AL RAYAN BANK

Annual Report and Financial Statements

For the year ended 31 December 2021

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

Banking you can believe in

alrayanbank.co.uk

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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 and the ultimate parent of the Bank.

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 all stakeholders including customers, staff and shareholders. 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 bank. It offers a large range of banking services and a variety 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 Commercial Property Finance (CPF), Home Purchase Plans (HPP), Premier Home Purchase Plans, current accounts and a range of savings accounts catering for different needs for resident and non-resident customers. 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.

The Bank serves 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.

OUR PROMISE

To be the leading provider of ethical, Sharia compliant banking services in the UK, delivering long term value for customers, staff and shareholders.

Chairman's statement

I was very pleased to be invited to join the Board of Al Rayan Bank in July 2021 and to take over as Chairman in October. I was attracted to the prospect of joining an organisation that is dedicated to its customers and determined to deliver the very best outcomes for all stakeholders and am pleased to say that my six months' experience so far has shown this to be the case. It is this strong sense of purpose and the dedication of its people which has allowed the Bank to continue to succeed, despite the ongoing and significant challenges of the pandemic.

At the time of writing this statement, the global economy continues to face uncertainty on a number of fronts but in particular as a result of Covid-19 and more recent uncertainty surrounding the war in Ukraine, which at the time of writing shows little prospect of peaceful resolution. As a UK focused Bank, we do not have any exposure in the region and therefore do not currently see the conflict having a direct impact on our business. The secondary impact of the war is, however, still to be felt and will very much depend on what happens in the coming months.

Despite these uncertainties, the Bank remains strong and resilient. The financial performance of Al Rayan Bank in 2021 has demonstrated that it is well-placed to continue successfully.

Indeed, 2021 saw a significant increase in profits for the Bank, driven by the Bank maintaining its financing asset income from higher Commercial Property Finance (CPF) volumes and also achieving lower but still competitive funding costs. As profits have increased, we continue to successfully implement our strategic initiatives.

Evolving distribution channels

A key element of the Bank's strategy has been continuing to increase the use of digital technology to reflect the changing ways that customers interact with us, and the Bank is well placed to take advantage of the digital opportunities that exist.

With over 30,000 of our customers choosing our Digital Banking platform for their day-to-day banking with us, the expansion of this channel is continuing to be driven by customers' demand. The successful roll out in 2020 of our Digital Banking app has ensured we are able to provide fast, convenient and secure banking to our customers. We have also successfully concluded the e-commerce Payment Services Directive Phase 2 (PSD2) project, which brings about greater robustness in financial crime prevention and is already helping to protect our customers.

As online access for banking services has grown across the industry, the Bank has continued to review its traditional distribution channels. This work is focused on 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 that allow us to continue to offer competitive expected profit rates to liability customers and attractive rental rates to asset customers. As a result of this process, the Bank made the difficult decision to close its London Whitechapel and Birmingham Small Heath branches in 2021 and we have seen a number of roles becoming redundant with the result that our staff numbers reduced during 2021 from over 280 to under 240. We have also made some changes to our retail banking products partly to reduce the level of risk in our financing activities for both our customers and the Bank as a whole.

Stability for the future

2021 has also seen a number of changes to the leadership of Al Rayan Bank as we continue to meet the challenges and opportunities provided by the evolving landscape for financial services in the UK. I am keen to see a stable Board with a good mix of experience and technical skills and I am pleased that we have made great strides towards achieving this. During the year we welcomed Caroline Bradley and Steven Hicks who joined the Bank as Independent Non-Executive Directors and Fahad Abdullah Alkhalifa who joined in December as a Shareholder Non-Executive Director following the successful merger of Masraf Al Rayan (MAR) with Al Khaliji Bank in Qatar. Malcolm Brookes remains on the board providing needed continuity and I would like to thank him for his time as Interim Chairman before I was appointed.

I would also like to express my sincere gratitude to three members who have left the Board: Adel Mohammed Tayyeb Mustafawi who was a Director from 2011 and represented MAR on the Board after their acquisition of the Bank in 2014 until he stepped down as MAR CEO in June 2021; Ahmed Swaleh Abdisheikh, who is stepping down after serving as Director since 2014; and Kathryn Kerle, who served as an Independent non-executive Director until February 2022. Both Ahmed and Adel have played an important part in the success of the Bank, especially since its acquisition by MAR, and Ahmed also served as interim CEO and as an Executive Director (People & Technology). Kathryn made a significant contribution as we started to reshape the way in which the Board and its committees operate.

I also welcome Sheikh Dr. Waleed Bin Hadi who joined the Bank's independent Sharia Supervisory Committee as Chair, following the sad passing last year of Sheikh Dr Abdul Sattar Abu Ghuddah.

We appointed Giles Cunningham as CEO and Director in September. Giles brings many years of banking experience, with a strong track record of growing and developing banks in the UK and internationally. I would like to thank Giles' predecessor Peter Horton, who played a significant role in helping navigate the Bank through the early days of the pandemic.

Looking ahead

Looking to the year ahead, we are hopeful that the economy will continue to emerge positively from the challenges of the Covid pandemic.

With regards to the Russian invasion of Ukraine in late February 2022, this is a significant and ongoing tragedy to the people of the region and is likely to cause major disruption to business and economic activity worldwide until resolved. Whilst the Bank is not directly exposed to any economic downturn because of the conflict, we nonetheless sincerely hope for a quick and peaceful resolution to the conflict.

Through stability and strong leadership, we will remain focused on taking the necessary actions to ensure long-term sustainable growth for the Bank and deliver the best services for our customers, fostering a supportive and nurturing environment for colleagues and delivering sustained and long-term returns for our shareholders. Not only do we want to provide the best services for our customers we want to make Al Rayan Bank a great place to work. Our more focussed UK business strategy and our increased emphasis on premier banking will enable us to build on our own core strengths but we also see real opportunities to grow following the merger of our parent bank and ways to satisfy their own clients' needs in the UK.

On behalf of the Board, I would like to thank all our customers, investors, regulators and our colleagues, as well as Masraf Al Rayan, which continues to support the Bank so decisively. 2021 has been a demanding year but one that has been successful on a number of fronts that we could not have achieved without the support of all our stakeholders.

Michael Williams
Chairman
31 March 2022

Report of the Sharia Supervisory Committee

بسم الله الرحمن الرحيم

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

السلام عليكم ورحمة الله و بركاته

(Assalamu Alaykum Wa Rahmatu Allah Wa Barakatuh)

To the shareholders and customers of Al Rayan Bank PLC
For the period from 1 January 2021 to 31 December 2021

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 2021. 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)

In our opinion:

A The contracts, transactions and dealings entered into by Al Rayan Bank during the year ended 2021 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.

Sheikh Dr Waleed Bin Hadi
Chairman
08 March, 2022

Sheikh Dr Nizam Yaqoobi
Vice-chairman
08 March, 2022

Mufti Abdul Qadir Barakatull
Member
08 March, 2022

CEO's Statement

Over the last two decades, Al Rayan Bank has played a hugely significant role in pioneering Islamic finance in the UK – helping to cement its position in the mainstream of UK banking and creating a platform for other Islamic banks to operate.

We are very proud of the achievements of the Bank and the unique place it occupies in UK banking and, having joined as CEO in September 2021, I am honoured to have been asked to lead the Bank as it transitions to a high calibre Sharia compliant bank which is focused on commercial property and premier banking.

While global and UK economic conditions in 2021 continued to be heavily affected by Covid-19 and uncertainty surrounding the war in Ukraine, the measures taken by the Bank throughout 2020 and 2021, including revising our offering in line with wider changes in the marketplace, ensured that the Bank was well-placed to navigate through these challenges, which was demonstrated by the Bank's strong financial performance throughout 2021.

Financial performance

2021 saw the Bank achieve significantly improved results, with pre-tax profits reaching £9.6m, with net income from financing reaching £43.6m, up from £4.2m profit and £36.2m income in 2020 – a 129% increase in profits compared to the Covid-suppressed performance of the Bank in 2020. This growth has largely been driven by maintaining our financing income through growth in our commercial financing and managing the spread of rates, with competitive profit rates continuing to be paid to depositors. The Commercial division has successfully supported high value real estate investors, with gross financing assets in the division growing 20% from £560m in 2020 to £672m in 2021. Overall financing assets for the Bank have risen by almost 6% from £1.75bn to £1.86bn over the period.

At the same time, and in line with our strategy, the Bank's total assets have reduced from £2.34bn to £2.26bn, which was driven by cash outflows for the repayment of the Tolkien Sukuk in April 2021, while the Retail Financing and Premier Financing divisions have remained relatively flat, again in line with our strategy laid out at the outset of 2021.

Overall financing income remained in line with 2020 as we increased our volume of activity on average across the year. The significant increase in net financing income in 2021 was driven by the Bank maintaining its financing asset income from higher CPF volumes and also achieving lower but competitive returns to customers which enabled the Bank to see significantly improved performance overall for the year in net income from financing, after the 10.6% drop seen in 2020.

The Bank also reduced its core operating cost base over the course of 2021, although this is not reflected in the operating expenses in the year. There were continued one-off costs in the year relating to investments in the Bank's systems and technology, and further costs relating to the implementation of the Bank's strategic transition. The Bank has also provided for potential costs related to the legacy issues regarding AML and Sanctions systems, although a final outcome has not yet been confirmed. This provision has been based on management's best estimates and prevailing regulatory rules and practices.

The Bank is well positioned to have a reduced operating cost base going forward through its reduced headcount and footprint, despite additional regulatory requirements and increasing customer expectations. Continuing to reduce the Bank's cost to income ratio remains a key priority in 2022 and beyond.

Investing in digital

Like many banks in the UK, Al Rayan Bank is finding that customers are increasingly choosing to access their banking services via their computer or mobile phone, rather than their local branch. The Bank will continue to follow consumer demand by prioritising investment in its Digital Banking channels and moving away from its historic branch proposition. As a result of these developments, the Bank closed two of its three retail branches in 2021.

The changing ways in which customers access banking services mean that we are constantly evaluating the best way to offer the personal service that our customers value, whilst also ensuring that we continue to offer competitive expected profit rates to depositors, and rental rates to asset customers.

Throughout 2021 we have therefore continued to invest in enhancing our digital offerings to provide more convenient service and support to customers. After the initial rollout of our Digital Banking application in 2019, we have continued to develop and update it, with version 5 being released in 2021 as part of the ongoing support for our customers. We also rolled out the implementation of Payment Services Directive Phase 2 (PSD2) which includes payment confirmations for customer transactions. Over 30,000 customers are now using our Digital Banking services, which represents a significant proportion of our active customer base.

We also launched our new website in March 2021 to improve the customer experience and help more people engage with the Bank in a convenient and easy to use manner, with a more accessible and versatile website which can be easily used across devices and platforms.

The Bank continued to be recognised for its products in 2021, winning or being highly commended for six awards, including Best Cash ISA provider at the 2021 Moneyfacts Awards.

Organisational culture

Al Rayan Bank will always be an Islamic bank with sustainable, ethical values at its core and those principles have arguably never been so important as in the current climate. I look forward to working with the Board as we build on and nurture our values now, and in the years to come.

Our people will be at the heart of this and at the end of 2021 we undertook our largest and most comprehensive ever independent, employee survey. It was fantastic to see 93% of our people engage with the survey and their enthusiasm and passion for what they do was clearly expressed. Yet, we also recognise that the pandemic has posed challenges for our people and our organisational culture, as it has done for all businesses, for example with communications and the on-boarding of new starters.

The Bank continued to invest in operational resilience throughout the year, demonstrating its ability to adapt and change its ways of working, and ensure that our people were able to work remotely with reliable infrastructure. Now, as restrictions have eased, we look forward to adopting a hybrid working approach, with colleagues provided a safe and secure environment to be office-based at least three days of each week. As a bank, we believe that this will be instrumental in further strengthening our corporate culture and we will continue to work through the feedback from our staff survey and make improvements to our working environment, on the path to becoming a great place to work.

Shareholder support

2021 was a landmark year for our parent bank, Masraf Al Rayan (MAR), as it completed its merger with Al Khaliji Commercial Bank. This was the first ever merger of publicly listed banks in Qatar, and it has created one of the largest Sharia compliant banks in the region with over QAR182 billion (£39.9 billion) in total assets.

Al Rayan Bank will seek to leverage the expanded opportunities which now exist thanks to the enhanced scale of MAR and its wider market reach, to strengthen our Premier Banking customer base.

Outlook for 2022

The UK is now seeing Covid restrictions removed, and with the successful vaccine roll-out, we are hopeful that there will be a permanent return to normal activities. However, the pandemic has impacted different nations at different times and so many countries may take longer to return to normality. In addition, supply chain pressures, rising inflation and the cost of energy will continue impact the global economy and disrupt areas of trade globally.

At the time of writing, the full impact of Russian actions in Ukraine are still to be known. However, a decline in global stock markets and further price inflation in oil and gas as a result of the conflict could impact markets in a number of ways. The Bank does not have significant exposure to Russian citizens. We do not expect any major impact on our business but are monitoring developments closely.

For Al Rayan Bank, the key economic indicators which impact our business are unemployment, residential and commercial property prices and central bank base rates. The expected deterioration in unemployment and house prices did not materialise in 2021, and house price rises were significant. However, as we enter 2022, the new pressures facing the UK economy are high levels of inflation and the impact of prospective rate rises putting pressure on household finances, and the potential for subdued GDP growth going forward. Already, we have seen the Bank of England increase base rates to 0.75% and downgrade their economic forecasts for the year.

However, as the UK continues to open up to global travel and internal economic activity, there will be increased opportunities for external investment into the UK. In particular, we expect to see an increase in demand from our GCC based customers for products and services in the UK.

Certain factors which are currently suppressing UK economic growth, such as high rates of inflation in oil and gas, are actually beneficial for many GCC nations which the Bank has strong ties to. We may find that prolonged high energy prices drives activity in those nations and presents opportunities for the Bank.

Throughout the pandemic the Board and Executive Team of the Bank have continued to assess the risk appetite and strategy of the Bank to ensure that we continue to provide in-demand products and we are growing sustainably for the long term. In line with this the Bank has looked to reduce its level of risk exposure through a reduction in the financing asset products offered to customers, limiting home financing to 65% Finance-to-Value (FTV), and reducing its exposure to higher risk commercial property financing, to allow it to utilise its capital more efficiently. Continued demand has been seen in the commercial property market for mixed use property investment, as well as for refurbishment of properties for use as residential buildings.

The Bank will continue to simplify its product offering and operating model in 2022. This will see the Bank begin the final transition to a Sharia compliant bank which is focused on commercial property and premier banking, supported by a high calibre infrastructure, and leveraging off the MAR group to deliver a viable and resilient business, financed by a mix of retail and wholesale liability customers.

I am looking forward to leading the Bank as it continues this next stage in its journey.

Giles Cunningham
CEO, Al Rayan Bank

Strategic report

Financial Performance

The financial statements for the year ended 31 December 2021 are shown on pages 34 to 72.

2021 was a very successful year for the Bank, with a record profit for the year of £9.6m before tax (2020: £4.2m), an increase of £5.4m from 2020, as rates and activities normalised after the initial shocks from Covid-19 in 2020. 2020 was heavily impacted by the rate cut in March which resulted in an immediate reduction in the Bank's income from financing, with a delayed reduction in returns payable to customers as we did not immediately pass on rate decreases. 2020 also saw significant boosts from the realisation of gains on the sale of sukuk assets which were not repeated in 2021.

Over the second half of 2020 and into 2021, the profit rates payable on our deposits gradually decreased, as they did across the market, and our overall returns payable were significantly lower than in 2020. In April 2021, the Tolkien sukuk was called. The sukuk was originally priced at 0.8% plus LIBOR, and was due to step up to 1.60% plus LIBOR in April 2021. In order to ensure that the Bank's cost of funding remained in line with the market, the decision was made to redeem the Tolkien sukuk in April 2021. While this increased the Bank's reliance on customer deposits, there were significant financial benefits to redeeming the sukuk prior to the rate step up. Ahead of the base rate increase in December 2021, the market became more competitive and deposit rates across products began to increase, which will provide continuing challenges into 2022 for the Bank to manage its funding base.

Overall financing income remained in line with 2020 as we increased our volume of activity on average across the year, particularly driven by increasing volumes of CPF deals, despite lower average rates on our financing assets. The net income from financing increased by 20% due to this asset growth and the reduction in returns payable, which enabled the Bank to see much improved performance overall for the year. The Bank also worked with a significant number of its CPF customers to transition the book away from LIBOR to the Bank of England base rate (BBR) as an alternative benchmark rate for financing. Along with the redemption of the Tolkien sukuk, the Bank has no residual exposure to LIBOR.

The Bank reduced its core operating cost base slightly over the course of 2021, however the Bank's total operating expenses did not reduce from the prior year due to one-off costs in the year relating to improvements in the Bank's systems and technology, as well as the impact of impairments, redundancies and other costs in respect of branches and implementation of the Bank's updated strategy. A claim was also made relating to historic VAT paid covering the period from 2017 to 2021, which resulted in a net credit to expenses of £2.2m, and the Bank has also provided for potential costs related to the legacy issues regarding AML and Sanctions systems. This provision has been based on management's best estimates and prevailing regulatory rules and practices.

The Bank is well positioned to have a reduced operating cost base going forward, despite the high level of costs incurred in 2021, and the additional regulatory requirements and customer expectations. Even excluding the one-off costs and investments, the Bank has a higher cost to income ratio than its peers, and one of the key focuses of the Bank is to ensure it is sustainably profitable and able to continue to service all of its stakeholders. The Bank also undertook a cancellation of its entire share premium to transfer this to distributable reserves as part of retained earnings. After completion of this exercise the Bank has a positive distributable reserves.

2020 saw a significant £1.54m increase in the Bank's expected credit loss provisions, in line with the wider banking industry. While the markets in general improved over the course of 2021, and the Bank released £0.46m of its Expected Credit Loss (ECL) provision as the impact of Covid-19 was less significant that had been feared at the end of the last year, the continued uncertainty and difficulties experienced by some customers meant the Bank still holds higher provisions than before the pandemic and the impact on the Bank's customers has not been evenly felt.

There was a decrease in the HPP ECL, with coverage moving to 0.09% (2020: 0.11% 2019: 0.10%). The reduction in HPP provision has partly related to the improvements in the overall economic outlook for jobs, but also the sustained increase in house prices which continued despite the pandemic. The Bank supported customers with payment holidays in 2020 and into 2021, and has not seen significant ongoing issues for our customers who had requested holidays, which is welcome news, and this is also illustrated by the reduction in HPP ECL.

There was a slight decrease in CPF ECL with coverage of 0.34% (2020: 0.46%, 2019: 0.25%). The CPF provision has also benefitted from the improved outlook, but due to the lower volume of transactions, there are some areas which have seen continued higher levels of risk and associated ECL provisions in areas where the economy continues to be challenging, and the provision remains above 2019 levels, but lower than 2020.

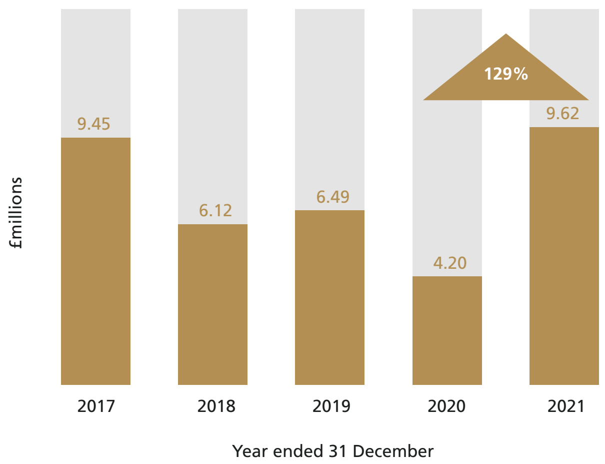
The Bank's recent Internal Capital Adequacy Assessment Process (ICAAP) exercise has concluded that the Bank has surplus capital against regulatory requirements and is also able to satisfy the Overall Pillar 2 Rule and the PRA's threshold conditions. The assessment takes into account the current macroeconomic (Covid-19) conditions and also looks at the Bank's capital position should these macroeconomic factors see deterioration as part of stress testing scenarios.

Key financial performance indicators for 2021 are summarised below:

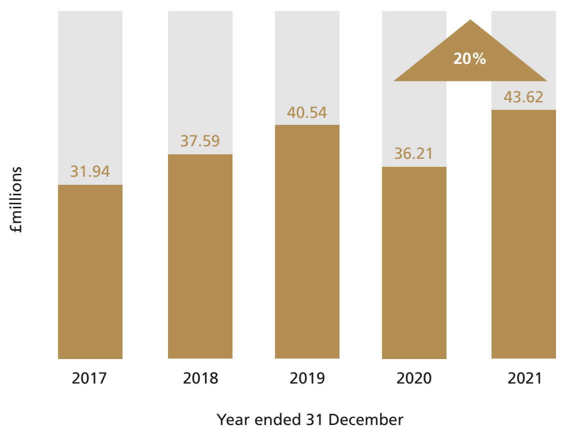
Key Financial Metric	Use of Metric	Basis of Calculation	2021	2020
Profit before tax	Key measure of the Bank's underlying performance, with profit targets set by the Board as part of the budget process		**£9.6m**	£4.2m
Profit after tax	Key measure of the Bank's underlying performance		**£9.0m**	£3.8m
Cost to income ratio	The cost to income ratio is a key financial performance metric against which the performance of the Bank is measured, with a target of reducing the ratio as part of the Bank's strategy	Total operating expenses for the year (including depreciation and amortisation) divided by total income	**79%**	89%
Return on equity	Shareholder performance metric against which the performance of investment is measured	The ratio of profit for the year (after tax) to average equity, expressed as a percentage	**6.12%**	2.45%
Common equity tier 1 ratio (as at 31 December)	Key metric for the Bank's sustainability both for the regulatory and ability of the Bank to deliver on strategic targets	Common equity tier 1 (CET1) capital ratio is the CET1 capital of the institution as a percentage of its total risk-weighted assets	**15.09%**	13.4%
Liquidity coverage ratio (as at 31 December)	Regulatory requirements for LCR, as well as a performance metric for management of the Bank's assets and liabilities and the effectiveness of the use of funds	Liquidity Coverage Ratio (LCR) is high quality liquid assets (HQLA) 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	**635%****	288%

** The liquidity coverage ratio has increased significantly compared to 2020 due to the availability of the Bank of England Alternative Liquidity Facility, which has increased the value of High Quality Liquid Assets (HQLA)

Profit Before Tax



Net income from Islamic financing



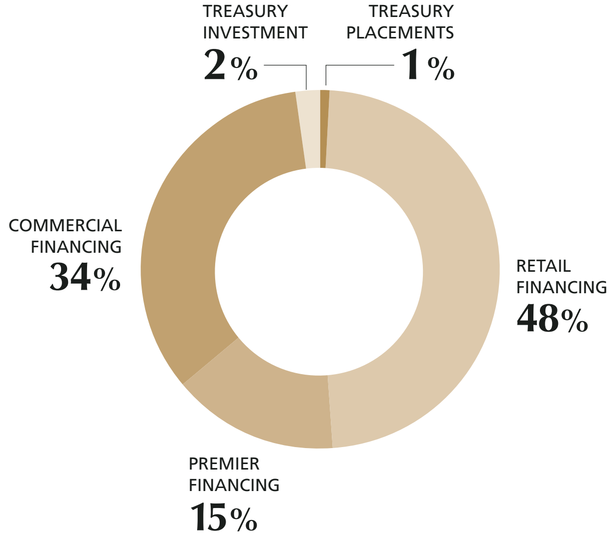
Net income from financing increased in the year due to strong financing book and the reduction in returns payable to customers. The reduction in returns payable began in 2020 when the Bank lowered rates on many of its savings products part way through the year, and when older fixed rate deposits came to an end these were replaced by new funds at lower rates. The Bank also had some diversification of its funding, with significant inflows from a number of larger organisations meaning that despite the redemption of the Tolkien sukuk, the Bank ensured that its deposit base was not wholly reliant on individual retail customers.

The Bank was also able to have a lower level of excess liquidity, as towards the end of 2020 the Bank had sought additional funds in preparation of the repayment of the Tolkien sukuk in April, so during the end of 2020 and early part of 2021 the Bank was carrying excess liquidity which had a cost, which will not be present in 2022. The base rate increases in the UK and abroad, as well as the overall competition in the market, had already begun to drive up the rates offered to consumers in the latter quarter of 2021, which will put pressure on the Bank's returns to customers going into 2022, as this has happened ahead of the base rate increase which will result in additional returns from financing assets.

The Bank expects to maintain income in 2022 as it looks to maintain the overall financing asset balance while working to reduce the costs of operations and improve the cost to income ratio.

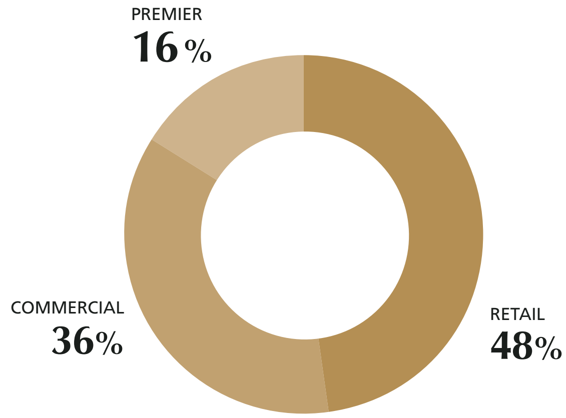
The charts on the following page illustrate the split of financing assets and income.

Income from Islamic Financing Transactions by Type



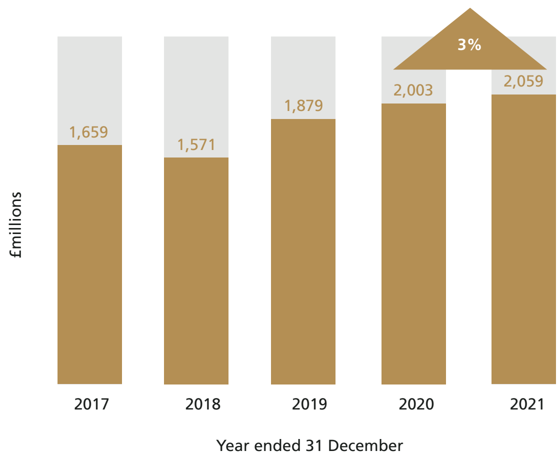
2021 total £65.63m (2020: £65.90m)

2021 Financing Assets by Sector



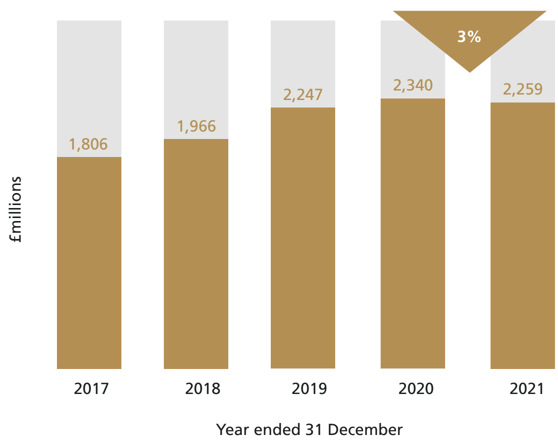
2021 total £1,862m (2020: £1,751m)

Total Deposits

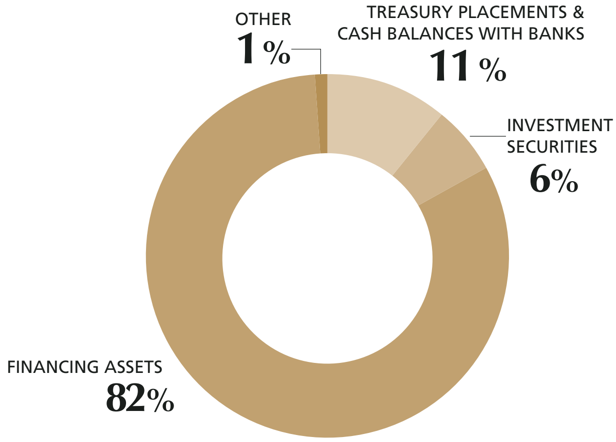


Despite the growth in customer deposits, the Bank's total balance sheet reduced by 3.5% during 2021 as a result of the Tolkien redemption. The redemption used up some of the excess liquidity the Bank held at the end of 2021 which had been built up in preparation for the redemption, and the Bank finished the year with £2.26bn in total assets (2020: £2.34bn). The Bank's investment security holdings are in US dollar and British pound denominated sukuk, and the rate rise expectations in the United States and UK have resulted in negative price movements on these assets, negatively impacting the Bank's Other Comprehensive Income.

Total Assets



2021 Total Asset Breakdown



2021total £2,259m (2020: £2,340m)

The key focus areas for the Bank during 2021 were:	
Developing the Bank's strategy	After the impact of the pandemic, and in response to the changes in the market, the Bank was heavily focused on developing its strategy and ensuring that it was ready for both a post-Covid environment, and could meet the needs of customers The development of the strategy include the decisions to streamline the Bank's operating model, with a reduction in footprint, and a focus on providing an improved service across the key drivers of the Bank's performance The Bank undertook a number of actions to develop its strategy and prepare for the post-Covid economy, including reassessing its risk appetite and the closure of branches, as well as the continued investment in its technology base
Leadership Team	The Bank has seen a number of changes in its leadership team in 2021, with Giles Cunningham being welcomed as the new CEO in September to lead the Bank in its implementation of the new strategy, taking over from Peter Horton In the Executive team, Saalim Mahmood joined as the CFO in May 2021 and Phillip Trevett joined as permanent CRO in January 2022 Michael Williams joined the Bank in July 2021 and took over the role of Chairman from Malcolm Brookes who had been interim chairman. Other additions to the Board during the year were Steven Hicks as Board Risk Committee chair and a non-Executive Director (NED), Giles Cunningham as an Executive Director, Caroline Bradley as Audit Committee chair and a NED, and Fahad Abdulla Alkhalifa as representative of MAR. Adel Mohammed Tayyeb Mustafawi left the Board of the Bank, having been on the Board since 2011, as he also stepped down from his role as CEO of MAR following the completion their merger with Al Khaliji. Kathryn Kerle left the Board as a Non-Executive Director in February 2022 and Ahmed Swaleh Abdisheikh also announced his intention to step down from the Board in March 2022 as he resigned from his role as Chief Operating Officer of MAR
Investment and Project Delivery	The Bank launched its new website at the start of the year, and rolled out further updates to its mobile app over the year as part of the continued investment in upgrades and enhancement, and plans to continue to improve the available features going forwards The Bank also made significant investment in regulatory projects, and continued its investment in compliance with the EU Payment Services Directive (PSD2), completing further elements during 2021. In addition, continued development of a number of internal anti money laundering (AML) and financial crime compliance systems 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, Compliance & Financial Crime	Significant investment was made during 2021 in enhancing systems and controls within the Financial Crime function, in addition to the introduction of new systems in relation to the management of Credit Risk and Operational Risk. Additional enhancements have also been made during the year to the Bank's defences against cybercrime The Bank operates an internal cyber security team which deploys and monitors security controls and systems, which is supported by an external security operations centre The Bank takes its responsibilities in relation to Climate Change Risk very seriously and has put in place systems and controls to monitor and report on this category of risk, as part of the Bank's wider Environmental, Social & Governance (ESG) agenda

The Strategic Plan

The Bank's strategic intent is to deliver a viable and resilient Bank which can effectively service its customers and execute effectively on its goals to be a trusted Sharia compliant bank. The Bank is beginning its transition to becoming a high calibre Sharia compliant bank which is focused on commercial property and premier banking.

The strategy is focused on ensuring that the Bank has a strong relationship with its customers, offering straightforward but high quality solutions, and adding value through how we interact with our customers, and being proactive in offering solutions.

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 execution of the strategy is focused on a number of core areas which are intended to align the operating model of the Bank and its strategy.

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

Customer and Product

- Focus on identifying the Bank's target markets and offering the right products
- Simplification of product offerings to make it easier for customers
- Reducing the cost of managing products and customers through technology

Process

- Simplify operations to support the product offerings
- Reduce costs through efficiencies and revising internal processes
- Standardisation of processes and technologies

People

- Upskilling staff to add value across the customer journey
- Simplifying organisational structures to enhance consistency

Technology

- Enable digitally driven customer journeys to provide better service and meet customer expectations
- Simplify infrastructure through reducing operational complexity of back end systems
- Leverage technology to improve business performance

Execution

- Build momentum early through quick wins
- Ensure changes are made with a focus on stability and achieving goals of reducing complexity

Our market and competition

The Bank was an early entrant into the Sharia compliant banking market in the UK, but as a smaller bank has had a challenge to grow large enough to become a primary bank for customers. The rapid advancements of technology across the finance and banking sector has also meant that the Bank's now legacy platforms have hindered the ability of the Bank to compete with newer entrants in the overall market, and have restricted the Bank's ability to implement changes and provide the support customers expect.

Compared to other challenger banks that the Bank competes with for customer deposits, including non Sharia compliant banks, newer competition has been more able to develop advanced digital offerings and offer competitive deposit rates at a lower cost, and the Bank has a higher cost base and cost to income ratio than its competitors both in the general banking market and for Sharia compliant finance.

While the Bank's parent, MAR, is an established and successful sponsor which has enabled the Bank to attract customers from the GCC region and build a compelling proposition for high-net-worth customers, the Bank's penetration into the general UK consumer market has been more limited, which has contributed to the decision to reduce the Bank's branch footprint in the UK.

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 UK based financing, as demonstrated by the strong growth in the CPF book, by virtue of its strong foundations, specialist experience built up over a number of years, and range of products and services. The Bank is seeking to consolidate in these areas of strength where it has robust growth prospects and is able to support key customers.

Liquidity and funding

Liquidity

The Bank has a low appetite for liquidity risk. One of its key objectives is to ensure that it has sufficient liquidity to meet the needs of its customers on a day to day basis, 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.

In December 2021 the Bank participated in the Bank of England Alternative Liquidity Facility (ALF) which has been set up to facilitate access for Sharia compliant banks in the UK to High Quality Liquid Assets (HQLA) denominated in GBP. Previously the available market for HQLA has been primarily through USD denominated overseas sukuk, creating operational issues for Sharia compliant institutions. The implementation of the ALF by the Bank of England will allow the Bank to have a simplified approach to management of its liquidity position and reduce the level of risk management that is required by the Bank.

Funding

Retail funding

The strategy for funding is underpinned by the acquisition of stable funding through retail deposits, which are closely managed with competitive products catering for 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 historically had predominantly been sourced from prominent GCC countries. The Bank has continued to seek diversified wholesale funding through its dedicated Commercial office in central London, and has successfully onboarded a variety of new wholesale counterparties to diversify the funding portfolio.

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 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 have made the sukuk uncompetitive with other available funding given the overall market rates on offer. The Bank had built up sufficient liquidity from other retail and wholesale sources to replace the sukuk, and successfully repaid the outstanding amounts in April 2021, generating and maintaining liquidity through retail and wholesale deposits over the remainder of 2021.

Principal risks

The Bank's Executive regard 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 in relation to the identification, assessment, control, monitoring and reporting of the principal risks facing the Bank.

In line with this, the Bank's management has performed an assessment of the principal risks that it faces and their potential impact on its liquidity, solvency and operations, as well as the Bank's ability to achieve its strategic objectives.

Risk Management Framework

The management of risk underpins the Bank's ability to successfully deliver its 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 statements and is supported by corresponding quantitative risk appetite metrics. These define the type and quantum of risk that the Bank is prepared to accept on a daily basis, when delivering its strategy in a safe and controlled way.

The Bank's risk tolerance signifies the Bank's ultimate ability to bear risk, without triggering insolvency and/or inability to continue as a going concern. The Bank's risk appetite is formally reviewed by the Board of Directors at least annually and is aligned to the Bank's strategic objectives.

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, assess, control, monitor 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 unexpected loss and/or reputational damage. The RMF comprises 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 processes, such as the 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

On an ongoing basis, the Risk function undertakes a process of constant enhancement to existing processes and procedures in relation to the facilitation of the management of risk.

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, designed effectively and are operating at the prescribed intervals. 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. 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.

Third line of defence:

The Bank's Internal Audit function is responsible for independently reviewing the effectiveness of the risk management structure and providing assurance on the effectiveness of internal controls across both the first and the second line of defence. The Internal Audit function is currently co-sourced with 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. In addition, internal audits are also undertaken by the Group's (MAR) internal audit function.

Risk Management Categories:

The RMF facilitates 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, loss of customers and regulatory censure/fines.

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 Contingency funding, Liquidity Contingency Plan (LCP) and Recovery and Resolution Plan (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 forbearance 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 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 and Cyber 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 changes to information risk	Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability Application of 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 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 key UNSDGs were identified, Climate and Gender Equality. The Bank also continues to review its ethnical roadmap, including ensuring that it is updated in line with the Bank's revised strategy.

Climate

As part of the Bank's long term future planning and risk mitigation, and to meet the requirements of the PRA's SS3/19, the Bank has undertaken internal risk assessments with regard to its portfolio of assets and the risk of negative financial impacts from climate change. The Bank is in the process of compiling its climate strategy but overall the risk level is expected to be low given the nature of the Bank's overall business.

Governance

Overall Bank strategy is to provide financing for low risk assets, which includes low risk of impacts from climate change. The impact is considered based both on the duration of financing, and the specific geographical risks that may be present. The Bank primarily operates in the UK, and has specific governance procedures when considering changes to the Bank's strategy, which are intrinsically linked to the Bank's climate risk exposure. Any change in the Bank's business strategy would be accompanied by an analysis of potential risks, including climate risk, prior to approval.

As part of the SS3/19 compliance work, the Bank has also undertaken a review of the Bank's existing portfolio to ensure that the climate risk is understood and the existing assets and strategy are implemented in a way which mitigates potential exposure to risks from climate change.

Strategy

The Bank's primary risks from its strategy relate to changes within the UK, which is the primary market for the Bank, as well as some risks in respect of overseas sukuk investments where there is exposure to global markets.

The primary domestic risk is from weather related damage or costs, such as from flooding. This has both a short and longer term impact across the Bank's financing portfolio, and forms part of the consideration when providing financing.

Risk Management

As a routine part of providing financing, the Bank undertakes surveys of properties, and has insurance requirements when providing financing which include cover for damage, such as from floods, that would impact the value of collateral and have an opportunity to impact the Bank's losses. Over 85% of the Bank's financing asset has no associated flood risk, with under 2% having a high level of flood risk.

Other risks from sukuk assets relate to the ability of counterparties to repay amounts when due. While a number of the investments are in countries which are reliant on fossil fuels, the tenor of these investments is short, limiting the impact of climate change where a shift in global markets away from these fuels may economically harm the underlying borrower. Investments are also assessed based on credit ratings, which incorporate considerations around the borrower's ability to continue to pay and investment is restricted to highly rated sukuk to minimise any risk of default.

The Bank also restricts lending on residential letting properties based on EPC criteria to ensure that compliance with regulations can be met at the time of financing, and updates its lending acceptance criteria in line with changes to regulations to minimise risk from climate related regulation.

Metrics and Targets

The Bank is continuing to develop and integrate its climate risk assessment and management strategies, including integrating this as part of the ICAAP process. Full integration of the climate strategy is expected during 2022, where it will form a standard part of the Bank's underwriting strategy including the risks relating to transitional climate targets for housing, and the impact of changing weather on damage risks, as well as the Bank's own roadmap to net zero will be developed, including relevant targets and milestones.

The Bank has set up a working group to develop and integrate the financial risk of climate change into the Bank's Risk Management Framework described above.

Climate performance:

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. In 2020 these were originally reported using 2017 conversion factors. The 2020 figures have been updated using 2020 figures, and 2021 have been stated using 2021 conversion factors.

Scope 1 and 2 emissions relate to those from the operation of the Bank's branches and headquarters. Significant Scope 3 emissions included are based on business travel for all means of transport, including private car use, aeroplanes and public transport. All of the Scope 1 and Scope 2 emissions relate to activities within the United Kingdom.

	2021 CO_2e (tonnes)	2021 KWh	2020 CO_2e (tonnes)	2021 KWh
Scope 1 – direct emissions from combustion of fuel (heating gas)	-	419	7	33,376
Scope 2 – indirect emissions from electricity purchased	77	362,446	116	496,683
Total Scope 1 and 2 emissions	**77**	**362,865**	**123**	**530,059**
Environmental intensity indicator (tonnes of carbon dioxide per £1m gross income)	**1.2**		**1.8**	
Scope 3 – business travel only	10		9	

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. This persisted for most of 2021 as the UK continued to have restrictions for much of the year, and the Bank sought to minimise risks to staff by continuing with working from home, however there were higher levels of business related travel including travel between the UK and Qatar.

Reductions in Scope 1 emissions were driven by the closure of branches as the Bank no longer had gas heated premises, as well as reduced travel to and from branches, significantly reducing mileage over the year. Similarly the reduction in Scope 2 emissions primarily relates to the reduction in the Bank's physical footprint through the closure of branches and disposal of head office space resulting in lower electricity use across the Bank's operations.

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 the pandemic. While staff will spend more time working in the office, the Bank has reduced its overall property footprint due to branch closures, which has reduced emissions and is expected to result in a further decrease in 2022 when there is a full year impact after the closure of the Whitechapel and Small Heath branches.

Gender equality targets

As an employer which prides itself on being ethical, the Bank remains committed to diversity, equality and inclusivity for our colleagues. We are proud of our achievements following the implementation of key initiatives which have helped close the pay gaps, these include changes to our recruitment and selection, supporting hybrid working, offering leadership and development training.

The Bank is pleased to report that the Gender Pay Gap has narrowed since our 2020 report. The median pay gap has closed by 2.9% to 32.4% and the mean pay gap has closed by 11.9% to 30.7%. The median pay gap for bonus pay has also closed by 10% to 35.8% and the mean has further closed by 16.5% to 45.5%.

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 and revised strategy for 2022 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

Customers

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.

The Bank's new strategy reflects a change in focus to Commercial and GCC customers, with a reduced focus on individual UK residents for home financing, but the Bank has continued to support its existing customers as part of the strategy change to ensure that existing customers can still be serviced by the Bank. While the products available to new customers are limited, with only lower FTV products available in line with the Bank's approach to reducing risk, existing customers who may still exceed these FTV thresholds continue to be offered new products by the Bank upon maturity of fixed terms, to ensure they can continue to retain their existing Sharia compliant financing, and the Bank continues to support its existing customer base as a core element of the new strategy.

Employees

Employee reporting metrics are reviewed by the Board, and employee representatives are appointed to feedback directly to the senior leadership team to raise issues on behalf of employees. This is in addition to the existing feedback and communications regarding the Bank received through regular town hall events, as well as individual staff discussions with members of the senior leadership team. 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 values feedback from staff and the views collected through regular surveys help to inform, plan and drive improvements. On 1 December the Bank launched an employee survey to measure engagement across the Bank. To ensure complete anonymity, an external third party managed the employee survey on behalf of the Bank. The Bank achieved an excellent response rate of 93%.

Bank-wide and departmental results were communicated in early 2022, which was followed with employee survey workshops to help generate action plans that will be tracked with progress reported throughout 2022. Specific actions already agreed following the survey have included improvements to the staff pension scheme, an overhaul of the Bank's employee rating system and increases to equalise holiday entitlements across the Bank.

Shareholders

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.

Suppliers

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 where possible.

The Bank also ensures it engages with suppliers on at least an annual basis both to maintain the relationships it has, and review the relationships to ensure that they are working for all parties and that issues or challenges can be resolved in an effective manner.

Regulators

The Board also engages regularly with the Bank's regulators. 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, the new Sharia compliant Alternative Liquidity Facility was launched in December 2021 to support Sharia compliant banks in managing their liquidity requirements, and the Bank has begun to participate in the facility.

The Bank has also been in communication with the regulators regarding its strategy and the actions required in support of the strategy, including branch closures, to ensure that the Bank minimises any negative impact on customers, and to ensure that there are no conduct risks.

The Bank has also been subject to regulators reviews as part of the formal review processes in respect of AML and Sanctions controls, for which the reviews were completed in 2020 and 2021.

Outlook for 2022

Economic outlook

The economic conditions facing the UK and world economy as we enter 2022 continue to have significant uncertainty, although due to the successful rollout of Covid-19 vaccines there is the prospect of a return to more normal activities across the world and many nations are opening up again despite the continued risk of Covid-19 and the spread of the Omicron variant. Continued disruption, combined with the existing supply chain pressures, has continued to impact the global economy and disrupt areas of trade globally. Inflation has been increased by commodity prices increasing, as well as the reduced supply of goods.

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 was expected at the end of 2020, these did not materialise, and house price rises were significant. The employment rate in the UK also was not as significantly impacted as had been feared, and even with the impact of Omicron at the end of 2021, the UK has managed to maintain a solid economic footing heading into 2022. The new pressures facing the UK economy are high levels of inflation and the impact of prospective rate rises putting pressure on household finances, and the potential for subdued GDP growth going forward.

Conversely, some of the pressures which are being seen in the UK on the economy such as inflation in core essentials such as energy prices and petrol are beneficial for the GCC countries which the Bank has strong ties, as high gas and oil prices prove a boon for the Middle East and may drive increased levels of economic activity in the area. This has the potential for a pick up in investment activity, especially as the UK appears to have got through the peak of the current wave and is open to internal economic activity and global travel.

The current uncertainty in global markets due to Russian actions in Ukraine have put further pressure on the global stock markets, but have also further increased upward price movements on oil and gas which may further benefit the GCC countries. Potential global shocks from any significant military action may reduce the appetite for overseas investment in the UK, and sanctions placed on Russia by the UK may also have impacts on the UK property market. Parts of the UK housing market, especially in London, have significant exposure to Russian funding and there may be downward pricing pressure as a result of actions taken against Russia. The Bank does not expect any direct impact as a result of any sanctions against Russia, but may be affected by the impact on the global economy and UK property markets.

House prices continued again to rise throughout 2021 and in early 2022 despite the rate rises from the Bank of England in December 2021 and February and March 2022. The majority of economic forecasts indicate that a cooling of the housing market is likely, but further increases were still expected prior to the Russian actions in Ukraine. The increase in Bank of England base rate will increase the costs of mortgages in the overall housing market, along with inflationary pressures on incomes reducing affordability for consumers, however if demand exceeds supply there may still be further upward movements in house prices especially in the short term, although this may be more focused on certain property types and areas.

Commercial property prices have remained subdued but indications are that there may be growth in 2022 as activity picks up. This may be more varied than in the housing market and dependent on the type of property, location and premiums that may be applicable for more favourable properties, such as those which have greener credentials, and less appetite for office space, although there has been an increase in the repurposing of office space. Inflation may also have an impact on the construction of new commercial property, as well as refurbishment or repurposing of existing commercial properties due to the high costs and reduced availability of both materials and skilled workers.

Unemployment can also impact the Bank's performance, as it can affect the ability of customers to pay financing agreements. Overall unemployment was not significantly impacted over the Covid-19 pandemic, with the rate in November 2021 being only slightly higher than pre-Covid-19, and is expected to fall in Q1 2022. The impact of the current inflation levels is expected to lead to a decrease in inflation from 2023 as demand declines, and this is also reflected in the Bank's base case for its expected credit loss modelling.

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.

Business outlook

The Bank new strategy, announced in February 2022, set out the plan to continue the transition to become a financial institution which is focused on premier banking and property finance, primarily for residential financing, and delivers a viable, resilient, Sharia compliant business.

The Bank's successful residential product investment has focused on the CPF business, which grew by 20% in 2021, is a key driver of future growth. The Bank has seen its CPF portfolio more than double in value since 2015, with recent residential investment deals – such as a £24.5m office to residential investment finance deal in Newbury and Bracknell, and a £19m investment finance deal against 245 residential apartments in Luton – helping to contribute towards more than £240m of CPF business during 2021. The Bank sees the strong market continuing for commercial residential property in the United Kingdom which will allow it to continue to deliver further growth.

The Bank has looked to reduce its level of risk exposure through a reduction in the financing asset products offered to customers, limiting home financing to 65% FTV and reducing its exposure to higher risk commercial property financing, to allow it to utilise its capital more efficiently. Continued demand has been seen in the commercial property market for mixed use property investment, as well as for refurbishment of properties for use as residential buildings.

The Bank expects to continue its strong CPF growth during 2022, as well as supporting customers from the wider Masraf Al Rayan group who seek to invest and operate in the UK. The Bank will further enhance its product offerings for these customers. The Bank also expects to maintain its strong funding base, maintaining market leading products for depositors and is committed to continuing to support its existing home finance customers.

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

Malcolm Brookes
Non-executive Director

31 March 2022

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 2021.

Directors and Directors' interests

The Directors who held office during the year ended 31 December 2021 are as follows:

- Michael Williams – Chairman of the Board
- Malcolm Brookes (a) (b) (c) – Remuneration and Nomination Committee Chair
- Caroline Bradley (a) (c) – Audit Committee Chair
- Steven Hicks (a) (b) (c) – Board Risk Committee Chair
- Giles Cunningham – Chief Executive Officer
- Fahad Abdulla Alkhalifa
- Ahmed Swaleh Abdisheikh (a) (b) (c)
- Kathryn Kerle (resigned)
- Adel Mohammed Tayyeb Mustafawi (resigned)
- Peter Horton (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 January 2021, Patrick Newberry resigned as a Director.

On 30 June 2021, Adel Mohammed Tayyeb Mustafawi resigned as a Director.

On 6 August 2021, Peter Horton resigned as Chief Executive Officer and as a Director.

On 28 February 2022, Kathryn Kerle resigned as a Director.

On 10 March 2022 Ahmed Swaleh Abdisheikh announced his intention to resign as a Director in 2022.

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

Michael Williams was appointed as a non-executive director on 21 July 2021 and chairman from 1 October 2021.

Steven Hicks was appointed as a non-executive director on 6 September 2021.

Giles Cunningham was appointed as a director and Chief Executive Officer on 30 September 2021.

Fahad Abdulla Alkhalifa was appointed as a director on 1 December 2021.

Fahad Abdulla Alkalifa has a current association with Masraf Al Rayan Q.P.S.C and is, therefore, not considered independent. Ahmed Swaleh Abdisheikh and Adel Mohammed Tayyeb Mustafawi had associations with Masraf Al Rayan Q.P.S.C until the dates of their resignations and were 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.

Significant shareholders

The following shareholders had interests in the ordinary shares of the Bank in excess of 3% as at 31 December 2021:

	2021	2020
	%	%
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 75% (2020: 70%) and Qatar Holding LLC 25% (2020: 30%).

Sharia Supervisory Committee members

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

- Sheikh Dr. Waleed Bin Hadi (Chairman)
- Sheikh Nizam Yaqoobi
- Mufti Abdul Kadir Barkatullah

The report of the Sharia Supervisory Committee is set out on page 5.

Dividends

The Directors do not recommend the payment of a dividend for the year ending 31 December 2021 (2020: £nil).

Political contributions

The Bank made no political contributions during the year ending 31 December 2021 (2020: £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 the Executive Committee, which includes representation from Human Resources, before being circulated to the wider Bank.

The Bank holds regular townhall events to provide updates 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.

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 expanded the benefits available to staff and has engaged with individual teams across the business in response to the employee survey.

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.

The Bank supports 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, CEO's statement and the Strategic Report, the Bank has undertaken a number of initiatives to ensure gender diversity requirements are achieved. The Strategic Report also includes the Bank's engagement with stakeholders, reporting of carbon emissions and considerations in respect of climate change.

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.

While the Bank's Tier 2 capital will begin to amortise from a regulatory perspective from 2022, and so will not be able to be utilised fully by the Bank, this has been incorporated into the forecasts, and the Bank's expected profits over the Tier 2 period exceed the amortisation of these instruments.

The continued uncertainty as a result of Covid-19 and other events to date have 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 of England's response to the Covid-19 pandemic included the release of the Countercyclical Capital Buffer (CCyB) which is expected to be reintroduced, and this has also been incorporated into the Bank's forecasts.

The Bank has demonstrated its operational resilience throughout the pandemic, 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 2021 have been highlighted in note 30.

Future developments

Future developments are outlined in the Chairman's Statement and Strategic Report.

Directors' indemnities and insurance

The Bank provides the Directors and Officers of the Bank with appropriate insurance during the course of their appointment, which is reviewed annually.

Directors' emoluments

Director's emoluments are set out in note 10 of the financial statements, including the remuneration of the highest paid director.

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

Malcolm Brookes
Non-executive Director

31 March 2022

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 UK-adopted international accounting standards 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:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK-adopted international accounting standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern

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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; 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 United Kingdom adopted international accounting standards.

2. Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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; and • impairment of investment in financing assets Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £546,000 which was determined on the basis of 0.3% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our key audit matter relating to going concern has been removed for the current year. This is as expected given the fact that events that led to introducing the going concern as a key audit matter have been resolved as at the date of approval of the financial statements and the Board has been fully reconstituted.

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 included:

- We obtained an understanding of the relevant controls over the adoption of the going concern assumption, with particular focus on controls surrounding the review, challenge and approval of financial forecasts.
- We involved our prudential risk specialists to in assessing the latest versions of the company's Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('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 by reference to historical performance, 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 £64.3 million (2020: £61.2 million). Management apply judgement in determining the key assumptions relating to the behavioural lives, specifically the time HPP and CPF 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. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud or error 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 39. 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 controls over EPR income recognition with particular focus on controls over significant management assumptions and judgements used in the EPR method. We involved our analytics specialists to in independently rebuilding 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 having regard to the wider economic environment and leveraging our wider industry knowledge. As part of our wider assessment of EPR income recognition we involved our analytics specialists in performing 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.
Key observations	Based on the evidence obtained, we conclude EPR income recognition and behavioural lives adopted by management to be appropriate. We consider the underlying methodology used for the calculation of EPR for both HPP and CPF portfolios to be 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 £3.5 million (2020: £3.9 million) against financing assets of £1,865.1 million (2020: £1,754.9 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, the timing of cash flows 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 for the unemployment and the house price index ("HPI") and the applied weightings; and • The completeness and accuracy of management overlays, specifically those relating to stage 2 CPF financing assets, i.e. assets with a significant increase in credit risk. 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. 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 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, involving our economic specialists in challenging 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. We assessed the overlays applied by management to the modelled output, including challenging key inputs to the overlay calculations with reference to inquiries made with the Bank's credit risk function. For the completeness of management overlays, we involved our internal credit risk specialists to in performing an update to the model methodology and implementation review performed in the prior year, which specifically considered whether any identified model weaknesses needed addressing by means of an overlay. We involved our real estate specialists to in reviewing the valuations of properties placed as a collateral used within the calculation of management overlays on the stage 2 CPF assets.

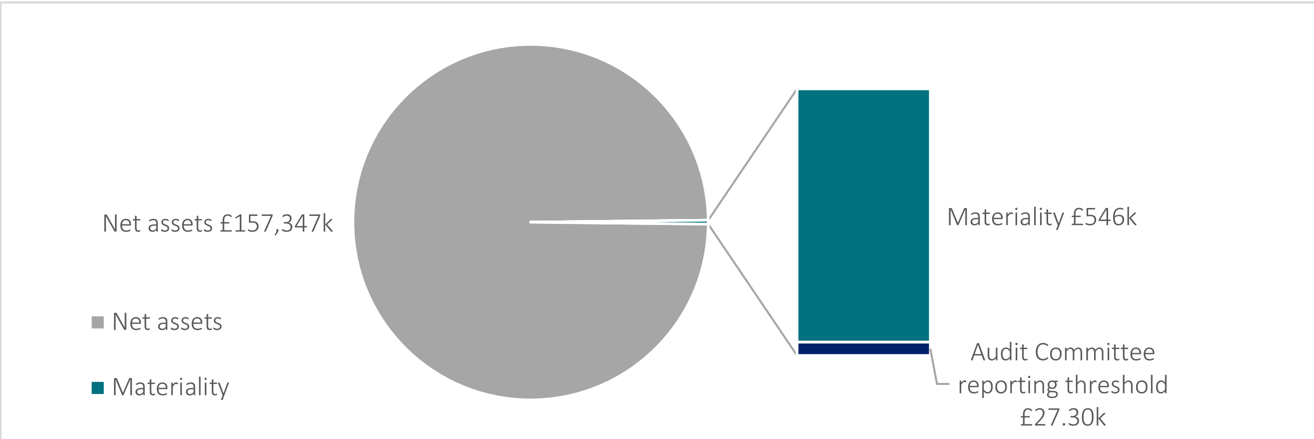
	Our work was further supported by testing a sample of loans and key input data fields, to assess whether the data used in the ECL calculation was complete and accurate.
Key observations	Based on the evidence obtained, we conclude that the impairment of investment in financing assets and assumptions and judgements applied in the impairment model to be appropriate. We also consider the underlying methodology to be compliant in the context of the accounting policies adopted by the Bank and the requirements of IFRS 9.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£546,000 (2020: £450,000)
Basis for determining materiality	0.3% of net assets (2020: 0.3% of net assets)
Rationale for the benchmark applied	Net assets is a key metric for users of the financial statements given the capital requirements arising from being a regulated Bank and provide a more stable benchmark than profit before tax which is subject to current macro-economic volatility.



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. In light of the resignations of the Chairman and resignation or retirement of two independent non-executive directors in second half of 2020, we reduced the performance materiality to 60% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we also 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 £27,300 (2020: £22,500), 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 2020. 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.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the company's operations and impact on its financial statements. The company sets out its assessment of the potential impact of climate change on page 17 of the Strategic Report of the Annual Report.

We have held discussions with the company to understand:

- the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the company; and
- the long-term strategy to respond to climate change risks as they evolve.

Our work has involved:

- assessing the completeness of the risks identified and considered in the company's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting; and
- reading the Annual Report to consider whether they are materially inconsistent with the financial statements and our knowledge obtained in the audit.

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, IT, prudential risk, economic, analytics, fraud risk and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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 investment in financing assets as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and the PRA;
- holding direct inquiries with the Bank's regulators, the FCA and PRA;
- and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

In our opinion the information given in note 33 to the financial statements for the financial year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders of the company on 27 April 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2017 to 31 December 2021.

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

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

16. Use of our report

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

K. J. Cooper

Kieren Cooper FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
31 March 2022

Financial Statements

Statement of comprehensive income

For the year ended 31 December 2021

	NOTE	2021 £'000s	2020 £'000s
Income from Islamic financing transactions	6	65,755	65,896
Returns to banks and customers	6	(22,140)	(29,682)
Net income from Islamic financing transactions		**43,615**	**36,214**
Fees and commission income	7	1,098	1,157
Fees and commission expense	7	(452)	(363)
Net fees and commission income		**646**	**794**
Gain on disposal of investment securities		25	2,941
Foreign exchange loss		(354)	(840)
Other non-fee income		464	-
Other income		**135**	**2,101**
Total income		**44,396**	**39,109**
Impairment reversal / (charge)	14, 29	468	(1,544)
Staff costs	8	(17,737)	(17,686)
General and administrative expenses		(13,016)	(11,329)
Depreciation	16	(2,968)	(3,040)
Amortisation	17	(1,516)	(1,312)
Total operating expenses		**(34,769)**	**(34,911)**
Profit before tax		**9,627**	**4,198**
Tax credit / (charge)	11	(624)	(360)
Profit for the financial year		**9,003**	**3,838**
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		(1,723)	3,338
Amounts transferred to the income statement		(25)	(2,941)
Other comprehensive income for the financial year		**(1,748)**	**397**
Total comprehensive income for the financial year		**7,255**	**4,235**

- The results from the year are derived entirely from continuing activities
- The notes on pages 38 to 72 are an integral part of these financial statements

Statement of financial position

As at 31 December 2021

Assets	NOTE	**2021** £'000s	**2020** £'000s
Cash	12	**1,867**	2,638
Treasury placements and cash balances with banks	13	**246,809**	383,864
Home Purchase Plans	14	**1,191,984**	1,193,727
Commercial Property Finance	14	**669,653**	557,267
Investment securities	15	**123,532**	170,751
Property and equipment	16	**7,628**	11,198
Intangible assets	17	**4,101**	5,069
Deferred tax asset	18	**7,607**	5,977
Sharia compliant derivative financial instruments	27	**-**	5,137
Other assets	19	**5,710**	4,193
Total assets		**2,258,891**	**2,339,821**
Liabilities and equity			
Liabilities			
Deposits from banks	20	**98,962**	37,867
Deposits from customers	21	**1,959,663**	1,965,001
Subordinated funding	22	**25,000**	25,000
Sukuk funding	14	**-**	146,944
Other liabilities	23	**17,363**	14,948
Sharia compliant derivative financial instruments	27	**592**	5
Total liabilities		**2,101,580**	**2,189,765**
Equity			
Share capital	24	**121,219**	121,219
Contingent convertible investment	24	**3,000**	3,000
Share premium	24	**-**	54,807
Revaluation reserve		**(995)**	753
Retained earnings / (deficit)	24	**33,989**	(29,823)
Profit stabilisation reserve		**98**	100
Total equity		**157,311**	**150,056**
Total liabilities and equity		**2,258,891**	**2,339,821**

The notes on pages 38 to 72 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2022 and were signed on its behalf by:

Malcolm Brookes
Non-executive Director

Al Rayan Bank PLC
Registration number: 04483430

Statement of changes in equity

For the year ended 31 December 2021

	Share capital	Share premium	Contingent convertible investment	Reserve on investment securities	Retained earnings / (deficit)	Profit stabilisation reserve	Total
Note	24	24	24		24		
£'000s							
Balance at 1 January 2021	121,219	54,807	3,000	753	(29,823)	100	150,056
Profit for the year	-	-	-	-	9,003	-	9,003
Other comprehensive loss	-	-	-	(1,748)	-	-	(1,748)
Total comprehensive income	**-**	**-**	**-**	***(1,748)***	***9,003***	**-**	***7,255***
Cancellation of Share Premium	-	(54,807)	-	-	54,807	-	-
Transfer to profit stabilisation reserve	-	-	-	-	2	(2)	-
Balance at 31 December 2021	**121,219**	**-**	**3,000**	**(995)**	**33,989**	**98**	**157,311**
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
Total comprehensive income	**-**	**-**	**-**	***397***	***3,838***	**-**	***4,235***
Transfer to profit stabilisation reserve	-	-	-	-	(1)	1	-
Balance at 31 December 2020	**121,219**	**54,807**	**3,000**	**753**	**(29,823)**	**100**	**150,056**

▶ The notes on pages 38 to 72 are an integral part of these financial statements

Statement of cash flows

For the year ended 31 December 2021

Cash flows from operating activities	NOTE	**2021** £'000s	**2020** £'000s
Profit before tax		**9,627**	4,198
Adjustments for:			
Depreciation	16	**2,968**	3,040
Amortisation	17	**1,516**	1,312
Gain on disposal of investment securities	6	**(25)**	(2,941)
Impairment charges on financial assets	14	**(464)**	1,544
Other non-cash items included in profit before tax		**565**	1,092
		14,187	8,245
Movement in:			
Treasury Placements	13	**148**	(126)
Home Purchase Plans	14	**1,971**	(9,860)
Commercial Property Finance	14	**(112,138)**	(92,616)
Other assets	19	**(1,514)**	(150)
Derivative financial instruments	27	**5,137**	(3,852)
Deposits from banks	20	**61,095**	61
Deposits from customers	21	**(5,338)**	124,178
Other liabilities		**3,871**	(1,053)
Deferred tax asset		**-**	131
Taxation paid		**(1,945)**	(432)
Net cash inflow from operating activities		**(34,526)**	**24,526**
Cash flows from investing activities			
Net sales / (purchases) of investment securities		**46,245**	60,010
Purchase of property and equipment	16	**(40)**	(251)
Net investment in intangible assets	17	**(548)**	(2,319)
Net cash inflow / (outflow) from investing activities		**45,657**	**57,440**
Cash flows from financing activities			
Repayment of sukuk funding	14	**(146,944)**	(34,047)
Payment of principal in respect of leases	16	**(1,318)**	(1,096)
Payment of financing in respect of leases	16	**(194)**	(346)
Net cash outflow from financing activities		**(148,456)**	**(35,489)**
Net change in cash and cash equivalents		**(137,325)**	**46,477**
Foreign exchange loss	4	**(354)**	(840)
Cash and cash equivalents at 1 January		**385,376**	339,739
Cash and cash equivalents at 31 December	12	**247,697**	**385,376**

▶ The notes on pages 38 to 72 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 2021. 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 UK-adopted international accounting standards 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

Benchmark Rate Reform - Phase 2: Amendments to IFRS 9 and IFRS 7.
Phase 2 of the Rate Benchmark Reform was issued in August 2020 which amended IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts and IFRS 16, Leases. These amendments were adopted by the Bank from 1 January 2021. At 1 January 2021, the Bank had a number of Commercial Property Finance (CPF) deals which were linked to LIBOR. All of these contracts have been renegotiated as part of the Bank's transition away from LIBOR, with these deals being moved to BBR as the reference rate.

The Bank has opted to apply the practical expedient included in the amendments to IFRS 9 with respect to changes in contractual cashflows as a result of the discontinuation of LIBOR from 1 January 2022, and has updated the EPR on the relevant deals in line with the Amendment to the standard.

The Bank does not have any other assets or liabilities which are LIBOR linked as at 31 December 2021, and has no other activities which would fall within the scope of the other amendments, or are impacted by the cessation of LIBOR from 1 January 2022.

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 and other global developments continue to cause significant uncertainty 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 which show continued compliance with regulatory requirements and sufficient resources to continue activities.

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 and is recognised as the related services are performed, as required under IFRS 15.

4. Significant accounting policies (continued)

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.

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) and Murabaha 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.

4. Significant accounting policies (continued)

In preparation for the cessation of LIBOR from 1 January 2022, deals which are part of the Bank's CPF book have been fully transitioned from LIBOR to BBR. The CPF deals typically have three or six month reset periods to LIBOR, and the change in the rate has been applied from these contractual reset periods. The Bank has applied the practical expedient available as part of the Benchmark Rate Transition – Phase 2 amendments to IFRS 9, and has treated the change in basis from LIBOR to BBR in the same manner as a normal reset of the LIBOR rate. The terms of the deals have otherwise remained unchanged, and the Bank believes that BBR is a suitable replacement benchmark rate for LIBOR in these deals and for the purposes of the expedient.

Investment securities

Investment securities are non-derivative financial assets which are purchased for profit and intended to be held for an indefinite period of time but may be sold in response to liquidity requirements or changes in profit rates or exchange rates. They are classified as FVOCI and are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at FVOCI. The cash flows received by the Bank are solely payments of principal and profit on the outstanding balance or sale proceeds in the event of a sale.

Gains and losses arising from changes in the fair value of investment security assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised within equity is transferred to the statement of comprehensive income.

Deposits from banks and customers

Profit sharing accounts are based on the principle of Mudaraba whereby the Bank and the customer share an agreed percentage of any profit earned on the customer's deposit. The customer's share of profit is paid in accordance with the terms and conditions of the account. The profit calculation is undertaken at the end of each calendar month.

Customer Wakala deposits consist of an Islamic financing transaction, which represents an agreement whereby the customer appoints the Bank as agent to invest a certain sum of money, per specific conditions in order to achieve an expected specified return. The Bank, as agent, is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. 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.

4. Significant accounting policies (continued)

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.

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.

4. Significant accounting policies (continued)

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.

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.

4. Significant accounting policies (continued)

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.

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, or when there are modifications to lease agreements. 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.

4. Significant accounting policies (continued)

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. 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 are based on the prevailing base rate at the period end.

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 2021 from these sensitivities, and corresponding impact to profit is as follows:

Scenario	Profit impact (£'000s)
1 month increase in behavioural life – increase in profit	183
1 month decrease in behavioural life – decrease in profit	(240)

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 defer the rental payments which would have been due from these customers during the holiday period, increasing the outstanding 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.

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

(a) Effective Profit Rate (EPR) (continued)

The total home 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 Judgements

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.

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.

During 2020 and 2021 the Bank provided payment holidays to a number of customers, in line with FCA requirements. These had all ended by 16 August 2021 and no customers remain on payment holidays at 31 December 2021. A customer requesting a payment holiday was not used on its own to determine a significant increase in credit risk for ECL purposes, unless accompanied by other information which indicates there had 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. As the holidays had all ended before year end, payment holidays offered during 2021 have not had an impact on the year end ECL position, and any customers in stage 2 or stage 3 are included due to either significant increases in credit risk, or outstanding arrears as normal.

Post-model adjustments

Judgement is also involved in the post model management adjustment, which has been added to the calculated ECL. In 2021 this relates to the CPF and HPP portfolios (2020: CPF portfolio only). The management adjustment relates to a number of factors which are not captured in the underlying economic scenarios used in the model and to incorporate potential downside risk associated with sensitivity modelling or other specific factors which are not part of the modelled ECL expectations. In 2020 the post model adjustment related to retail commercial exposure where there is a large degree of specific economic uncertainty which is not captured by the overall economic scenarios. In 2021 the CPF overlay related to continued uncertainty in respect of development property.

The HPP overlay included in 2021 is in respect of the potential for higher levels of losses on properties which may be impacted by cladding issues. While the Bank has not received any notification of specific cladding issues, and has not had any customers default due to cladding costs, there is an additional level of uncertainty over potentially affected properties and an additional judgemental provision has been included in relation to potential increases in losses which could be incurred if a property with outstanding cladding issues were to fall into default.

Key Estimates

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.

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

(b) Allowance for expected credit losses (continued)
Key Estimates (continued)

The Bank has used four core scenarios to model the ECL based on different macroeconomic parameters (2020: four). 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.

The overall economic impact of Covid-19 was incorporated through changes in the ECL scenarios and weightings in 2020, and has continued to be applied with the Bank maintaining the scenarios used in 2020. Macroeconomic forecasts have been updated to reflect the revised expectations for the economy and the key model inputs over the period from 2022, but the number of scenarios and scenario weightings have remained consistent with 2020.

(c) Deferred tax asset recognition

The deferred tax asset of £7.6m recognised at 31 December 2021 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. The Bank will need to generate profits over a sustained period to fully utilise the losses, due to the 25% restriction on carried forward losses, and this 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 UK enacted an increase in the corporation tax rate from 1 April 2023 from 19% to 25%. This resulted in an increase to the deferred tax asset recognised, as some of the future profits against which losses will be utilised will be taxed at this higher rate. The value of the deferred tax asset has been based on the expected profits which will be earned from 1 January 2022 until 31 March 2023 and taxed at the at 19% rate. These profits are based on the Bank's business plan, and the remaining balance of losses have been assumed to be utilised on further profits which are taxable at the revised rate of 25%. On 27 October 2021 an amendment was announced to the bank Corporation Tax Surcharge to revise the rate to 3% from 1 April 2023, and the profit threshold for application has been increased from £25m to £100m from this date. The Bank has assumed it will not be required to pay any Corporation Tax Surcharge amounts in the deferred tax calculation.

(d) Other Provisions

Included within Other Liabilities are amounts which relate to provisions recognised under IAS37 in respect of legacy issues regarding the Bank's Anti Money Laundering (AML) and Sanctions controls. The provision included in respect of the legacy issues has been made on a best estimate basis by the Bank's management using the prevailing regulatory rules and practices, and is subject to a material degree of estimation uncertainty.

6. Net income from Islamic financing transactions

£'000s	2021	2020
Treasury placements	467	1,438
Home Purchase Plan	41,819	41,577
Commercial Property Finance	22,579	19,595
Investment securities	1,301	3,286
Loss on Profit rate swaps held at fair value	(411)	-
Income from Islamic financing transactions	65,755	65,896
Deposits from banks	(2,229)	(2,894)
Deposits from customers	(19,911)	(26,788)
Returns to banks and customers	(22,140)	(29,682)
Net income from Islamic financing transactions	43,615	36,214

7. Net fees and commission income

£'000s	2021	2020
Fees and commission income		
Retail customer banking fees	972	940
ATM commission	46	69
Other	80	148
Total fees and commission income	1,098	1,157
Transaction fees	(452)	(363)
Total fees and commission expense	(452)	(363)
Net fees and commission income	646	794

8. Staff costs

£'000s	2021	2020
Wages and salaries	15,408	15,508
Social security costs	1,531	1,498
Contributions to defined contribution pension plans	774	663
Other staff costs	24	17
Total	17,737	17,686

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

	2021			2020		
	Front Office	Back Office	Total	Front Office	Back Office	Total
Average for the period	52	175	227	82	204	286

9. Auditor's remuneration

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

£'000s	2021	2020
Audit of these financial statements	536	245
Audit-related assurance services	339	262
Total	875	507

Audit related assurance services primarily relate to quarterly financial reporting reviews and Internal Controls over Financial Reporting work performed at the request of the Bank's parent, MAR.

10. Directors' emoluments

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

£'000s	2021	2020
Adel Mohammed Tayyeb Mustafawi (resigned 2021)	8	16
Ahmed Swaleh Abdisheikh*	16	11
Malcolm Brookes**	98	57
Caroline Bradley	52	-
Kathryn Kerle	51	4
Michael Williams	64	-
Steven Hicks	25	-
Simon Moore (resigned 2020)	-	106
Patrick Newberry (resigned 2021)	3	52
Richard Sommers (resigned 2020)	-	39
Total	317	285

- The total amount paid to non-executive directors during the year ended 31 December 2021 was £317,000 (2020: £285,000)

* Ahmed Swaleh Abdisheikh received salary as Interim CEO up to and including April 2020 and fees from May 2020 onwards. In 2021 he only received fees as a Director

** Malcolm Brookes was paid as Interim Chairman up to and including September 21. From October 21 he received director fees only

£'000s 2021	Salary	Bonus	Benefits in kind	Pension contributions	Total
Peter Horton	383	-	-	16	399
Giles Cunningham	117	75	-	-	192
Total	500	75	-	16	591

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

11. Tax

£'000s	2021	2020
Current tax expense:		
Current tax charge on profits for the year	(1,752)	(664)
Adjustment in respect of prior years credit / (charge)	7	(3)
Current Year tax charge	(1,745)	(667)
Deferred Tax:		
Current year credit / (charge)	190	(420)
Adjustment in respect of previous periods credit / (charge)	(29)	(122)
Effect of changes in tax rates	1,468	673
Deferred tax credit	1,629	131
Total income tax credit / (charge)	(116)	(536)
Charged to income statement	(624)	(360)
Credited / (charged) to other comprehensive income	508	(176)
Reconciliation of effective tax rate:		
Profit before tax	9,627	4,198
Tax on profit at standard UK tax rate of 19% (2020: 19%)	(1,829)	(798)
Effects of:		
Adjustments in respect of prior years through profit and loss	(22)	(125)
Expenses not deductible	(378)	(174)
Effects of tax rate changes	1,468	673
Exempt amounts	108	(4)
Income not taxable	29	-
Items relating to fair value through OCI	508	(109)
Income tax (charge) / credit	(116)	(536)

- On 11 March 2020 the UK Government announced that the corporation tax applicable from 1 April 2020 and 1 April 2021 would be 19%. The deferred tax asset at 31 December 2020 had been calculated using the applicable rates enacted at the balance sheet date. On 10 June 2021, the UK government finalised the 2021 budget which included an increase the corporation tax rate to 25% from 1 April 2023. The deferred tax balance as at 31 December 2021 includes the impact of this change, and this has had a material impact on the value of the deferred tax asset of the Bank relating to carried forward losses, see note 18 and note 5 for further details. Information relating to deferred tax is presented in note 18

12. Cash and cash equivalents

Balances with banks classified as cash equivalents are included in the Treasury placements and cash balances with banks on the Balance Sheet. See note 13 for breakdown, which also includes balances with banks not classified as cash equivalents where the maturity exceeds three months.

£'000s	2021	2020
Cash	1,867	2,638
Balances with banks available on demand	95,941	113,995
Balances with banks subject to encumbrance*	4,882	8,268
Treasury placements with original maturity less than 3 months	145,007	260,475
Total cash and cash equivalents	247,697	385,376

- 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 0.406% of the average eligible liabilities in excess of £600 million, which is included as part of the balances with banks subject to encumbrance above. In 2020, the Bank had £5m held as cash collateral against the Tolkien sukuk structured funding liability. This was settled on full repayment of the Tolkien sukuk in April 2021. Due to movements in the fair value, the Bank has also been subject to a margin call in relation to its profit rate swaps under the terms of the agreements
- The collateral relating to this is in USD and is held by the counterparty. The GBP equivalent amount was £297,000 as at 31 December 2021 (2020: £nil)

*Balances with banks subject to encumbrance

13. Treasury placements and cash balances with banks

£'000s	2021	2020
Repayable on demand	100,823	122,263
3 months or less but not repayable on demand	145,007	260,475
1 year or less but over 3 months	979	1,126
Total Commodity Murabaha and Wakala receivables and financing to banks	246,809	383,864

- 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 £978,793 (2020: £1,126,381) 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	2021			2020		
	Gross amount	Impairment Allowance	Carrying amount	Gross Amount	Impairment Allowance	Carrying amount
Consumer finance	47	(47)	-	40	(40)	-
Home Purchase Plans	1,193,086	(1,102)	1,191,984	1,195,056	(1,329)	1,193,727
Commercial Property Finance	671,968	(2,315)	669,653	559,830	(2,563)	557,267

14. Financing assets (continued)

Total impairment allowance on financing assets:

£'000s	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January 2021	1,797	1,765	369	3,931
Charge for the year	(518)	41	14	(464)
Amounts written off during the year	-	-	(5)	(5)
Balance as at 31 December 2021	**1,279**	**1,806**	**378**	**3,464**
Balance at 1 January 2020	1,035	1,093	257	2,385
Charge for the year	762	672	112	1,546
Amounts written off during the year	-	-	-	-
Balance as at 31 December 2020	**1,797**	**1,765**	**369**	**3,931**

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 were 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 retained 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 received continuing fees relating to servicing arrangements for the portfolio. As the Bank continued to be exposed to the variability of cashflows as well as rights or potential obligations to repurchase the assets, it was determined that the relevant derecognition criteria under IFRS 9 were not been met and the Bank continued to recognise the assets alongside a liability relating to the proceeds received from the issuance of the instrument. A corresponding liability was recognised in respect of amounts due to the SPV in respect of the underlying Sukuk noteholders.

The profit rate paid out from inception to 20 April 2021 was three-month Sterling LIBOR plus a margin of 0.80% per annum, which was payable until the step-up date of 20 April 2021. Prior to the step-up date, the Bank had the right to call the notes in full, and the Bank exercised this right on 26 March 2021. All outstanding notes were repaid through a distribution for the outstanding capital amounts, plus payment of accrued profit. This included the notes held by the Bank, see note 15 for further details. The Bank has no further obligations in respect of the noteholders of the Tolkien sukuk.

A liquidator was appointed by the SPV on 14 September 2021, and the shares of the sukuk were delisted from the London Stock Exchange on 19 November 2021 as part of the liquidation.

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.

Sukuk Financing capital movements

£'000s	
Balance as at 31 December 2019	180,991
Principal payments during the year	(34,047)
Balance as at 31 December 2020	**146,944**
Principal payments during the year (full repayment)	**(146,944)**
Balance as at 31 December 2021	**-**

15. Investment securities

£'000s	2021	2020
Quoted Sukuk	123,532	170,751
	123,532	170,751

- The quoted sukuk balance at 31 December 2020 included £11.66m nominal outstanding of Tolkien sukuk purchased from the market (£12.75m at date of purchase on 5 June 2020). The Bank received principal payments in the year as a noteholder of £11.66m to 20th April 2021 (2020: £1.09m in capital payments), and recognised profit income of £39,000 (2020: £61,000) in the year. The Tolkien Sukuk was redeemed in full on 20 April 2021 (see note 14)

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 2021	3,905	353	5,336	8,854	938	3,736	23,122
Additions	37	3	-	-	-	-	40
Disposals	-	(13)	(1,378)	(305)	(127)	-	(1,823)
Right of Use asset adjustments	-	-	-	(641)	-	-	(641)
Balance at 31 December 2021	**3,942**	**343**	**3,958**	**7,908**	**811**	**3,736**	**20,698**
Depreciation and impairment							
Balance at 1 January 2021	3,642	258	4,145	2,416	818	645	11,924
Depreciation charge for the year	163	39	227	1,189	52	127	1,797
Impairment charges	-	-	180	989	2	-	1,171
Disposals	-	(13)	(1,378)	(305)	(127)	-	(1,823)
Right of Use asset adjustments	-	-	-	-	-	-	-
Balance at 31 December 2021	**3,805**	**284**	**3,175**	**4,289**	**745**	**772**	**13,070**
Net book value							
As at 31 December 2021	**137**	**59**	**783**	**3,619**	**66**	**2,964**	**7,628**
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							
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**

- Assets reclassified for sale related to the leasehold asset 23 Calthorpe Road, the sale of which was completed in 2021. This was included as part of Other Assets at 31 December 2020 (see note 19)

16. Property and equipment (continued)

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

Right of Use assets

£'000s	Depreciation	Impairments	Reclassification	Lease modifications	Carrying amount
Branches	758	989	-	641	3,476
IT infrastructure	431	-	-	-	144
Total	**1,189**	**989**	**-**	**641**	**3,620**

- 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
- A lease modification has been recognised where lease terms of one lease have been renegotiated to include a rent free period, with the revised payments resulting in an adjustment to the carrying value of the Right of Use asset, based on the revised terms of the lease and new contractual cashflows. The lease liability has also been revised to reflect the change in expected payments due under the revised lease agreement. The discount rate applied to the lease cashflows has been updated to reflect the rate prevalent in the market at the point of renegotiation. The modification related to a change in the lease contract, and not a change in the Bank's expected utilisation of any break or extension clauses in the lease
- A further lease modification has been recognised in respect of another lease based on changes to the expected utilisation of the break clause
- The lease liabilities reflect outstanding lease payments still owed under the expected terms of the leases, including those no longer expected to be used by the Bank. The two lease modifications noted above have also resulted in a reduction to the lease liability balances included as part of Other Liabilities in note 23
- In 2021 the Bank surrendered two leases which had been impaired in 2020, for which the right of use assets had been written down to nil in 2020. The payment made to exit the lease was lower than the provision included in lease liabilities, and the remaining lease liability provisions were released to profit and loss

Maturity of lease liabilities

£'000s	2021	2020
Maturity Analysis – Contractual undiscounted cash flows		
Less than one year	719	1,422
One to five years	3,186	3,852
More than five years	1,333	2,509
Total undiscounted lease liabilities at 31 December 2019	**5,238**	**7,783**
Lease liabilities included in the statement of financial position at 31 December	**4,675**	**6,884**
Current	**701**	**1,399**
Non-Current	**3,974**	**5,485**

- 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 where applicable, was £336,000 for the year (2020: 355,000)

17. Intangible assets

£'000s	Computer licences	Purchased & developed software	Work in progress	Total
Cost				
Balance at 1 January 2021	1,786	11,257	937	13,980
Additions	-	-	548	548
Write-downs	-	-	-	-
Transfers	-	300	(300)	-
Balance at 31 December 2021	1,786	11,557	1,185	14,528
Amortisation				
Balance at 1 January 2021	1,725	7,186	-	8,911
Amortisation charge for the year	54	1,462	-	1,516
Balance at 31 December 2021	1,779	8,648	-	10,427
Net book value as at 31 December 2021	7	2,909	1,185	4,101
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**

- 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	2021	2020
Asset at start of period	5,977	5,846
Adjustment in respect of prior years	(28)	(122)
Deferred tax credit to comprehensive income for the period	1,658	253
Deferred tax asset as at 31 December	7,607	5,977

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable. The deferred tax asset balances attributable to carried forward losses are expected to be recoverable against future taxable profits. 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.

During the year the UK enacted an increase in the corporation tax rate from 1 April 2023 from 19% to 25%. The deferred tax asset at 31 December 2021 has been calculated based on the expected profits of the Bank from 1 January 2022 to 31 March 2023 at a tax rate of 19%, with the remaining carried forward loss balance calculated based on the expectation that the future tax rate will remain at 25% over the period against which it is utilised, and that the Bank will not be subject to any applicable Corporation Tax Surcharge. This increase in the tax rate has resulted in a significant increase in the Bank's deferred tax asset, as the carried forward losses will offset a higher rate of tax than had been previously enacted.

18. Deferred tax asset (continued)

The Bank had accumulated tax losses prior to 2014 of £66.8m, of which £37.5m 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), 2020 (£1.2m) and 2021 (£3.0m).

There is a restriction on the use of carried forward losses, where only 25% of each year's profits may be offset by the carried forward losses, meaning the Bank must generate £117m of profit to fully utilise the remaining losses. This means that there is uncertainty over 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.

Included within deferred tax is a £332,000 asset (2020: £176,000 liability) in relation to fair value movements on investments recognised in other comprehensive income.

19. Other assets

£'000s	2021	2020
Prepayments and other receivables	5,710	3,793
Available for sale assets	-	400
Total other assets	5,710	4,193

- The available for sale asset in 2020 related to 23 Calthorpe Road, which was sold during 2021 for £400,000. £50,000 of the proceeds for this sale are receivable in 2023 as a deferred consideration and are included as part of the Prepayments and other receivables total. There are no other receivable balances which are expected to be recovered in more than 12 months in (2020: £nil)

20. Deposits from banks

£'000s	2021	2020
Repayable on demand	3,975	2,381
1 months or less but not repayable on demand	7,230	3,668
1-3 months	-	1,006
3 months to 1 year	54,916	29,253
1 year to 2 years	24,188	-
Between 2 year and 5 years	8,653	1,559
Over 5 years	-	-
Total deposits from banks	98,962	37,867
Non-profit paying accounts	3,975	2,381
Profit sharing / paying accounts	94,987	35,486
Total deposits from banks	98,962	37,867

21. Deposits from customers

£'000s	2021	2020
Repayable on demand	809,358	710,756
1 months or less but not repayable on demand	40,126	58,913
1-3 months	258,968	246,257
3 months to 1 year	610,365	603,422
1 year to 2 years	199,140	288,655
Between 2 year and 5 years	41,706	56,998
Over 5 years	-	-
Total deposits from customers	**1,959,663**	1,965,001
Comprising:		
Non-profit paying	299,675	284,863
Profit sharing / paying accounts	1,659,988	1,680,138
Total deposits from customers	**1,959,663**	1,965,001

22. Subordinated funding

£'000s	2021	2020
Subordinated funding	25,000	25,000
Total	**25,000**	**25,000**

Total returns paid on this funding for the year ended 31 December 2021 were £2,000,000 (2020: £2,000,000).

All returns were fully paid during the year and there was no outstanding payable as at 31 December 2021 (2020: £nil).

The Tier 2 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 2021, and there were no further drawdowns in 2021. The maturity of the facilities as at 31 December 2021 was greater than 5 years and qualified as Tier 2 capital for regulatory capital purposes.

On 24 March 2022 the first tranche of Tier 2 funding of £10m and second tranche of £5m had less than five years to maturity, and under the Capital Requirements Regulation II the Tier 2 capital value of these will begin to amortised, reducing the balance available for capital purposes. This does not impact the carrying amount of the instruments under IFRS 9.

23. Other liabilities

£'000s	2021	2020
Trade payables	2	2
Social security and income tax	570	465
Accruals	4,384	3,701
Other creditors	7,732	3,896
Lease liabilities	4,675	6,884
Total	**17,363**	**14,948**

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 and the contractual cash flows for these leases.

The Bank has provided for potential costs related to legacy issues relating to AML and Financial Crime, although a final outcome has not yet been confirmed. This provision has been based on management's best estimates and prevailing regulatory rules and practices, but is subject to a material degree of estimation uncertainty.

24. Capital

Share Capital

Allotted, called up and fully paid (£'000s)	2021	2020
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's 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 2021 £704,299 (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 2021.

Share Premium Cancellation
On 27 May 2021 the Directors approved a resolution for the cancellation of the Bank's share premium account in full under Section 641 of the Companies Act 2006, subject to confirmation by the Companies Court. The Bank received confirmation from the Companies Court on 7 September 2021, and on 10 September 2021 registered the cancellation of the share premium account. The balance of the share premium account at the date of cancellation was £54,806,652, and this balance was transferred to retained earnings.

There were no changes to the shares in issue or shares owned by shareholders as part of the cancellation, and no change to the Bank's net equity position or available regulatory capital. The Bank's retained earnings position as at 31 December 2021 includes the cancelled share premium balance, as well as the impact of the Bank's performance during the year, and this is shown in the Statement of Changes in Equity.

25. Related parties

(a) Transactions with key management personnel

At 31 December 2021, Directors of the Bank and their immediate relatives have no shareholding in theBank (2020: £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	2021	2020
Key management emoluments including social security costs	2,577	1,943
Bank contributions to pension plans	89	64
Total	**2,666**	**2,007**

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £160,973 as at 31 December 2021 (2020: £1,640,138). Total returns paid on these accounts during the year were £1,549 (2020: £13,685).

There were no Commercial Property Finance or Home Purchase Plan balances relating to key management personnel and immediate relatives as at 31 December 2021 (2020: £nil).

(b) Transactions with ultimate parent company

Masraf Al Rayan Q.P.S.C (MAR) owns 75% (2020: 70%) and Qatar Holding LLC incorporated in Doha, Qatar owns 25% (2020: 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 is considered to be the Bank's ultimate parent company.

During the year, MAR purchased an additional 5% of Al Rayan (UK) Ltd from Qatar Holding LLC to increase its holding to 75%.

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.

25. Related parties (continued)

	2021			2020		
	Cash	Less than 1 month	1-3 months	Cash	Less than 1 month	1-3 months
Placements with MAR	2,100	20,000	-	10,010	40,500	29,000
Deposits from MAR	3,974	-	-	2,367	-	-

As at 31 December 2021 there was an outstanding subordinated financing balance payable to MAR of £25m (2020: £25m). See note 22 for further details of this facility.

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 (2020: £3m). At 31 December 2021 £704,299 (2020: £423,349) of contractual profit was due but had not been paid in respect of the investment agreement. See note 24 for further details.

In the prior year, MAR was the counterparty on some of the Bank's foreign exchange swap contracts held for hedging purposes. The balances held with MAR had a notional value of £61m at 31 December 2020, with a positive fair value gain of £4.0m. These are included as part of the forward exchange rate contracts in note 27. These were all settled during the year on maturity of each swap for their nominal values, and as at 31 December 2021 the Bank did not hold any foreign exchange swap contracts with MAR.

The Bank held £11.66m of the Tolkien sukuk from the market in the start of the year, which had been purchased at prevailing market prices. This balance was included as part of the Investment Securities balance at 31 December 2020 in note 15, and was included as part of the balance owed in the sukuk financing liability disclosed in note 14. Upon full redemption of the Tolkien sukuk on 20 April 2021, the outstanding balance was repaid, and this is included in the capital payments in note 14.

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 2021			
Assets	94,402	12,553	67
Deposits	(83,729)	(12,743)	-
Net on balance sheet exposure	10,673	(190)	67
Forward foreign exchange contracts (revalued nominal)	10,626	193	-
31 December 2020			
Assets	218,207	13,704	68
Deposits	(99,408)	(14,000)	-
Net exposure	118,799	(296)	68
Forward foreign exchange contracts (revalued nominal)	120,182	-	-

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

There are no balances which include a right of offset between instruments. For individual profit rate swaps quarterly settlements of the fixed and floating legs are paid on a net basis, but there is no right of offset between the profit rate swaps.

£'000s	Assets	Liabilities	Total	Notional Amount
2021				
Forward exchange rate contracts	-	(276)	(276)	10,433
Profit rate swaps	-	(316)	(316)	150,000
Total	-	(592)	(592)	
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	

27. Sharia compliant derivative financial instruments (continued)

Maturity £'000s	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
2021					
Forward exchange rate contracts	10,433	-	-	-	-
Profit rate swaps	50,000	-	100,000	-	-
2020					
Forward exchange rate contracts	25,650	54,965	34,445	-	-
Profit rate swaps	-	-	40,000	100,000	-

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 (2020: USD). 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 underlying currency exposures.

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 were entered into for hedging purposes on a floating to fixed rate basis with reference to SONIA GBP swap rates, and were done against the financing asset portfolio to reduce exposure to potential negative base rates. 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 2021					
Cash	1,867	-	-	-	1,867
Treasury placements and balances with banks	246,809	-	-	-	246,809
Consumer finance	-	-	-	-	-
Home Purchase Plans	1,191,983	-	-	-	1,191,984
Commercial Property Finance	669,653	-	-	-	669,653
Investment securities	-	123,532	-	-	123,532
Sharia compliant derivatives held for risk management	-	-	-	-	-
Total	**2,110,313**	**123,532**	**-**	**-**	**2,233,845**
Deposits from banks	-	-	98,962	-	98,962
Deposits from customers	-	-	1,959,663	-	1,959,663
Sharia compliant derivatives held for risk management	-	-	-	592	592
Total	**-**	**-**	**2,058,625**	**592**	**2,059,217**

28. Financial Instruments (continued)

£'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	-	-	-	-	0
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	-	-	37,806	-	37,867
Deposits from customers	-	-	1,840,823	-	1,965,001
Sharia compliant derivatives held for risk management	-	-	-	5	5
Total	**-**	**-**	**2,002,868**	**5**	**2,002,873**

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 assetor 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	123,532	-	-	123,532
Sharia compliant derivatives held for risk management (gross)	-	-	-	-
As at 31 December 2021	123,532	-	-	123,532
Financial Liabilities				
Sharia compliant derivatives held for risk management	-	(592)	-	(592)
As at 31 December 2021	-	(592)	-	(592)

28. Financial Instruments (continued)

£'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 (gross)	-	(5)	-	**(5)**
As at 31 December 2020	**-**	**(5)**	**-**	**(5)**

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

29. Financial risk management (continued)

(ii) Exposure to 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 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 negative value as at 31 December 2021, 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.

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 2or 3 in combination with other qualitative and quantitative factors;
- there is a significant change in credit rating from rating 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 and note 5.

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 2021

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	246,809	-	-	246,809	-	246,809	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**246,809**	**-**	**-**	**246,809**	**-**	**246,809**	**0.00%**
Investment securities							
- Stage 1	123,550	-	-	123,550	(18)	123,532	0.01%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Total	**123,550**	**-**	**-**	**123,550**	**(18)**	**123,532**	**0.01%**
Home Purchase Plans							
- Stage 1	-	-	1,136,830	1,136,830	(655)	1,136,175	0.06%
- Stage 2	-	-	48,349	48,349	(116)	48,233	0.24%
- Stage 3	-	-	7,907	7,907	(331)	7,576	4.19%
Total	**-**	**-**	**1,193,086**	**1,193,086**	**(1,102)**	**1,191,984**	**0.09%**
Commercial Property Finance							
- Stage 1	-	-	576,741	576,741	(624)	576,117	0.11%
- Stage 2	-	-	95,227	95,227	(1,691)	93,536	1.78%
- Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**671,968**	**671,968**	**(2,315)**	**669,653**	**0.34%**
Consumer Finance							
- Stage 1	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	47	47	(47)	-	100.00%
Total	**-**	**-**	**47**	**47**	**(47)**	**-**	**100.00%**
Total Financial Assets							
- Stage 1	370,359	-	1,713,571	2,083,930	(1,297)	2,082,633	0.06%
- Stage 2	-	-	143,576	143,576	(1,807)	141,769	1.26%
- Stage 3	-	-	7,954	7,954	(378)	7,576	4.75%
Total	**370,359**	**-**	**1,865,101**	**2,235,460**	**(3,482)**	**2,231,978**	**0.16%**

Of the £143.6m (2020: £104.8m) of total gross financial assets in stage 2 that have experienced a significant increase in credit risk, £13.9m (2020: £14.9m) are included in stage 2 due to arrears of 30 days or more past due, of which 100% of balances relate to HPPs (2020: 100%), and the remaining £130.7m (2020: £89.9m) 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 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%**

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:

2021	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 2021	**1,645,461**	**1,797**	**104,823**	**1,765**	**4,601**	**329**	**1,754,886**	**3,891**
ECL on customer financing matured/ settled during the period	(207,650)	(262)	(5,683)	(14)	(163)	(4)	(213,497)	(280)
Transfers of financial instruments:								
Transfers from Stage 1 to Stage 2	(71,902)	(212)	71,902	212	-	-	-	-
Transfers from Stage 2 to Stage 1	34,282	144	(34,282)	(144)	-	-	-	-
Transfers to Stage 3	(830)	(0)	(3,317)	(19)	4,147	20	-	-
Transfers from Stage 3	254	82	436	50	(691)	(132)	-	-
Net transfers	**(38,196)**	**14**	**34,740**	**99**	**3,456**	**(113)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		(207)		438		185		416
Net new financing/payments and remeasurement of continuing customer ECL	313,955	(63)	9,697	(482)	13	(66)	323,196	(611)
At 31 Dec 2021	**1,713,570**	**1,279**	**143,576**	**1,807**	**7,907**	**331**	**1,865,053**	**3,416**
ECL income statement (charge)/ release for the period on customer financing		**518**		**(41)**		**(2)**		**475**
ECL movements on other assets						(7)		(7)
Total income statement (charge)/ release in ECL provision for the period on assets								**468**

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)**

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.

LIBOR rates ceased to be issued from 1 January 2022. The Bank's ECL position as at 31 December 2021 has been calculated using the available LIBOR forecast as at that date, and for 2022 the ECL calculation will be based on the relevant rate for the portfolio, which is expected to be the Bank of England base rate as the Bank has transitioned from LIBOR.

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:

2021		**Base case**	**Downturn**	**Moderate downturn**	**Slight upturn**
Scenario weighting		**35%**	**10%**	**35%**	**20%**
LIBOR/replacement rate	**Highest rate**	**0.94%**	**0.15%**	**0.25%**	**2.10%**
Unemployment	**Peak**	**5.65%**	**9.86%**	**6.98%**	**4.62%**
House price index	**Peak to trough**	**(0.39%)**	**(16.26%)**	**(8.78%)**	**+ve**

2020					
Scenario weighting		35%	10%	35%	20%
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

29. Financial risk management (continued)

Key economic variables:

		2022	2023	2024	2025	2026	2021 Average	2020 Average
Base case	LIBOR/replacement rate	0.28%	0.50%	0.75%	0.75%	0.94%	**0.64%**	**0.10%**
	Unemployment	5.22%	5.65%	4.49%	4.30%	4.41%	**4.81%**	**5.52%**
	HPI growth	-0.39%	1.42%	3.27%	4.90%	4.61%	**2.76%**	**2.54%**
Downturn	LIBOR/replacement rate	0.01%	0.01%	0.10%	0.10%	0.15%	**0.07%**	**0.02%**
	Unemployment	9.86%	7.11%	6.93%	6.62%	6.00%	**7.30%**	**8.33%**
	HPI growth	-16.26%	-4.96%	3.67%	3.21%	2.08%	**-2.45%**	**-2.32%**
Moderate downturn	LIBOR/replacement rate	0.16%	0.15%	0.10%	0.15%	0.25%	**0.16%**	**0.17%**
	Unemployment	6.98%	5.61%	5.21%	4.43%	4.23%	**5.29%**	**7.50%**
	HPI growth	-8.78%	-0.85%	4.31%	5.17%	4.28%	**0.83%**	**1.60%**
Slight upturn	LIBOR/replacement rate	1.57%	1.62%	1.78%	2.03%	2.10%	**1.82%**	**0.92%**
	Unemployment	4.05%	3.76%	3.88%	4.15%	4.62%	**4.09%**	**4.16%**
	HPI growth	4.43%	5.80%	4.39%	3.10%	3.21%	**4.19%**	**4.22%**

The base case scenario was aligned with the assumptions used in the Bank's financial planning processes which was carried out in the final quarter of 2021 and based on the expected economic forecasts at that time. Upturn and downturn economic scenarios are viewed as less likely and are weighted accordingly in the model. Due to the uncertainties during 2020 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" which had been previously modelled was not included, and scenario weightings were revised to reflect the greater level of uncertainty.

In 2021, as the impact of these was not as significant as had been anticipated, and as the economy has begun to recover, the scenarios have been updated to reflect a revised outlook using updated macroeconomic inputs. The number and weighting of scenarios has remained consistent with 2020.

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 (2021 post-model overlays of £380,000 on HPP and £226,000 on CPF, 2020: £262,000 on CPF).

31 December 2021	Weighted scenario ECL, no adjustment	Base case, no adjustment	Slight upturn scenario	Moderate downturn scenario	Downturn scenario
	£'000	£'000	£'000	£'000	£'000
HPP	721	528	467	794	1,650
CPF	2,089	996	641	2,299	7,388
Total	**2,810**	**1,524**	**1,108**	**3,093**	**9,038**

31 December 2020	Weighted scenario ECL, no adjustment	Base case, no adjustment	Slight upturn scenario	Moderate downturn scenario	Downturn scenario
	£'000	£'000	£'000	£'000	£'000
HPP	1,328	963	470	1,654	3,189
CPF	2,301	1,388	664	2,731	7,264
Total	**3,629**	**2,351**	**1,134**	**4,385**	**10,453**

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 2021, £5,000 (2020: £nil) of financing assets were written off relating wholly to overdrawn customer accounts.

(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 2021 is £3,732m (2020: £3,374m). 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:

2021	**Gross exposure**	**ECL Total**	**Net balance**	**ECL coverage**
FTV band	**£'000**	**£'000**	**£'000**	
<=60%	767,150	534	766,616	0.070%
60%-70%	268,158	368	267,790	0.137%
70%-80%	140,315	184	140,131	0.131%
>80%+	17,463	16	17,447	0.093%
Total	**1,193,086**	**1,102**	**1,191,984**	**0.092%**

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%**

(v) Concentration of credit risk
The Bank monitors concentration of credit risk by sector and geographical location of underlying assets. An analysis of concentrations of credit risk at the reporting date is shown below.

Concentration by sector:

£'000s

2021	**Central Banks**	**Government/ MDB***	**Individuals**	**Corporate**	**Bank**	**Total**
Treasury placements and balances with banks	**89,586**	-	-	-	**157,223**	**246,809**
Investment securities	-	**120,638**	-	**2,894**	-	**123,532**
Home Purchase Plans	-	-	**1,184,666**	**7,318**	-	**1,191,984**
Commercial Property Finance	-	-	**21,642**	**648,011**	-	**669,653**
2020						
Treasury placements and balances with banks	3,268	-	-	-	380,596	**383,864**
Investment securities	66,155	86,346	-	6,566	11,684	**170,751**
Home Purchase Plans	-	-	1,190,193	3,531	-	**1,193,727**
Commercial Property Finance	-	-	29,517	527,751	-	**557,267**

* Multilateral development banks (MDB)

29. Financial risk management (continued)

Concentration by geographical location of assets:

£'000s	UK	Europe	Asia	Middle East	Total
2021					
Treasury placements and balances with banks	224,707	-	-	22,102	246,809
Investment securities	39,960	-	-	83,572	123,532
Home Purchase Plans	1,191,801	183	-	-	1,191,984
Commercial Property Finance	668,855	798	-	-	669,653
2020					
Treasury placements and balances with banks	212,854	-	-	171,010	**383,864**
Investment securities	11,705	-	72,431	86,615	**170,751**
Home Purchase Plans	1,193,520	207	-	-	**1,193,727**
Commercial Property Finance	556,053	1,214	-	-	**557,267**

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 2021, 20 of the facilities within the secured finance portfolios were in arrears (31 December 2020, 67).

(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
2021										
Deposits from banks	20	98,962	99,675	11,212	-	55,018	24,538	5,793	3,114	-
Deposits from customers	21	1,959,663	1,982,121	850,554	261,075	622,077	205,111	43,294	10	-
		2,058,625	2,081,796	861,766	261,075	677,095	229,649	49,087	3,124	-
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**	**-**

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 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.

The Bank has exposure to market risk on its investment securities portfolio. While the majority of the portfolio has been invested in fixed profit rate sukuk, the fair value of the securities is subject to price volatility linked to changes in market rates, primarily the impact of changes in UK and US base rates. The Bank aims to hold all of its investment securities to maturity, however significant changes in base rates may result in movements in the fair value of these securities measured through other comprehensive income.

As at 31 December 2021, a shift of 1.00% to base rates (both GBP and USD) would result in a £3.5m movement in the market value. At year end the mark to market loss net of deferred tax was £1.0m (2020: £0.8m gain)

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.

Profit rates and re-pricings are reviewed and agreed at Product Pricing and Development Group, (PPDG), which derives its powers from ALCO. ALCO is principally responsible for monitoring market risk and reviews sensitivities of the Bank's assets and liabilities to standard and non-standard changes to the underlying reference rates, the impact of a parallel shift in rates are considered monthly.

An analysis of the Bank's statement of comprehensive income sensitivity to an increase or decrease in effective rates (based on 31 December statement of financial position) is as follows:

Basis risk

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.

£'000s	0.50% parallel increase	0.50% parallel decrease
31 December 2021	**1,039**	**(519)**
31 December 2020 (including LIBOR rate movement for CPF)	2,010	(42)

Profit Rate Risk in the Banking Book (PRRBB)

This looks at the net present value (NPV) of the balance sheet impact of the mismatch in each time period arising between assets and liabilities measured up to 10 years. The profit risk is the result of the most severe impact of a 2.0% increase and a 2.0% decrease in rates.

£'000s	2.00% parallel increase	2.00% parallel decrease
31 December 2021	**(6,862)**	**8,042**
31 December 2020	(2,914)	3,908

(d) Concentration risk

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

The Board sets counterparty, country and regional limits in respect of treasury assets and adherence to these limits is monitored daily. Concentrations exist within the Commercial Property Finance and Home Purchase Plans portfolios. Concentration limits are set for customers. As these portfolios grow, such concentrations are expected to reduce.

The Credit Risk Committee monitors both sectoral and geographic concentration for each finance asset class and regularly reviews counterparty, country and regional limits in respect of treasury assets.

29. Financial risk management (continued)

e) Capital management

In accordance with the EU's Capital Requirements Directive (CRD) and the required parameters set out in the EU's Capital Requirements Regulation (CRR), together with local rules and guidance set by the PRA, the Bank's ICAAP is embedded in the risk management framework of the Bank. The ICAAP is updated 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 – figures Unaudited	**2021**	**2020**
Tier 1 capital		
Total equity excluding profit stabilisation reserve	**157,213**	149,954
Less intangible assets	**(4,101)**	(5,069)
Less deferred tax	**(7,607)**	(5,977)
Less additional value adjustments	**(124)**	(170)
	145,381	138,738
Tier 2 capital		
Subordinated funding	**25,000***	25,000
Total regulatory capital	**170,381**	**163,738**

*The first £10m tranche and second £5m tranche of Tier 2 capital held by the Bank will begin to be amortised from the available capital balance from 24th March 2022, in line with regulatory requirements, as these will have a remaining maturity of less than five years after this date. This is not expected to impact the Bank's activities, as there will be sufficient capital available to continue operations. The amortisation of the Tier 2 has been incorporated in the Bank's capital forecasts.

30. Events after the reporting period

There were no events after the reporting period.

31. Contingent liabilities and other commitments

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 2021 was £1,366,000 (2020: £15,529,000).

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 have been calculated as £143,435,447, and total Zakat due would be £3,697,049 on a 2.5775% basis (the Zakat has been calculated on the basis of a solar year). The amount of zakat 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)	**£66,988**
Number of employees on a full-time equivalent basis	**227**
Profit or loss before tax (£'000s)	**£9,627**
Tax (credit) on profit (£'000s)	**£624**
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.

AL RAYAN BANK

Banking you can believe in

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

Contact
0800 408 6407 (UK)
0044 129 889 0137 (overseas)

alrayanbank.co.uk