMF") to ensure that risks are appropriately managed throughout the organisation. Key elements of the Framework include a risk focused governance structure, and a risk appetite approved by the Board for each risk category.

The RMF is designed to provide a structured approach to appropriately manage risks. This Framework identifies, assesses, manages and mitigates risks that may impair the delivery of the Bank's strategic and business objectives.

3.1 Governance structure

The oversight and direction from the Board remains central to the RMF. The Board has delegated to Executive management the authority to maintain day to day control of the management of risk as set out in the Corporate Governance Handbook ("**CGH**"). The CGH sets out the Bank's overall governance structure, including the Committees responsible for risk management. The RMF ensures, through a series of Board sub-committees and Management fora that appropriate policies, procedures and processes are implemented across the business to control and monitor both the actual and potential risk exposures which arise from the Bank's operations.

Figure 1: Governance structure[1]



The RMF includes oversight bodies for operational roles and responsibilities, both individual and collective, in the risk management process. This ensures risk exposures are aligned to the risk appetite of the Board and that any unacceptable risk exposures are identified and, where possible, mitigated.

In addition to the ongoing assessment of known risk exposures, management monitors external and emerging risks within its forward-looking Risk Appetite, Top Down Risk Assessment and Horizon Scanning Reports. Management fosters an open communication culture that promotes the immediate escalation of actual or emerging risks.

3.2 Board of Directors

The Board has overall accountability to ensure that the Bank has an appropriate risk management framework in place to ensure risks are identified, assessed, managed, mitigated and reported. The Board is responsible for approving the Bank's strategy and risk appetite and ensuring risk management is appropriate and functioning. These duties include the responsibility for bringing together, within the RMF, the financial disciplines of business planning and capital management to assess the Bank's:

- significant risks to which it is exposed;
- adequacy of its risk assessment and management; and
- financial resources it needs to address its risk exposures over its planning horizon.

In addition, the Board's risk governance is supported through a series of sub-committees, or by Management, operating under delegated mandates, outlined in the diagram on the previous page. Each sub-committee has its own terms of reference; further details are set out below. The Bank also has a Chief Risk Officer (CRO) who is responsible for providing independent challenge to identified risks, as well as monitoring and management of risks and risk areas. The CRO provides second line assurance to the Board that the principal risks are adequately managed and the Bank is operating within its risk appetite.

3.3 Board level committees

The Board operates the following permanent Board committees:

Board Risk Committee

The primary aim of the Board Risk Committee ("BRC") is to provide oversight of the development, implementation and maintenance of the Bank's overall Risk Management Framework and its risk appetite, risk strategy, principles and policies. It aims to ensure the Bank's risk management practices are in line with regulatory, corporate governance and industry best practice, and provides advice to the Board of Directors on the Bank's current and future risk exposures and risk strategy. It reviews the Bank's performance against risk appetite and oversees the effectiveness of key Bank policies. The BRC met nine times during 2020.

Board Audit Committee

The primary aim of Audit Committee ("BAC") is to assist the Board of Directors in fulfilling its responsibilities to the shareholders in relation to accounting reporting practices. The Committee monitors the integrity of the financial statements of the Bank and any formal announcements relating to the Bank's financial performance; reviewing significant financial reporting judgements contained in them. The BAC also assesses whether a sound system of internal control is maintained and undertakes oversight of the performance of the independent auditors and the Bank's Internal Audit third line of defence function. The BAC met six times in 2020.

The Remuneration and Nomination Committee

The objectives of the Remuneration and Nomination Committee ("Remco") are to ensure that the Bank has a Board of Directors and executive team in place who are suitably qualified, experienced and trained and that effective succession planning is undertaken. The Bank's remuneration policies and practices are compliant with the Remuneration Code, and are designed to attract, retain and motivate the Bank's executive directors, senior management and employees. Remco also ensures that risk-based objectives are embedded in employee performance assessments and remuneration arrangements. Remco met six times in 2020.

3.4 Sharia Supervisory Committee

Independent from the Board, the Bank has a Sharia Supervisory Committee ("SSC"). The SSC is an independent committee comprised of three leading scholars who are experts in the interpretation of Islamic law and its application within Islamic financial institutions. The SSC is supported by the Head of Sharia Compliance and Product Development (HSCPD) who is their representative in the Bank. The primary responsibility of both is to ensure the Bank's activities abide by Islamic principles and rules, however the Board and senior management are responsible for implementing Sharia governance and requirements.

The SSC and HSCPD provide guidance and opinion on new products, services, contracts and agreements to ensure the Bank maintains Sharia compliance. The SSC reports to the Shareholders by way of a Sharia audit report in the Accounts.

3.5 Management committees

Executive Committee

The Executive Management Committee ("EXCO"), chaired by the CEO, is the executive forum for major operational decisions and is responsible for assisting the CEO in the performance of their duties, including:

- development and implementation of strategy, risk appetite, operational plans, policies, procedures and budgets for consideration and approval by the Board;
- monitoring of operating and financial performance;
- assessment and control of risk;
- prioritisation and allocation of resources;
- monitoring competitive forces in each area of operation.

Executive Risk Committee

The Executive Risk Committee ("ERC") provides second line of defence oversight of risk management. It is chaired by the CRO and is responsible for approving risk management policies and summary risk reporting for upward reporting and escalation. ERC also recommends risk appetite and risk management frameworks, including operational resilience, for approval by BRC and the Board and ensures action is taken to address risk and control issues that materialize in the Bank. ERC is also responsible for reviewing the completeness of the process and outcomes of the Internal Capital Adequacy Assessment Process (ICAAP), Recovery Plan and Resolution Pack.

Credit Risk Committee

The Credit Risk Committee ("CRC") is chaired by the CRO. It is responsible for reviewing and developing the Bank's credit risk strategy and the overall credit risk management framework. CRC also completes policy review, mandate approval and portfolio management, including sector strategy and watch list review.

Conduct, Operational and Regulatory Risk Committee

The Conduct, Operational and Regulatory Risk Committee (“CORC”) is the Bank’s principal forum for monitoring operational risk and operational resilience, and ensuring that appropriate actions are taken, and internal controls implemented. CORC is chaired by the Head of Conduct and Compliance, and meets monthly and reviews risk management information, including the Risk Dashboard, containing key risk appetite metrics.

AML Oversight Customer Acceptance Committee

The AML Oversight Customer Acceptance Committee (“AMLOC”) is chaired by the CRO and is the principal forum for providing oversight on material financial crime matters across the Bank. It is also responsible for approving the onboarding and annual review of specific customers.

Data Governance Committee

The Data Governance Committee (“DGC”) is chaired by the CRO and is the principal forum for providing oversight on all aspects of the data management strategy, providing data management direction and control, including supporting the decision-making structure, and escalation paths. It exists to ensure that data governance, management, and quality are operationalised throughout the bank.

Credit Sanctions Committee

The Credit Sanctioning Committee is chaired by the CEO and reviews and approves specific CPF and HPP transaction proposals which are above delegated authority mandates approved by CRC.

Transformation Committee

The Transformation Committee (“TransCo”) is a management committee chaired by the COO which reports into Exco, responsible for the initial authorisation, on-going oversight and decision making on all significant projects within the Bank. It also monitors the Bank’s overall project delivery plan, ensuring sufficient resources are allocated to each project. Day to day accountability for projects is the responsibility of project managers. TransCo is also responsible for providing oversight over the approved Change roadmap to ensure delivery performance in line with the strategic objectives of the Bank.

Assets & Liabilities Committee

The Assets & Liabilities Committee (“ALCO”) is a management committee chaired by the CFO that is primarily responsible for monitoring market, capital and liquidity risks. This includes monitoring risks associated with profit rates in the banking book, open foreign exchange positions, the composition of assets and liabilities, funding mismatches, capital adequacy, liquidity, wholesale credit risk and the approval of new products. ALCO is also responsible for the ongoing development and maintenance of the Individual Liquidity Adequacy Assessment Process (ILAAP) and its annual submission to the Board.

Investment Committee

The Investment Committee (“InvestCo”) is a sub-committee of ALCO and is the principal forum for reviewing and recommending to ALCO on the wholesale portfolio performance and profile (for both liquidity/funding portfolios and investment portfolios), the committee objectives operate in accordance with the Treasury Investment policy and Wholesale Credit Risk policy.

Profit Allocation Committee

Profit Allocation Committee (the ‘PAC’) is a sub-Committee of ALCO which reviews whether the expected profits have been achieved and approves the distribution of the profit.

Product Pricing and Development Group

Product Pricing and Development Group ("PPDG") is a sub-Committee of ALCO that is the principle 1st Line risk oversight group for retail products and has the authority to approve new and existing retail product recommendations.

3.6 Three lines of defence

While the Board of Directors is ultimately accountable for the RMF, everyone in the Bank has responsibility for risk management.

The Bank operates a 'three lines of defence' model to manage risks across the organisation. The three lines of defence is encouraged by regulators and is widely used within financial services to define risk management responsibilities and boundaries. The three lines of defence are described as follows:

First line of defence:

Line management within each business area is responsible for the identification, measurement and management of the risks within the Bank's risk appetite, ensuring appropriate controls are in place and operating effectively.

Second line of defence:

The Risk function provides risk management, compliance and financial crime expertise, and challenges managers and staff on their performance of risk management activities through independent reviews, monitoring and testing. The remit of the Sharia Compliance Monitoring activities also falls under the second line of defence.

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 and to confirm the Bank's activities are in line with the Board risk appetite, regulatory and legal requirements. The Internal Audit function is currently outsourced to a specialist firm and reports directly to the Chairman of the Board Audit Committee (BAC).

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.

3.7 Business objectives and principal risks

The Bank provides Sharia compliant financial products and services comprising secured property finance, current accounts and both demand and term savings accounts. In addition, the Bank's Treasury function invests surplus funds in Sharia compliant wholesale deposits and sukuk investments to manage liquidity.

The Bank identifies, assesses and controls risks that arise from the above activities through the Risk Management Framework.

The Bank classifies its principal risks in nine categories; Credit, Prudential, Operational, Conduct, Compliance, Financial Crime, Information, Strategic and Sharia non-compliance risk. These are summarized below:

Table 6: The Bank's Level 1 Risks

	Primary risk type	Description
1	Credit Risk	The risk of loss resulting from (a) the failure of other parties to meet their financial obligations to the Bank and (b) the deterioration of creditworthiness of parties to which the Bank is exposed. Credit risk has been impacted by the Covid-19 pandemic, with increased economic uncertainty having the potential to increase risk.
2	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. Prudential risk can be split into market risk, liquidity risk and capital risk. 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
3	Operational Risk and Resilience	The risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. Covid-19 has forced significant changes in the operational environment, which may affect the risk of loss.
4	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.
5	Compliance and Legal Risk	The risk of loss resulting from failing to comply with laws, rules, regulations, standards and codes of conduct.
6	Financial Crime Risk	The risk of loss resulting from 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.
7	Information Risk	The risk of loss resulting from the compromise of information relating to its confidentiality, integrity or availability. Increased home working has resulted in some changes to information risk the working environment is now subject to fewer controls.
8	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.
9	Sharia Non-Compliance Risk	The risk of loss resulting from failing to comply with Sharia requirements.

Reputational losses are not considered a separate risk category but are the consequences of one of the above risks occurring.

Each of the nine risk categories is divided into three levels:

- Level 1 – defines each of the high level categories with a headline definition of the risk,
- Level 2 – divides each of the level 1 risks into more discrete risk types and sources.
- Level 3 – defines the individual risks associated with the specific process within each department's responsibility.

The first two levels provide guidance to identifying all the level 3 risks within the Bank's processes.

3.8 Risk appetite

The risk appetite set by the Board is the level of residual risk (i.e. the risk remaining after implementing controls) which is acceptable to the Bank in terms of its strategic objectives, and is always set at a level to at least reflect regulatory requirements.

Exceptions outside the risk appetite are reported to Executive Management and the Board, and consideration is given to strengthening controls, introducing additional mitigating action or changing the appetite. If the appetite is increased the Board will consider whether the risk is acceptable and manageable for the increased competitive advantage. An escalation process for exceptional incidents has been documented with set triggers concerning customer service and major operational issues. The severity of the incident will drive the timing and level of escalation.

Breaches of risk appetite are escalated to ERC, BRC and Board and if appropriate the Regulators. Based on the nature and severity of the breach, ERC and the BRC agree and define an action plan for remediating the breach. Ownership for enacting the plan is delegated to an ERC member who is accountable and must report regularly on progress until the breach is resolved. In exceptional circumstances the breach may be a result of a genuine change in risk appetite, in which case a robust recalibration process for the metric is carried out and approved by the Board.

The inherent risk before controls and residual risk after controls is managed through committees including ERC, EXCO, TransCo and ALCO, with regular reporting from all business areas.

The quantified levels are either the acceptable impact on the Bank's strategic objectives or a monetary value and are set at the level of residual risk after compensating management controls. The levels are reviewed on a regular basis, at least annually, so they are reassessed as the business grows.

Further details on key risks are provided below.

3.9 Credit risk

Credit risk is the risk of loss risk of loss resulting from the failure of other parties to meet their financial obligations to the Bank and the deterioration of creditworthiness of parties to which the Bank is exposed 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 and sukuk investments.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Risk Committee through the ERC. A separate Credit Risk department reports to the Chief Risk Officer who 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.
- Ongoing monitoring of compliance with policies to provide assurance to executive management and to the Board.

- 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.

The following tables shows the credit risk exposures and the composition of the Pillar 1 capital requirements for credit risk at 31 December 2020 and 31 December 2019:

Table 7: Pillar 1 capital requirements: credit risk: 31 December 2020 (£m)

	IFRS Balance Sheet	Credit risk exposure	Average credit risk exposure	Risk Weighted Assets	Minimum capital Require-ments	% of total RWA
Treasury assets	383.8	383.8	341.1	118.5	9.6	13%
Investment securities	170.8	170.8	175.7	19.9	1.6	2%
Home purchase plans	1,193.7	1,193.7	1,184.9	421.9	33.7	45%
Commercial property finance*	557.2	557.2	507.7	344.2	27.5	37%
Other assets**	34.3	23.2	32.2	20.5	1.6	2%
Sub-total	**2,339.8**	**2,328.7**	**2,241.6**	**925.0**	**74.0**	**99%**
Commitment to finance*		7.8	8.7	11.6	0.9	1%
Derivatives		3.5	2.8	0.7	0.1	0%
Total	**2,339.8**	**2,340.0**	**2,253.1**	**937.3**	**75.0**	**100%**

*These two amounts have been combined and reported as Commercial property finance in all the following tables.
** Other asset exposures excludes deferred tax (£6.3m) and intangibles (£5.1m), which are deducted from own funds.

Table 8: Pillar 1 capital requirements: credit risk: 31 December 2019 (£m):

	IFRS Balance Sheet	Credit Risk Exposure	Average credit risk exposure	Risk Weighted Assets	Minimum capital Require-ments	% of total RWA
Treasury assets	339.5	339.5	246.5	82.3	6.6	9%
Investment securities	227.2	227.2	162.6	26.3	2.1	3%
Home purchase plans	1,184.0	1,184.0	1,176.4	424.9	34.0	47%
Commercial property finance*	466.0	466.0	474.0	349.0	27.9	38%
Other assets**	30.6	24.0	16.9	20.0	1.6	2%
Sub-total	**2,247.3**	**2,240.7**	**2,076.4**	**902.5**	**72.2**	**99%**
Commitment to finance*		6.2	10.6	9.3	0.7	1%
Total	**2,247.3**	**2,246.9**	**2,087.0**	**911.8**	**72.9**	**100%**

*These two amounts have been combined and reported as Commercial property finance in all the following tables.
** Other asset exposures excludes deferred tax (£5.8m) and intangibles (£4.2m), which are deducted from own funds, and includes £3.3m relating to forward currency contracts

Table 9: Movements in RWAs for credit risk from 1 January 2020 to 31 December 2020:

	£m
Increase in Treasury Assets	36.2
Decrease in investment securities	(6.4)
Decrease in home purchase plans	(3.0)
Decrease in commercial property finance	(2.5)
Other	1.2
Credit risk RWAs increase for 2020	25.5

Table 10: 31 December 2020 Exposures subject to Standardised Approach (£m):

	Financing – Individuals	Financing - Commercial	Financial	Sovereign	Other Assets	Total
Treasury assets	-	-	380.6	3.2	-	**383.8**
Investment securities	-	-	16.8	154.0	-	**170.8**
Home purchase plans	1,193.7	-	-	-	-	**1,193.7**
Commercial property finance	-	565.0	-	-	-	**565.0**
Other assets	-	-	-	-	23.2	**23.2**
Derivatives	-	-	3.5	-	-	**3.5**
Total	**1,193.7**	**565.0**	**400.9**	**157.2**	**23.2**	**2,340.0**

Table 11: 31 December 2019 Exposures subject to Standardised Approach (£m):

	Financing – Individuals	Financing - Commercial	Financial	Sovereign	Other Assets	Total
Treasury assets	-	-	337.3	2.2	-	**339.5**
Investment securities	-	-	7.6	219.6	-	**227.2**
Home purchase plans	1,184.0	-	-	-	-	**1,184.0**
Commercial property finance	-	472.2	-	-	-	**472.2**
Other assets	-	-	-	-	23.9	**23.9**
Derivatives	-	-	-	-	-	**-**
Total	**1,184.0**	**472.2**	**344.9**	**221.8**	**23.9**	**2,246.9**

Table 12: 31 December 2020 Standardised Approach by risk weight percentage (£m):

Asset Class	0%	20%	35%	50%	75%	100%	150%	Total
Treasury assets	3.3	239.5	-	141.0	-	-	-	**383.8**
Investment securities	80.7	83.7	-	6.4	-	-	-	**170.8**
Home purchase plans	-	-	1,186.2	-	3.2	4.3	-	**1,193.7**
Commercial property finance	-	-	351.3	-	-	175.3	38.4	**565.0**
Other assets	2.6	-	-	-	-	20.6	-	**23.2**
Derivatives	-	3.5	-	-	-	-	-	**3.5**
Total	**86.6**	**326.7**	**1,537.5**	**147.4**	**3.2**	**200.2**	**38.4**	**2,340.0**

Table 13: 31 December 2019 Standardised Approach by risk weight percentage (£m):

Asset Class	0%	20%	35%	50%	75%	100%	150%	Total
Treasury assets	2.2	288.3	-	49.0	-	-	-	**339.5**
Investment securities	125.9	84.2	-	15.5	-	1.6	-	**227.2**
Home purchase plans	0.7	-	1,164.8	-	5.0	13.5	-	**1,184.0**
Commercial property finance	-	-	225.1	-	-	182.5	64.6	**472.2**
Other assets	1.2	3.3	-	-	-	19.4	-	**23.9**
Total	**130.0**	**375.8**	**1,389.9**	**64.5**	**5.0**	**217.1**	**64.6**	**2,246.9**

Credit concentration risk exposures

The credit concentration risk exposures for the Bank as at 31 December 2020 and 31 December 2019 are summarised in the following section including analysis by geography, sector and contractual maturity.

Geographic distribution of credit risk exposures

The Bank's credit risk exposures, based on the location of the asset being financed, are largely within the UK, however at 31 December 2020, £384.3 million of the Bank's assets were held outside the UK (31 December 2019: £335.3 million).

Table 14: Credit risk exposures analysed by exposure class: 31 December 2020

	UK (£m)	Middle East (£m)	Rest of the World (£m)	Global Supra-national (£m)	Total (£m)
Treasury assets (bank counterparties)	158.0	216.2	9.6	-	383.8
Investment securities	14.9	19.7	6.4	129.8	170.8
Home purchase plans	1,193.5	-	0.2	-	1,193.7
Commercial property finance	563.8	-	1.2	-	565.0
Derivatives	2.3	1.2	-	-	3.5
Total	**1,932.5**	**237.1**	**17.4**	**129.8**	**2,316.8**

Table 15: Credit risk exposures analysed by exposure class: 31 December 2019

	UK (£m)	Middle East (£m)	Rest of the World (£m)	Global Supra-national (£m)	Total (£m)
Treasury assets (bank counterparties)	230.5	109.0	-	-	339.5
Investment securities	2.9	71.9	89.7	62.7	227.2
Home purchase plans	1,183.8	-	0.2	-	1,184.0
Commercial property finance	470.4	-	1.8	-	472.2
Total	**1,887.6**	**180.9**	**91.7**	**62.7**	**2,222.9**

Distribution of Credit risk exposures by residual maturity

Table 16: Residual contractual maturity of credit risk exposures: 31 December 2020

	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury placements and cash balances with banks	383.8	-	-	**383.8**
Investment securities	94.7	76.1	-	**170.8**
Home purchase plans	43.4	187.4	962.9	**1,193.7**
Commercial property finance	87.7	423.8	53.5	**565.0**
Derivatives	2.5	1.0	-	**3.5**
Total	**612.1**	**688.3**	**1,016.4**	**2,316.8**

Table 17: Residual contractual maturity of credit risk exposures: 31 December 2019

	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury placements and cash balances with banks	339.5	-	-	**339.5**
Investment securities	103.2	118.9	5.2	**227.2**
Home purchase plans	40.1	174.3	969.6	**1,184.0**
Commercial property finance	117.3	299.7	55.2	**472.2**
Total	**600.1**	**592.9**	**1,030.0**	**2,222.9**

Credit risk management: Financing to customers

Credit risk is managed in accordance with financing policies, the risk appetite and the Risk Management Framework. Financing policies and performance against risk appetites are reviewed regularly. The Bank seeks to mitigate credit risk by focusing on business sectors where the Bank has specific expertise and through limiting concentrated exposures on larger facilities, certain sectors and other factors which can represent higher risk. The Bank also seeks to obtain security cover, and where appropriate, personal guarantees, from applicants/customers. Affordability checks in line with regulatory guidance on income versus outgoings, and with stressed profit rates, are also carried out in relation to Home Purchase Plan to assess an applicant's capacity to meet payments.

The Bank maintains a dynamic approach to credit management and aims to take necessary steps if specific issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to customer, economic or sector-specific weaknesses.

Credit risk mitigation: Financing to customers

The Bank uses a wide range of techniques to reduce the credit risk of its financing activities. The most basic of these is performing an assessment of the ability of a customer to service the proposed level of financing without distress using stressed profit rates. These affordability checks are carried out on all retail customers. The risk is further mitigated by obtaining collateral against the financing provided.

The principal indicators used to assess the credit security of performing assets are finance-to-value (FTV) ratios.

Information on the finance-to-value ratios for the Bank's exposures is shown in the tables below:

Table 18: Collateral held in respect of finance to customers, neither past due nor individually impaired

	31 Dec 20 Finance Value (£m)	Collateral value (£m)	Average FTV (%)	31 Dec 19 Finance Value (£m)	Collateral value (£m)	Average FTV (%)
Home finance	1,193.7	2,382.6	50%	1,185.2	2,206.8	54%
Commercial property finance	557.2	1,021.7	55%	473.4	901.2	53%
Total	**1,750.9**	**3,404.3**	**-**	**1,658.6**	**3,108.0**	**-**

The Bank holds collateral against secured financing made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and are updated on a periodic basis. The estimated fair value of collateral held against financial assets as at 31 December 2020 is £3,404m (2019: £3,108m). None of this amount was held against impaired assets. There were £4.3m non-performing exposures (net of provision) in the secured book as at 31 December 2020.

Home Purchase Plan (HPP) finance

The Bank has adopted conservative underwriting criteria set out in a credit policy approved by the Board.

Home Purchase Plans Premier (Premier)

The credit policy for overseas customers is approved by the Board and incorporates relevant credit criteria.

Buy to Let Purchase Plan (BTLPP)

The credit policy for the product is approved by the Board and incorporates relevant credit criteria.

Commercial Property Finance (CPF)

The credit policy is approved by the Board and incorporates relevant credit criteria.

Banking facilities are available for sole traders, partnerships, limited liability partnerships, limited companies, incorporated charities and trusts. Additionally, commercial investment opportunities from GCC based corporates and High Net Worth (HNW) individuals are also offered.

A first legal charge over freehold or long leasehold property (minimum unexpired lease period at the end of any finance is 50 years) or cash or a combination thereof is obtained.

Unsecured Personal Finance (PF)

The Bank has a negligible portfolio of Unsecured Personal Finance. This product has been withdrawn from the market.

Credit approval and governance

HPP, CPF, Premier and BTLPP applications are underwritten internally by staff experienced in residential and commercial property finance, with specific underwriting mandates approved by the Board. Mandate levels also exist for the Credit Sanctioning Committee and the BRC.

For HPP and Premier facilities, the Bank has a system of separate representation for conveyancing work and uses a panel manager to manage the valuations obtained to minimise the risk of fraud.

For CPF and BTLPP finance, use is made of specialist valuers and legal advisers and bespoke documentation. Property valuation reports for CPF contain general economic market and local market analysis and these are considered as part of the credit underwriting, which includes:

- Amount, term and FTV of the finance requested
- Property type and use of property
- Business and financial position of customer, including existing gearing
- Payment cover and payment profile
- Security quality
- Likely exit position

Treasury assets and investment securities

The Bank deposits funds with bank counterparties for liquidity management purposes. Investments in the High Quality Liquid Asset (HQLA) portfolio are in accordance with the Regulatory requirements for such assets. Any exceptions to this policy are approved by the Board. All treasury transactions are undertaken on a Sharia compliant basis and, therefore, due to the limited number of UK counterparties, the Bank has exposures with financial institutions resident within the Middle East and other parts of the world.

New counterparties or changes to existing counterparty, country and regional limits are approved by the Board following due diligence by management. Adherence to these limits are monitored daily through daily reporting.

Information on the credit quality of financial assets held by Treasury is shown in the tables below:

Table 19: Credit ratings of treasury placements and cash balances with banks at 31 December:

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2020 (£m)	Exposure value 2019 (£m)
1	Aaa to Aa3	AAA to AA-	82.8	191.6
2	A1 to A3	A+ to A-	301.0	138.1
3	Baa1 to Baa3	BBB+ to BBB-	-	-
4	Unrated	Unrated	-	9.8
Total			**383.8**	**339.5**

Table 20: Credit ratings of treasury investment securities at 31 December:

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2020 (£m)	Exposure value 2019 (£m)
1	Aaa to Aa3	AAA to AA-	94.7	126.8
2	A1 to A3	A+ to A-	72.5	92.4
3	Baa1 to Baa3	BBB+ to BBB-	3.6	8.0
4	Unrated	Unrated	-	-
Total			**170.8**	**227.2**

As at 31 December 2020 and 31 December 2019, none of the treasury assets were past due or impaired. Credit rating assessment is based on the asset and the specific obligor the Bank is exposed to.

Counterparty credit limits are established for authorised counterparties and are updated on a regular basis to take account of any ratings migration and the Bank's assessment of the credit risk for the institution.

Impairment

The Bank's impairment provisions are calculated in line with the requirements of IFRS 9, which requires the Bank to provide for expected credit losses based on the credit risk classification of the exposure. Full details are provided in the Accounts.

The IFRS 9 Expected Credit Loss (ECL) approach utilises historical information, current conditions and forecasts of future economic conditions to generate the expected credit loss for assets. Multiple economic scenarios are modelled and weighted as part of the ECL calculation using a variety of future economic assumptions, including a central scenario which is also used as the base for the Bank's forward planning. At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is required for ECL resulting from default events projected within the next 12 months (12-month ECL).

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

Financial assets are included in stage 3 when there is objective evidence that the exposure is credit impaired, with expected credit losses still calculated on a lifetime basis. Objective evidence used to determine whether exposures are impaired includes, if they are more than 90 days past due or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). Criteria of application are 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%.

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

Credit Concentration Risk

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

The Board sets counterparty, country and regional limits in respect of asset classes. The CRC monitors both sectoral and geographic concentration for each finance asset class and ALCO reviews counterparty, country and regional limits in respect of treasury assets and investment securities. Adherence to the treasury limits is monitored daily. The minutes of the CRC and ALCO meetings are distributed to the Board.

Table 21: Past due exposures for the year to 31 December 2020:

	Treasury assets (£m)	Investment securities (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	383.8	170.8	557.2	1,181.8	**2,293.6**
Past due but not impaired:	-	-	-	-	**-**
Up to 3 months	-	-	-	7.3	**7.3**
3 to 6 months	-	-	-	1.1	**1.1**
6 to 9 months	-	-	-	1.3	**1.3**
Over 9 months	-	-	-	2.2	**2.2**
Total gross exposure	**383.8**	**170.8**	**557.2**	**1,193.7**	**2,305.5**

Table 22: Past due exposures for the year to 31 December 2019:

	Treasury assets (£m)	Investment securities (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	339.5	227.2	472.2	1,160.0	**2,198.9**
Past due but not impaired:	-	-	-	-	**-**
Up to 3 months	-	-	-	22.3	**22.3**
3 to 6 months	-	-	-	0.9	**0.9**
6 to 9 months	-	-	-	-	**-**
Over 9 months	-	-	-	0.8	**0.8**
Total gross exposure	**339.5**	**227.2**	**472.2**	**1,184.0**	**2,222.9**

Table 23: The movement in impairment provisions for the year ended 31 December 2020:

	Treasury Assets £m	Investment Securities £m	Commercial Property Finance £m	Home Purchase Plans £m	Total £m
IFRS 9 ECL provision at 1 January 2020	-	-	1.2	1.2	2.4
Increase in provisions during year	-	-	1.4	0.1	1.5
Amounts written off during the year	-	-	-	-	-
IFRS 9 ECL provision at 31 December 2020	**-**	**-**	**2.6**	**1.3**	**3.9**

Table 24: Credit quality of performing and non-performing exposures by past due days at 31 December 2020:

	Gross Carrying Amount										
	Total	Performing Exposures		Non Performing Exposures							
		Not past due or past due up to 30 days	Past due 30-90 days	Unlikely to pay but less than 90 days past due	Past due 90-180 days	Past due 180 days – 1 year	Past due 1 year to 2 years	Past due 2 -5 years	Past due 5-7 years	Past due > 7 years	Of which defaulted
Home Purchase Plans £m	1,195.1	1,183.2	7.3	-	1.1	2.0	0.8	0.7	-	-	-
Commercial Property Finance £m	559.8	559.8	-	-	-	-	-	-	-	-	-

Table 25: Credit quality of performing and non-performing exposures by past due days at 31 December 2019:

	Gross Carrying Amount										
	Total	Performing Exposures		Non Performing Exposures							
		Not past due or past due up to 30 days	Past due 30-90 days	Unlikely to pay but less than 90 days past due	Past due 90-180 days	Past due 180 days – 1 year	Past due 1 year to 2 years	Past due 2 -5 years	Past due 5-7 years	Past due > 7 years	Of which defaulted
Home Purchase Plans £m	1,185.2	1,167.3	14.0	-	1.7	1.0	0.5	0.7	-	-	-
Commercial Property Finance £m	473.4	473.4	-	-	-	-	-	-	-	-	-

Table 26: Performing and non-performing exposures and related provisions at 31 December 2020

	Gross carrying amount						Accumulated impairment and provisions					
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment provisions			Non-performing exposures – accumulated impairment and provisions		
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
Home Purchase Plans £m	1,190.5	1,125.1	65.4	4.6	-	4.6	1.0	0.8	0.2	0.3	-	0.3
Commercial Property Finance £m	559.8	520.4	39.5	-	-	-	2.6	1.0	1.6	-	-	-

Table 27: Performing and non-performing exposures and related provisions at 31 December 2019

	Gross carrying amount						Accumulated impairment and provisions					
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment provisions			Non-performing exposures – accumulated impairment and provisions		
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
Home Purchase Plans £m	1,181.3	1,079.5	101.8	3.9	-	3.9	1.0	0.7	0.3	0.2	-	0.2
Commercial Property Finance £m	473.4	400.3	73.1	-	-	-	1.2	0.4	0.8	-	-	-

3.10 Prudential Risk - Market Risk

Market risk is the risk of changes in the value of assets, or loss of income arising from 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 matches its assets and liabilities held in foreign currencies and utilises FX forwards to reduce risk to ensure it is not exposed to any material foreign currency risk. Given the Bank's current profile of financial instruments, the principal exposure is the risk of loss arising from fluctuations in the future cash flows or fair values of these financial instruments because of a change in achievable rates. This is managed principally through monitoring gaps between effective profit and rental rates and matching fixed or variable rate assets with liabilities of comparable rate basis and reviewing approved rates and bands at regular re-pricing meetings.

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

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

Standard scenarios that are considered monthly include a 2.00% rise or fall in effective average rates. The income statement impact is measured by flexing the Bank of England base rate (BBR) and measuring the profits arising from the rate shift (assuming no asymmetrical movement and a constant statement of financial position status) is as follows:

Table 28: The impact of a 2% shift in the profit yield:

2% shift up of the yield curve:	2020 (£m)	2019 (£m)
	11.3	3.8
Average of month end positions reported to ALCO	3.7	5.1

2% shift down of the yield curve:	2020 (£m)	2019 (£m)
	0.5	(2.1)
Average of month end positions reported to ALCO	(3.0)	(2.3)

Basis Risk

Basis risk is where there is a mismatch in the profit rate reference base for assets and liabilities.

A basis risk exposure is measured by aggregating all other basis risk asset and liabilities against 3 month-LIBOR based exposures. The net exposure is then measured against approved limits. Limits are set based on the widening of basis against the 3 month-LIBOR. The Bank has a market risk policy in place which places limits on the net mismatch between base rate linked assets and liabilities. As at 31 December 2020, the amount of the basis risk sensitivity measure was £0.6 million (31 December 2019: £0.9 million).

3.11 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It includes risks arising from:

- Product and service failures
- Legal and regulatory risks
- Adverse media
- Poor customer treatment
- Theft, fraud and other criminal acts
- Impact of change
- People
- Transactions and internal processes
- Outsourcing and use of third-party suppliers
- Information technology
- IT Security

Line management within each business area is responsible for the identification, measurement and management of the risks within the Bank's risk appetite, ensuring appropriate controls are in place and operating effectively. The Bank's Risk department supports management in fulfilling their risk management responsibilities, providing assistance and guidance to staff, undertaking risk and control reviews and making recommendations for control enhancements, and preparing risk related management information.

The Conduct, Operational and Regulatory Risk Committee ("CORC") is the Bank's principal forum for monitoring operational risk and ensuring that appropriate actions are taken, and internal controls implemented. CORC meets monthly and reviews risk management information including the Risk Dashboard containing key risk appetite metrics.

The Risk Dashboard, together with minutes of CORC meetings, are distributed and reviewed by BRC and the Board as appropriate.

The Bank has adopted the Basic Indicator Approach (BIA) to operational risk under Pillar 1 of Basel II. Under the BIA, 15% of the average operating income (before provisions and operating expenses) for the last three years is used for operational risk costs.

The tables below show movements in RWAs for operational risk during 2020 and 2019:

Table 29: Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2020

	£m
RWAs at 1 January 2020	71.8
Increase in revenue generation	3.4
RWAs at 31 December 2020	75.2
Operational risk Pillar 1 capital requirement at 31 December 2020	6.0

Table 30: Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2019

	£m
RWAs at 1 January 2019	62.2
Increase in revenue generation	9.6
RWAs at 31 December 2019	71.8
Operational risk Pillar 1 capital requirement at 31 December 2019	5.7

The increase in operational risk RWAs is due to the higher revenue generated by the Bank over the three years to 31 December 2020 compared to the three years to 31 December 2019.

3.12 Prudential Risk - 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 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, consisting of cash and on demand and short-term Treasury placements, to meet the normal day-to-day operations of the business. In addition, a buffer of high quality liquid assets is maintained, which can be converted quickly into cash to cover outflows in severe stress conditions. All liquidity policies and procedures are subject to review and sanction at ALCO and approved by the Board.

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

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

The Bank holds a High Quality Liquid Assets (HQLA) portfolio, which is analysed (post haircut) at 31 December 2020 and at 31 December 2019 as follows.

Table 31: HQLA portfolio

	31 December 2020 (£m)	31 December 2019 (£m)
Central governments	18.4	59.2
Regional governments and central banks	69.7	71.5
Multinational development banks	62.5	66.7
Corporates	7.7	4.0
Cash	2.6	1.2
Total	**160.9**	**202.6**

Liquidity Ratios

The CRR provides for two liquidity safeguards: the Liquidity Coverage Ratio ("LCR") which aims to improve the resilience of banks to liquidity risks over a 30-day period and the Net Stable Funding Ratio ("NSFR") which aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one-year period of extended stress.

Liquidity Coverage Ratio

The Bank's LCR as at 31 December 2020 was 288% (31 December 2019: 517%). This is significantly in excess of the minimum standard of 100% mandated by the PRA.

Table 32: Analysis of the Bank's *average* liquidity coverage ratio (LCR) during 2020

		Total unweighted value (average) (£m)	Total weighted value (average) (£m)
High-quality liquid assets			
1	Total HQLA		155.3
Cash outflows			
2.0	**Retail deposits and deposits from small business customers, of which:**	**801.0**	**73.0**
3.0	Stable deposits	483.5	24.2
4.0	Less stable deposits	317.5	48.9
5.0	**Unsecured wholesale funding, of which:**	**124.7**	**51.5**
7.0	Non-operational deposits (all counterparties)	120.4	50.9
13.0	**Credit and liquidity facilities**	47.0	47.0
15.0	**Other contingent funding obligations**	2.3	-
16.0	**TOTAL CASH OUTFLOWS**		172.1
Cash inflows			
18.0	**Inflows from fully performing exposures**	302.1	296.8
19.0	Other cash inflows	-	-
20.0	**TOTAL CASH INFLOWS**	302.1	296.8

Total adjusted value			
21	**Total HQLA**		152.1
22	**Total net cash outflows ****		43.2
23	**Liquidity Coverage Ratio (%) *****		352%

*As per the Article 33 of Delegated Act: *"Credit institutions shall limit the recognition of liquidity inflows to 75% of total liquidity outflows as defined in Chapter 2"*
*** total net cash outflows = outflows minus inflows(capped at 75%)*
**** LCR = HQLA divided by net cash outflows*

Net Stable Funding Ratio (NSFR)

The Bank's NSFR as at 31 December 2020 was 145% (31 December 2019: 158%) which is in excess of the expected minimum level of 100%.

3.13 Sharia non-compliance risk

Sharia non-compliance risk is the risk of loss arising from products, services, transactions and counterparty placements not complying with Sharia requirements or being in accordance with Islamic principles. The Bank's purpose is to provide Sharia compliant banking to customers. The Sharia compliant nature of each transaction, product and service offered is therefore critical to the success of the Bank.

The Sharia compliance of each transaction, product and service offered is achieved through a structure that includes the Sharia Supervisory Committee (SSC), which seeks to ensure that the Bank's operations are in compliance with Islamic law. The SSC is comprised of experts in the interpretation of Islamic law and its application within modern day Islamic financial institutions. The SSC meets on a regular basis to review all material contracts and agreements relating to the Bank's transactions, certifying every product and service offered. On a day-to-day basis, the Bank's Sharia Compliance & Product Development, oversees the adherence of transactions, processes and procedures to ensure that all are operated in accordance with Sharia requirements. Regular Sharia Compliance audit reviews are completed by the Sharia Compliance function.

4 Capital Requirements and Resources

The Bank adopts the standardised approach to credit risk and the basic indicator approach to operational risk to calculate the minimum Pillar 1 capital requirement.

In addition to the risks covered under Pillar 1 (credit, market and operational risks), all other material risks to which the Bank is exposed were assessed as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP). Financial and capital forecasts were prepared covering a five-year period incorporating all current and planned strategic initiatives, products and services, enabling the Board to assess the levels of capital required to support both current and future activities.

The ICAAP is undertaken at least annually and more frequently should the Bank's strategic plans, forecasts or risk profile change. The results of the ICAAP indicate the minimum capital required to be maintained by the Bank to support current and future activities. The results are documented and approved by the Board and are assessed by the PRA as part of its supervisory review of the Bank.

The ICAAP is integrated in normal business activities. The impact on capital requirements of new, and changes to existing, business processes, products and services are assessed. Strategic decisions are made following an assessment of their impact on capital, ensuring adequate capital is maintained at all times and that it is efficiently utilised.

The ICAAP is considered by the PRA as part of its Supervisory Review and Evaluation Process (SREP) and is used in part to determine the Total Capital Requirement (TCR) for the Bank. The Board approved ICAAP will highlight risks faced by the business for which additional capital above Pillar 1 (8.00% of total risk weighted assets) is required. The additional capital will be part of the Bank's Pillar 2A requirement which forms part of the organisation's overall TCR requirement.

Capital adequacy is monitored against the minimum capital requirements by ALCO, ERC, BRC and the Board.

4.1 Pillar 1 Capital

The Bank's overall capital requirement under Pillar 1 is calculated by adding together the capital requirements for credit risk, market risk, and operational risk. However, as per Article 351 of the CRR, the net foreign exchange holding of the Bank is below the de minimis and thus the Bank does not hold Pillar 1 capital for market risk.

The following table shows the Bank's capital requirement and capital surplus under Pillar 1 as at 31 December.

Table 33: Pillar 1 requirement and total capital resource

	2020 (£m)	2019 (£m)
Total Capital Resource	163.7	160.7
Total Pillar 1 Capital Requirement	81.0	78.6
Surplus over Pillar 1 requirements	82.7	82.1

4.2 Total Capital Resources

The following table shows the composition of the Bank's regulatory capital position as at 31 December 2020 and at 31 December 2019.

Table 34: Overview of RWA & Pillar I (calculated using standardised approach)

	31 Dec 20 RWA (£m)	31 Dec 20 Pillar 1 (£m)	31 Dec 19 RWA (£m)	31 Dec 19 Pillar 1 (£m)
Credit risk	937.3	75.0	911.8	72.9
Operational risk	75.2	6.0	71.8	5.7
Total requirement	**1,012.5**	**81.0**	**983.6**	**78.6**
Capital resources		163.7		160.7
Capital resources surplus over Pillar 1 requirement		82.7		82.1

As at 31 December 2020, total capital resources have increased by £3.0 million to £163.7million (2019: £160.7 million) over 2020 as a result of the inclusion of the Bank's 2020 audited total comprehensive income for the year in retained earnings offset by the increase the intangible asset balance. Total RWAs increased by £28.9 million reflecting the continued growth of the Bank's balance sheet.

The table below shows movements in regulatory capital during 2020.

Table 35: Movement in regulatory capital during 2020

	£m
Total capital at 01 January 2020	160.7
Profit after tax for the year	3.8
Increase in intangible asset deduction	(1.0)
Increase in deferred tax deduction	(0.1)
Increase in mark-to-market reserve	0.3
Total capital at 31 December 2020	**163.7**

Reconciliation of statutory equity to regulatory capital resources

Table 36: Reconciliation of statutory equity to total regulatory capital resources

	31-Dec-20 £m	31-Dec-19 £m
Equity per statement of financial position	150.0	145.8
Regulatory adjustments		
Add: tier 2 issuance	25.0	25.0
Less: deferred tax assets	(6.0)	(5.8)
Less: intangible assets	(5.1)	(4.1)
Less: additional value adjustment	(0.2)	(0.2)
Total capital resources	**163.7**	**160.7**

Regulatory capital requirement buffers CRD IV buffers

The Bank is subject to a number of CET1 capital buffers over and above the required minimum CET1, Tier 1 and total capital ratios. These capital buffers were implemented under CRD IV. The buffers applicable to the Bank include the capital conservation buffer (CCB) and the counter-cyclical buffer (CCyB). The UK CCyB is set by the FPC of the Bank of England with a rate of 0.0% in place for 2020 (2019: 1.0%).

As at 31 December 2020, the institution specific CCyB rate for the Bank is 0.0% (2019: 0.8%). The buffer requirement is based on the relevant risk weight assets multiplied by the specific buffer rate.

PRA buffer

The stress testing conducted in the Bank's ICAAP forms the basis for the PRA buffer assessment. Following their review, the PRA sets a PRA buffer, which in combination with the CRD IV combined buffer is held to ensure the Bank can withstand an adverse economic downturn.

From 1 January 2016, the PRA buffer represented the excess buffer (expressed as a percentage of total RWAs) required by the PRA in addition to the capital conservation and counter-cyclical buffers. This is set by the PRA and is not disclosed.

4.3 Leverage ratio

The leverage ratio measures the relationship between the capital resources of the Bank and its total assets. The leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items.

At present, the Bank has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. However, the Bank maintains the ratio well above the minimum leverage ratio requirement.

The Bank's Leverage ratio as at 31 December 2020 is 5.9% (2019: 6.0%) (see Annex 2 for details of the calculation).

5 Securitisation

Securitisation issued

The Bank securitised a number of HPPs in 2018 through the creation of a Special Purpose Vehicle (SPV), Tolkien Funding Sukuk No.1 Plc (the “Sukuk”), and the issuance of notes by the SPV to investors as part of the Bank’s wholesale funding strategy. The Sukuk was publicly issued to obtain diversified funding from third parties.

The Bank has the role of originator, servicer, and Sharia compliance adviser in respect of the Sukuk.

The Bank has issued guarantees in respect of the Sukuk which may require the repurchase of securitised home purchase plans from the SPV if certain conditions or thresholds are met, which may give rise to a liquidity risk. The Bank has recognised a liability to the noteholders on its balance sheet, and the repurchase events would only impact the timing of cash outflows and not the amount of the liability.

The Sukuk was issued on 22 February 2018, with total proceeds of £250 million. 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 2020 was three-month Sterling LIBOR plus a margin of 0.80% per annum, which is payable until the step-up date of 20 April 2021, at which point the margin will increase to 1.6% per annum. Following the year end, the Bank took the option to repay the sukuk at the step-up date of 20 April 2021.

Treatment of the securitisation

The notes issued by the SPV are secured against a portion of the Bank’s HPP portfolio, which has been transferred to the SPV. The Bank has deemed that there has not been a significant transfer of credit risk through the transfer to the SPV, and the Bank retains an exposure to variability in the present values of future cash flows, so there has been no derecognition of the financing assets on transfer to the SPV. A liability has been recognized in respect of amounts due to the Sukuk noteholders. All of the related assets and liabilities are held at amortised cost by the Bank, and the transfers to the SPV have not been treated as a sale by the Bank, so no gain or loss has been recognised on the portfolio.

As there has not been a significant transfer of credit risk, the Bank does not calculate risk weighted exposure amounts for any positions it holds in the securitisations and these continue to be calculated in line with capital requirements applied to the underlying financing assets. The risk relating to the underlying HPPs remains with the Bank and is included in the financing asset tables detailed throughout this document.

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.

6 Remuneration Code Disclosures

The financial services regulator issued its Policy Statement PS10/20 “Revising the Remuneration Code” (“the Code”) in December 2010, which set out their requirements in this regard. The Remuneration Code is set out in SYSC 19A of the FCA Handbook.

Al Rayan Bank PLC qualifies as a Tier 3 firm under the Code. It is required to disclose certain qualitative items and quantitative remuneration items.

This statement sets out the disclosures required under the Code as they apply to the Bank. The Remco is responsible for the governance and implementation of the Code and the annual review of adherence to it. The Remco is comprised of three non-Executive Directors. The Company Secretary or their nominee is secretary of the committee but carries no vote in decision making. The non-Executive Directors are regarded as being independent of Al Rayan Bank and possess the necessary skills to exercise the appropriate judgement. The Remco has recently reviewed and approved the Bank’s remuneration policies. During 2019 the Board Chairman also chaired the Remco whilst a new Chief Executive Officer was appointed. The previous chair of Remco was undertaking the role as interim CEO & Director for 2019.

Table 37: Staff Costs for 2020

Code staff fixed costs	£3.1m
Code staff variable costs: bonus awards	£0.2m

The Code requires that banks identify senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm’s risk profile, and designate them as “Code Staff”.

In total, 32 Code Staff have been identified as being employed during the year. Additional restrictions apply to the remuneration of Code Staff. All Directors (Executive and Non-Executive) and Senior Managers have been identified as Code staff. No Code staff had either variable or total remuneration in excess of £500,000.

The Bank has in place a discretionary bonus scheme and the payment of awards is linked to achievement of the Bank’s overall business objectives, as well as affordability based on the end of year financial results. Bonus awards under the schemes qualify as “variable remuneration” as defined in the Code. The Bank’s performance year runs from 1 January to 31 December. This bonus scheme is in place to reward staff for performance during the current performance year. The purpose of the scheme is to recognise and reward staff for their individual contribution towards the Bank achieving its business objectives.

At the beginning of each performance year, objectives are agreed for each individual based on the Bank’s corporate objectives, and linked to their specific job role. Achievement of these objectives is reviewed periodically throughout the performance year as part of the Bank’s performance management process and at the end of the year an assessment is made of each individual’s overall performance against the agreed objectives. All individual ratings are calibrated as part of the annual performance management cycle. Whether any awards will be payable at the end of the performance year will depend on whether the Bank has met its overall business objectives, including mandatory risk management objectives and the end of year financial results. Any awards that are payable to individuals will be paid as a one-off cash payment where the Code permits, but bonus payments may be deferred and can be subject to claw back. Budget proposals are presented to Remco each year, including Remcode colleagues. Guaranteed bonuses are not offered as part of Al Rayan Bank’s current performance award arrangements, except where agreed during a hiring process. During 2020 we offered guaranteed bonuses in exceptional cases to ensure we attracted the right candidates.

7 Governance

Additional disclosures required under CRD IV in relation to governance arrangements are presented in this section.

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2020, in addition to their roles within the Bank, are detailed below. Patrick Newberry was appointed as a non-Executive Director on 7 January 2020, Kathryn Kerle was appointed as a non-Executive Director on 12 December 2020 and Peter Horton was appointed as an Executive Director on 21 April 2020. Following the year end Caroline Bradley was appointed as a non-Executive Director on 26 January 2021. Simon Moore resigned from the Board on 23 October 2020, Richard Sommers resigned from the Board on 1 October 2020 and Patrick Newberry resigned from the Board on 23 January 2021.

Name	Position	Directorships
Malcolm Brookes	Interim Chairman	3
Adel Mohammed Tayeb Mustafawi	Non-Executive Director	4
Ahmed Swaleh Abdisheikh	Executive Director	1
Patrick Newberry	Non-Executive Director	1
Kathryn Kerle	Non-Executive Director	1
Peter Horton	Executive Director	0

The number of directorships shown excludes the Bank and counts external directorships held within the same group of companies as a single directorship in line with CRD IV. Directorships include non-commercial organisations.

Board recruitment

Appointment of Executive Directors

A new Executive Director would be recruited on terms in accordance with the approved Directors' Remuneration Policy (the "Remuneration Policy") at that time. The Bank's Remuneration Policy balances the need to have appropriate remuneration levels with the ability to attract high-performing individuals to the Bank. With this in mind, the starting point for the Remco in setting a remuneration package for a new Executive Director will be to structure a package in accordance with the Remuneration Policy, based on the individual's knowledge and experience.

Remco recognises that, when recruiting externally in particular, it may be necessary to compensate an individual to ensure that they are remunerated effectively. The areas where Remco may exercise its discretion in order to achieve this are set out in the Remuneration Policy. This may arise in particular in relation to bonus and incentive plans given that variable performance-related pay is widely used in the financial services industry to incentivise senior management.

Appointment of Non-Executive Directors

A new Non-Executive Director would be recruited on terms in accordance with the approved Remuneration Policy at that time. The Board has delegated specific powers and authority to Remco to lead the appointments process for nominations to fill Board vacancies. It is also responsible for keeping the size, structure and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary.

Remco also formulates succession plans for the Chairman, Non-Executive Directors, and the senior Executives. Before an appointment is made by the Board, Remco evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, Remco will:

- use open advertising or the services of external advisers to facilitate the search;
- consider candidates from a wide range of backgrounds; and
- consider candidates on merit and against objective criteria, including reference to the Financial Conduct Authority (FCA) and PRA's "fit and proper" test, and the competence and capability criteria set out as part of their approach to approving individuals. Care is also taken to ensure appointees have enough time available to devote to the position on an ongoing basis.

Responsibility for determining the individual remuneration and benefits package of each of the Bank's Executive Directors and the Chairman lies with the Remco.

The remuneration of Non-Executive Directors is set by the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

Board diversity

The Bank is committed to diversity and ensuring that all of Al Rayan Bank's people are offered equal opportunities throughout their career. Further, the Bank ensures that employees are not discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board. The Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. However, the Board does not have a measurable target for gender representation on the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

8 Annex I

EBA Own Funds disclosure template
Disclosure according to Article 5 in Commission implementing regulation (EU) No 1423/2013

		2020 (£m)	2019 (£m)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	176.0	176.0	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Paid up capital	121.2	121.2	EBA list 26 (3)
	of which: Share premium	54.8	54.8	EBA list 26 (3)
2	Retained earnings	(29.8)	(33.7)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	0.7	0.5	26 (1)
6	***Common Equity Tier 1 (CET1) capital before regulatory adjustments***	***146.9***	***142.8***	

Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-0.2	-0.2	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-5.0	-4.1	36 (1) (b), 37, 472 (4)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-6.0	-5.8	36 (1) (c), 38, 472 (5)
28	***Total regulatory adjustments to Common Equity Tier 1 (CET1)***	*-11.2*	*-10.1*	
29	***Common Equity Tier 1 (CET1) capital***	***135.7***	***132.7***	

Additional Tier 1 (AT1) capital: instruments

44	Additional Tier 1 (AT1) capital	3.0	3.0	
45	***Tier 1 capital (T1 = CET1 + AT1)***	***138.7***	***135.7***	

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	25.0	25.0	62, 63
50	Credit risk adjustments	-	-	62 (c) & (d)
51	***Tier 2 (T2) capital before regulatory adjustment***	***25.0***	***25.0***	

Tier 2 (T2) capital: regulatory adjustments

58	***Tier 2 (T2) capital***	***25.0***	***25.0***	
59	***Total capital (TC = T1 + T2)***	***163.7***	***160.7***	
60	***Total risk-weighted assets***	***1,012.5***	***983.6***	

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.4%	13.5%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	13.7%	13.8%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	16.2%	16.3%	92 (2) (c)
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	4.7%	4.4%	CRD 128

Applicable caps on the inclusion of provisions in Tier 2 (T2)

76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62

9 Annex II

Leverage Ratio – Disclosure Template
Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2020.

		2020 (£m)	2019 (£m)
LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, applicable amounts			
1	Total assets as per published financial statements	2,339.8	2,247.3
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	25.9	16.0
7	Other adjustments	-11.2	-10.1
8	Total leverage ratio exposure	2,354.5	2,253.2
LRCom: Leverage ratio common disclosure, CRR leverage ratio exposures			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,339.8	2,247.3
2	(Asset amounts deducted in determining Tier 1 capital)	-11.2	-10.1
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,328.6	2,237.2
17	Off-balance sheet exposures at gross notional amount	168.5	81.2
18	(Adjustments for conversion to credit equivalent amounts)	-142.6	-65.1
19	Other off-balance sheet exposures (sum of lines 17 to 18)	25.9	16.0
20	Tier 1 capital	138.7	135.7
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,354.5	2,253.2
22	Leverage ratio	5.9%	6.0%

LRSpl: Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures), CRR leverage ratio exposures

EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2,339.8	2,247.3
EU-3	Banking book exposures, of which:	2,339.8	2,247.3
EU-5	Exposures treated as sovereigns	91.3	154.2
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	66.0	66.6
EU-7	Institutions	158.7	337.3
EU-8	Secured by mortgages of immovable properties	1,715.6	1,590.1
EU-9	Retail exposures	-	-
EU-10	Corporate	237.7	7.6
EU-11	Exposures in default	5.1	3.5
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	65.4	88.2

10 Annex III

Disclosure on asset encumbrance, as of 31 December 2020

Template A-Assets (£m)

	Carrying amount of encumbered assets	Fair value of encumbered asset	Carrying amount of Unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	200.5	200.5	2,139.3	2,139.3
Loans on Demand	-	-	104.7	104.7
Equity Instruments	-	-	-	-
Debt securities (asset securities)	-	-	170.8	170.8
Loans and advances other than loans on demand	200.5	200.5	1,829.5	1,829.5
Of which: Financing assets	195.5	195.5	1,555.4	1,555.4
Other assets	-	-	34.3	34.3