AL RAYAN BANK

Pillar 3 Disclosures

31 December 2021

1 Executive Summary

1.1 Background to the Bank

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

1.2 Purpose of the Pillar 3 Disclosures

This document comprises the Bank's Pillar 3 disclosures on Capital and Risk Management as at 31 December 2021. It has two principal purposes:

- To provide useful information on the capital and risk profile of the Bank; and
- To meet the regulatory disclosure requirements under the UK Capital Requirements Regulation ("CRR"), Part 8 and the rules of the Prudential Regulation Authority ("PRA") as amended and as on-shored by the UK.

1.3 Summary metrics

Capital ratios have remained in excess of regulatory requirements throughout the year and as at 31 December 2021, Common Equity Tier 1 (CET1) ratio is 15.1% (2020: 13.4%) and Total Capital Ratio is 18.1% (2020: 16.2%).

The leverage ratio is calculated per the Capital Requirements Directive IV (CRD IV) which measures the relationship between Tier 1 capital and total assets, to supplement risk-based capital requirements. At present, the Bank is not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. The Bank, as per risk appetite, maintains a prudent limit well above the PRA prescribed minimum leverage ratio requirement for larger institutions.

Under the European Banking Authority's (EBA) rules on leverage, the leverage ratio is calculated by dividing Tier 1 capital by on-balance sheet and off-balance sheet assets. The leverage ratio remained above regulatory requirements throughout the year, and as at 31 December 2021 is 6.4% (2020: 5.9%).

As at 31 December 2021, the Bank's Liquidity Coverage Ratio (LCR) was 635% (2020: 288%). The LCR exceeds the UK regulatory minimum requirement.

Full details regarding the Bank's overall financial position can be found in the Annual Report and Financial Statements for the year ended 31 December 2021 (the Accounts). A summary of the key metrics is shown below.

Key metrics

Table 1: Available capital £m

	2021	2020
Total Risk Weighted Assets (RWA)	943.9	1,012.5

Common Equity Tier 1	142.4	135.7
Additional Tier 1*	3.0	3.0
Tier 1	145.4	138.7
Tier 2	25.0	25.0
Total Capital	170.4	163.7

Table 2: Capital ratios as a percentage of RWA (%)

	2021	2020
Common Equity Tier 1 Ratio	15.1%	13.4%
Tier 1 Ratio	15.4%	13.7%
Total Regulatory Capital Ratio	18.1%	16.2%

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

Table 3: CRR Leverage ratio (£m/%)

	2021	2020
Total Leverage Ratio Exposure	2,255.8	2,354.5
Leverage Ratio	6.4%	5.9%

Table 4: Liquidity Coverage Ratio (%)

	2021	2020
Liquidity Coverage Ratio	635%*	288%

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

Table 5: Profit after tax (£m)

	2021	2020
Profit after tax	9.0*	3.8

** Increase predominantly due to net income from financing increasing in the year due to strong financing book and the reduction in returns payable to customers.*

2 Introduction

2.1 Background

The Basel III regulatory framework is implemented through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), together referred to as CRD IV. Following the end of the Brexit transition period, the elements of CRR II and CRD V (which become applicable in the EU from 2021 onwards) are not automatically transposed into UK law. In December 2020, the PRA issued a policy statement which set out its final CRD V rules. This was followed, in February 2021, by a consultation paper covering the implementation of Basel III standards in the UK through a new PRA Capital Requirements Regulation (CRR) rule expected to be effective from 1 January 2022.

The CRD IV framework includes three ‘pillars’:

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

Revisions to the Capital Requirements Regulation, referred to as CRR II, were officially journaled by the EU in June 2019. Rules introduced by CRR II were timetabled to follow a phased implementation throughout 2020 and 2021. Significant changes include an enhancement to net stable funding ratio (NSFR) requirements and reduced reporting for small and non-complex institutions. The implementation date for those areas of CRR II which were not currently in force came into effect from 1 January 2022.

2.2 Scope of application

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

2.3 Basis and frequency of disclosures

Unless stated otherwise, all data is at or for the year to 31 December 2021, with 31 December 2020 comparatives. The term CRD IV is used throughout these disclosures as a collective term for CRD IV, CRR and the PRA’s policy statements. This report is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8) as amended and on-shored by the UK.

This document will be updated annually and will be based on the Bank’s most recent audited financial statements and regulatory returns. The regulatory returns go through a six-eye check with reconciliation to management accounts and variance analysis explained where applicable. However, the disclosures may differ from similar information in the Bank’s Accounts which are prepared in accordance with International Financial Reporting Standards (IFRS). Therefore, the information in these disclosures may not be directly comparable.

Both the Financial statements and the Pillar 3 disclosures can be found on the Bank’s website.

2.4 Verification

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

2.5 External audit

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

2.6 Board responsibility for risk management

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

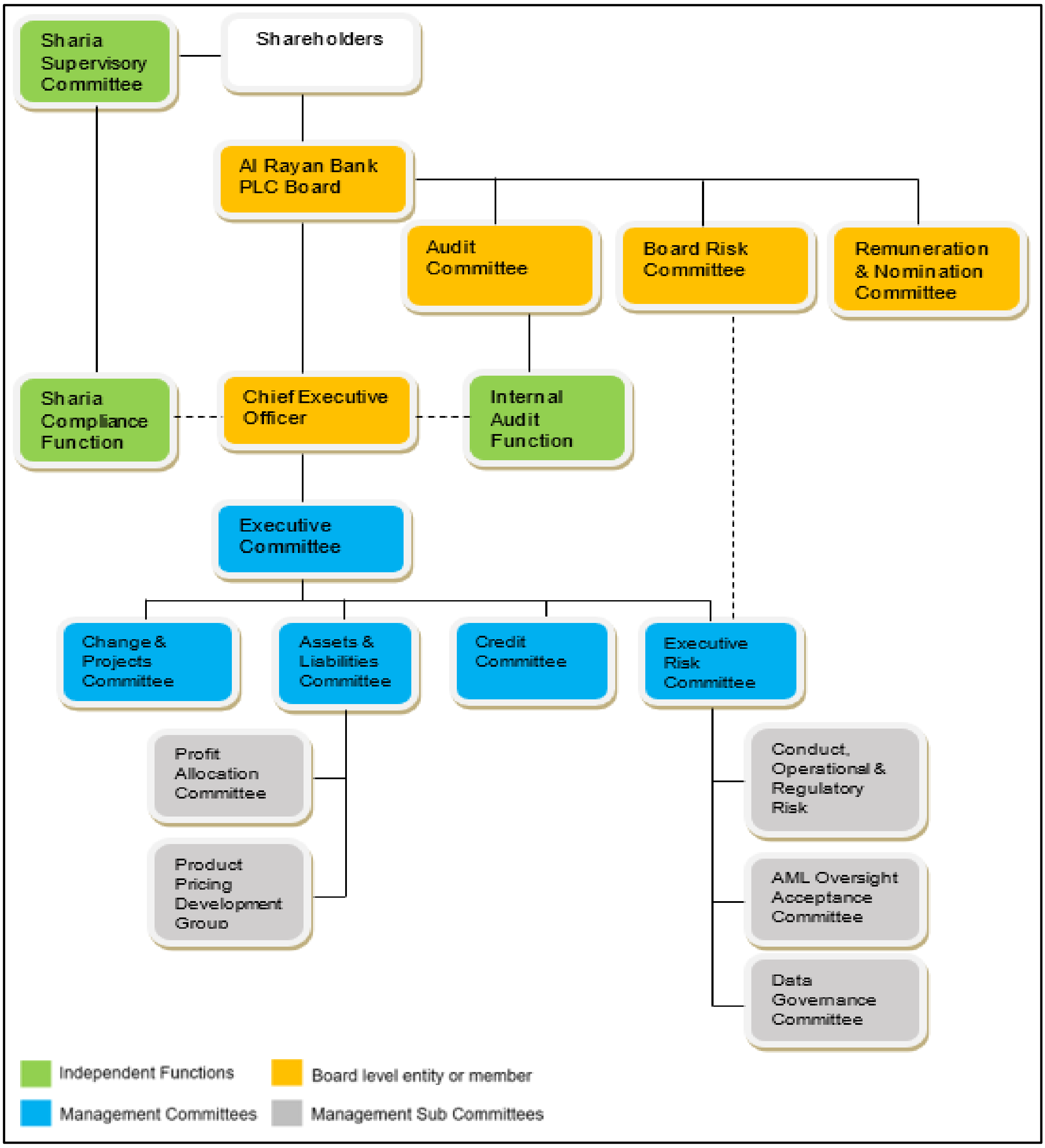
The Board considers that, as at 31 December 2021, it had in place adequate systems and controls regarding the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined regulatory limits for risk exposure throughout the year for all principal risks.

3 Governance structure

The responsibility for the management of risk within the Bank lies with the Board, who have delegated to Executive management the authority to maintain day to day control of the management of risk as set out in the Corporate Governance Handbook ('CGH'). The CGH sets out the Bank's overall governance structure, including the Committees responsible for risk management.

As shown in the chart below, the Board is supported by the BRC and Executive management (through the Executive Committee and sub-Committees such as the ERC and the ALCO in managing risk).

Figure 1: Governance structure



The Risk Management Framework (RMF) includes oversight bodies for operational roles and responsibilities, both individual and collective, in the risk management process. This ensures risk exposures are aligned to the risk appetite of the Board and treated, transferred, tolerated or terminated accordingly.

In addition to the ongoing assessment of known risk exposures, management monitors for external and emerging risks, through drop down Risk Assessments and Horizon Scanning Reports. Management fosters an open communication culture that promotes the immediate escalation of potential and actual risk incidents and loss events.

3.1 Board of Directors and Board level committees

The Board has overall accountability to ensure that the Bank has an appropriate system of risk management in place such that risks in the Bank are identified, assessed, managed, mitigated and reported. The Board's risk governance is supported through a series of sub-committees, operating under delegated mandates; each has its own terms of reference. The roles of the permanent Board committees are outlined below:

Figure 2: Role of the Board and its relationship to key committees

Board of Directors	• Overall accountability to ensure that the bank has an appropriate system of risk management in place to ensure risks are identified, assessed, managed, mitigated and reported. • Leads the development of and approves the bank's strategy and risk appetite. • Ensures risk management is appropriate and functioning; and monitors the adequacy of financial resources in the light of the bank's risk exposures.
Board Risk Committee	• Board sub-committee that provides oversight and advice to the Board on current and future risk exposures and risk strategy. • Provides oversight of the development, implementation and maintenance of the RMF, risk appetite, risk strategy, and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice.
Board Audit Committee	• Board sub-committee that assists the Board in fulfilling its responsibilities in relation to accounting reporting practices; and independent monitoring and reviewing of the internal controls including recommending the replacement and strengthening thereof. • Assesses internal audit reviews on the effectiveness of the risk management framework and whether a sound system of internal control is maintained.
Remuneration and Nomination Committee	• Board sub-committee that ensures that the bank has a Board, SMRs and certified employees in place who are suitably qualified, experienced and trained and that effective succession planning is undertaken. • Ensures remuneration policies and practices are compliant with the remuneration code, make proper use of risk-based objectives, and are designed to attract, retain and motivate the bank's employees.
Executive Committee	• The CEO's forum for major operational decisions, responsible for assisting the CEO in the performance of duties, including managing and overseeing all aspects of the bank's business and operations and assessing and controlling risk across the bank. • Delegates authority to management sub-committees described in the section governance and delegated authorities.
Sharia Supervisory Committee	• Fully independent committee compromising three leading scholars who are experts in the interpretations of Islamic law and its application within Islamic financial institutions. • Ensures the bank complies with Sharia principles and provides advice and support in developing and delivering Sharia compliant service and outcomes to its customers. • Reports to the shareholders by way of a Sharia audit report in the bank's annual report and accounts.

3.2 Executive level committees

Executive Committee (ExCo)

The ExCo is the Chief Executive's forum for major operational decisions and is responsible for assisting the Chief Executive in the performance of his duties, including:

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

Assets & Liabilities Committee (ALCO)

The ALCO is a management committee that is primarily responsible for monitoring market, capital and liquidity risks. This includes monitoring risks associated with profit rates in the banking book, open foreign exchange positions, the composition of assets and liabilities, funding mismatches, capital adequacy, liquidity, wholesale credit risk and the results of liquidity stress tests and the approval of new products.

It is chaired by the CFO and is also responsible for the ongoing development and maintenance of the ILAAP, and its annual submission to the Board.

Executive Risk Committee (ERC)

The ERC is the principal 2nd Line risk oversight committee and is chaired by the CRO. It has full authority to act on all material and / or enterprise-wide risk and control matters across the Bank. ERC provides executive input on risk management issues to the Board, BRC and ExCo, including recommendations on risk appetite, policies and risk management strategies. It is also the principal risk monitoring forum for all of the Bank's risks.

It is also responsible for the ongoing development and maintenance of the ICAAP and its annual submission to the Board.

Credit Committee (CC)

The CC is a sub-Committee of Exco, chaired by the CEO. The principal purpose of the Credit Committee is to review and opine on applications for Commercial Property and Retail Finance facility requests presented by the Business, in accordance with the discretionary limits set by the Board. The Committee will also review appropriate management information, policies and papers as required relating to credit risk across the Bank.

Conduct, Operational and Regulatory Risk Committee (CORC)

The CORC is a sub-Committee of ERC and is the Bank's principal forum for monitoring operational risk and operational resilience. It ensures that appropriate actions are taken, and internal controls implemented. CORC is chaired by the Head of Conduct and Compliance, meets monthly and reviews risk management information, including the Risk Dashboard, containing key risk appetite metrics.

Change and Projects Committee (CPC)

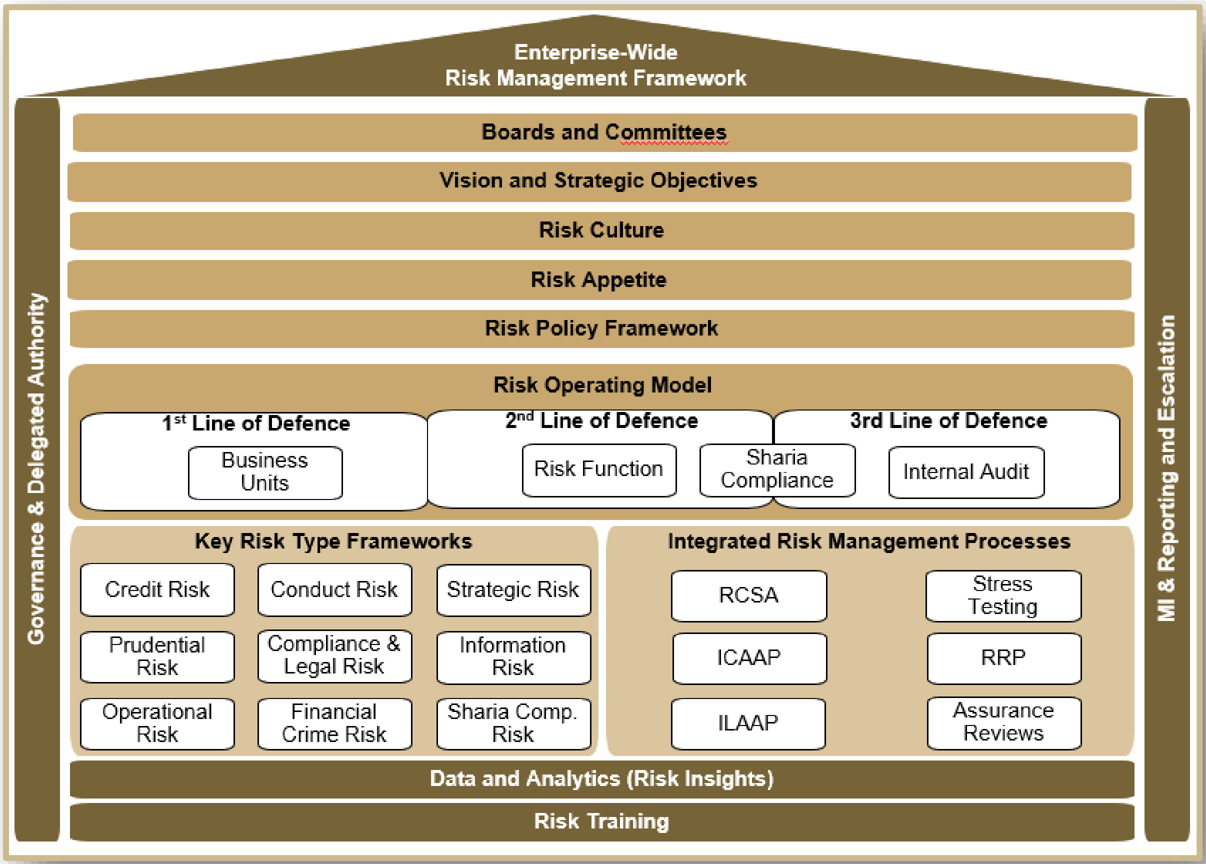
The CPC is a management Committee responsible for the initial authorisation, ongoing oversight and decision making on all significant projects within the Bank. It also monitors the Bank's overall project delivery plan, ensuring sufficient resources are allocated to each project. CPC is chaired by the programme manager with day-to-day accountability for projects being the responsibility of project managers.

4 Risk Management Framework

The Bank has established an Enterprise-Wide Risk Management Framework ('EWRMF') to ensure that risks are appropriately managed throughout the organisation. Key elements of the framework include a risk focused governance structure, a risk appetite approved by the Board that covers all primary risks within the Bank's risk taxonomy and an internal control framework to mitigate risk.

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

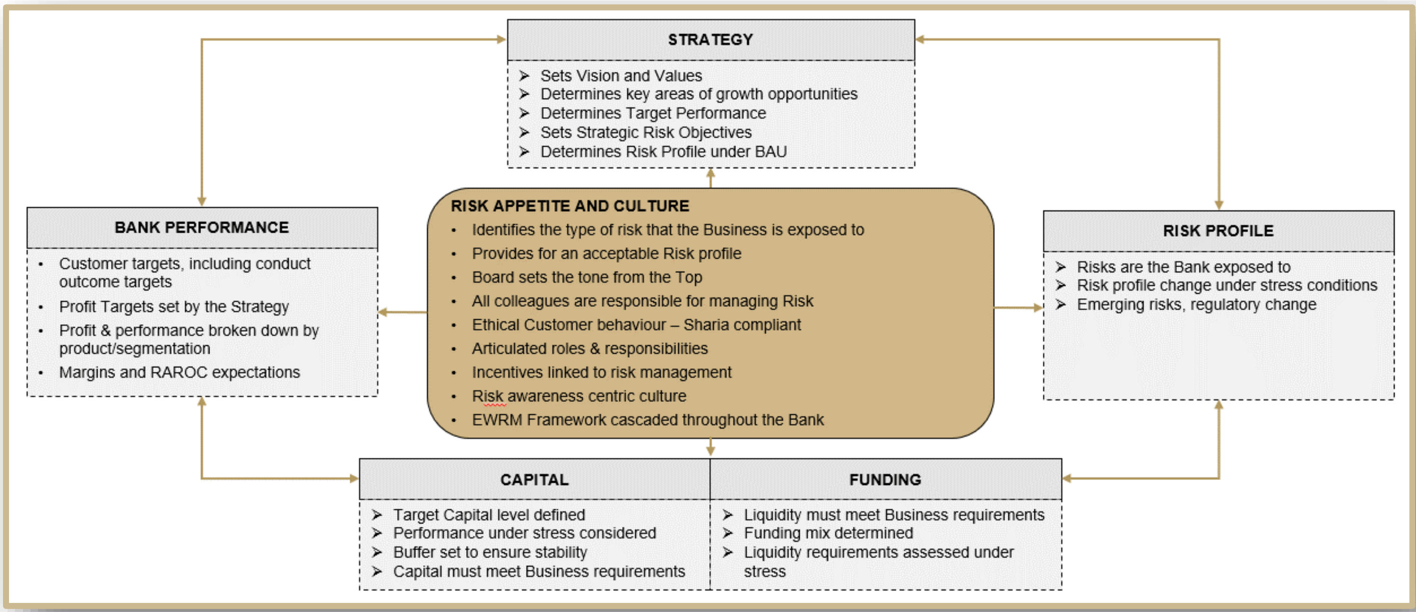
Figure 3: The Bank's EWRMF



The Risk Appetite Framework supports the Bank's business plan, defines which risks are considered material and relevant to the Bank, and the level to which the Bank is willing to take these risks. The Bank's risk appetite is communicated to the business and applied in decision-making relating to the formulation of policies, prioritisation of projects and service delivery.

The link between business plan, risk appetite and risk culture is shown in the figure below.

Figure 4: Linking risk appetite, strategy and culture



4.1 Business objectives and principal risks

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

The bank has a Risk Management Framework in place in order that it can identify, assess and control risks from its activities in order they do not harm its business and strategic objectives.

The Bank classifies its principal risks in eleven categories; Credit, Capital, Liquidity & Funding, Market, Operational, Conduct, Compliance, Financial Crime, Information & Cyber Security, Strategic and Sharia non-compliance risk.

These are summarised below:

Primary risk type		Description
1	**Credit Risk**	The risk of loss resulting from (a) the failure of other parties to meet their financial obligations to the Bank and (b) the deterioration of creditworthiness of parties to which the Bank is exposed to
2	**Capital Risk**	The risk of loss arising from a sub-optimal quantity and quality of capital, or a breach of regulatory capital requirements
3	**Liquidity & Funding Risk**	The risk of loss arising from an inability to meet liquidity obligations as they come due, from an unstable funding profile or from a lack of availability of funds
4	**Market Risk**	The risk of loss arising from reductions in earnings and/or value from unfavorable market movements
5	**Operational Risk and Resilience**	The risk of loss resulting from inadequate or failed internal processes, people, systems or from external events
6	**Conduct Risk**	The risk of loss resulting from unfair customer outcomes
7	**Compliance and Legal Risk**	The risk of loss resulting from failing to comply with laws, rules, regulations, standards and codes of conduct
8	**Financial Crime Risk**	The risk of loss engaging with or facilitating criminal conduct in breach of financial crime laws, rules and regulations
9	**Information & Cyber Risk**	The risk of loss resulting from the compromise of information relating to its confidentiality, integrity or availability
10	**Strategic Risk**	The risk of loss resulting from a failure to define or deliver the Bank's strategy
11	**Sharia Non-Compliance Risk**	The risk of a loss in earnings, value or reputation due to products and services or their associated operational systems, conduct and financial processes being non-compliant with Sharia (Islamic law).

Reputational risk not considered a separate risk category but is a consequence of one of the primary risks crystalising.

The Bank defines 'loss' in these descriptions to include financial losses, unfair customer detriment, reputational damage and regulatory sanction. It should be noted that Climate Change risk is currently being integrated into the Bank's Risk Taxonomy and will appear separately in future disclosures.

Each of the risk category is supported by its own risk framework and policies:

- Level 1 – Board level policy which provides high level principles in line with the risk,
- Level 2 – a Board sub-committee level policy which provides more details. They may address a legal regulatory requirement.

- Level 3 – is an Executive committee level policy which provides more detail in support an individual risk specific process or operational requirement within each department's area of responsibility.

4.2 Three Lines of Defence

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

The Bank operates a 'three lines of defence' model in order to embed clear risk management roles and responsibilities.

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

Second line of defence: Risk and Compliance functions provide risk management expertise and challenge managers and staff in their performance of risk management activities through independent reviews, monitoring and testing.

Third line of defence:

Internal Audit
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.

The below table summarises the key responsibilities for each line of defence:

Figure 4: Three lines of defence roles and responsibilities

Roles and Responsibilities	
1st line of defence *All primary Business Units and Functions other than those listed in the 2nd and 3rd LOD*	**Accountable and responsible for:** • Owning key business risks • Identifying, assessing and managing risks • Designing and implementing controls and mitigating activities (e.g. 1st LoD assurance) • Monitoring, reporting and escalating risks, as appropriate • Ensuring all decisions are taken with the customer in mind • Completing and maintaining 1st Line risk monitoring and reporting, including Risk and Control Self-Assessment (RCSA) and a regular Control Environment Certification (CEC)
2nd line of defence	**The Risk function is independent from the 1st Line of Defence and responsible for:** • Developing the Risk Management Framework and Risk Appetite for Board approval • Independent challenge and oversight of risk management activities across the Bank • Ensuring frameworks are effectively embedded within all areas of the Bank • Supporting the 1st Line with advice and guidance on the frameworks • Reporting to the Board on risk profiles and the efficacy of the risk controls • Supporting the embedding of a strong risk culture • Reporting and aggregating risks • Reviewing the business strategy and ensuring strategic risks are understood with appetite monitoring and control • Review and challenge outputs of metrics to ensure compliance
3rd line of defence	**Internal Audit** is independent from both the 1st and 2nd Lines of Defence. It is responsible for providing independent assurance to the Board of Directors and executive management on the quality and effectiveness of: • Governance • Risk management • Internal controls to monitor, manage and mitigate the key risks to achieving the Bank's objectives

Sharia Compliance

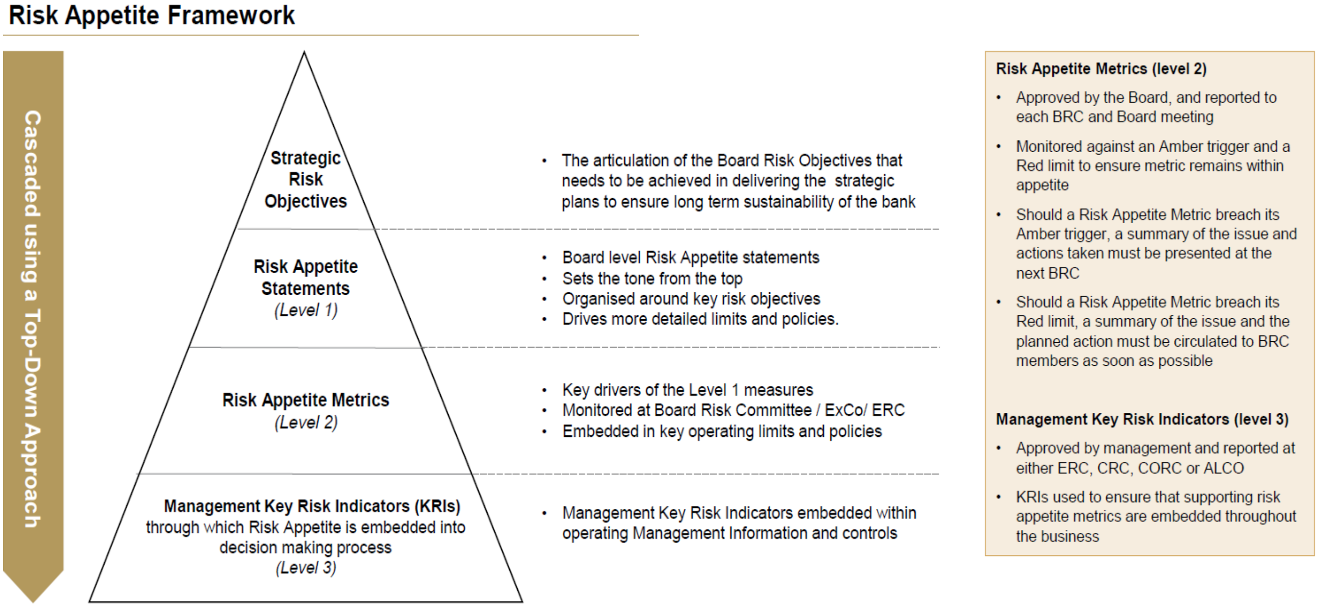
Specific Sharia compliance monitoring activities performed by the Sharia Compliance Department fall within the second line of defence. The Sharia Compliance Department also conduct an independent Sharia audit on an annual basis to provide assurance to the Sharia Supervisory Committee on the appropriateness and operational effectiveness of Sharia governance, Sharia non-compliance risk management and internal Sharia compliance controls.

4.3 Risk appetite

Risk Appetite statements are approved by the Board and aligned to the Bank's strategic plans. These are defined as the maximum level of risk tolerance the Board considers appropriate in meeting its strategic business objectives.

The risk appetite framework is organised by risk type and cascaded using a top-down approach as illustrated in the diagram below. Board level risk appetite metrics and management level KRIs are used to ensure that supporting risk appetite statements are embedded throughout the business. The continual monitoring, reporting and escalation of these metrics and KRIs supports the Bank in identifying drivers behind the higher-level Board risk appetite statements.

Figure 5: Risk Appetite Framework



Risk appetite statements, risk appetite limits and management KRIs are linked to the 11 Level 1 risk types described above. Each of the risk appetite statements is supported by risk appetite metrics that are reviewed and approved by the Board annually in line with the business plan.

Board risk reporting is provided at Level 1 and Level 2 against the defined risk appetites. Risk appetite metrics and Management KRIs are cascaded through the various Board and Executive Committees outlined above with exceptions are escalated to the Board.

4.4 Credit risk

Credit risk is the risk of loss risk of loss resulting from the failure of other parties to meet their financial obligations to the Bank and the deterioration of creditworthiness of parties to which the Bank is exposed. The risk arises from the Bank's secured and unsecured finance provided to customers and the investment of surplus funds in Sharia compliant wholesale deposits with bank counterparties and sukuk investments.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Risk Committee through the ERC. A separate Credit Risk department reports to the Chief Risk Officer who is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with other business units, covering credit assessments, collateral requirements, risk reporting, legal requirements and compliance with regulatory and statutory requirements.
- Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.
- Reviewing and assessing credit risk prior to agreements being entered into with customers.
- Limiting concentrations of exposure to counterparties, countries or sectors and reviewing these limits.
- Ongoing assessment of exposure and implementation of procedures to reduce this exposure.
- Ongoing monitoring of compliance with policies to provide assurance to executive management and to the Board.
- Providing advice, guidance and specialist skills to all business areas to promote best practice throughout the Bank in the management of credit risk.
- Adherence to country and counterparty limits, for amounts due from other banks, is monitored on an ongoing basis by the Bank's Treasury department, with a detailed review of all limits at least annually. Senior management receive regular reports on the utilisation of these limits.
- The following tables shows the credit risk exposures and the composition of the Pillar 1 capital requirements for credit risk at 31 December 2021 and 31 December 2020:

Table 7: Pillar 1 capital requirements: credit risk: 31 December 2021 (£m)

	IFRS Balance Sheet	Credit risk exposure	Average credit risk exposure	Risk Weighted Assets	Minimum capital Require-ments	% of total RWA
Treasury assets	246.8	246.8	306.5	38.9	3.1	4.5%
Investment securities	123.5	123.5	150.3	0.2	0.0	0.0%
Home purchase plans	1.192.0	1.192.0	1,221.2	422.4	33.8	48.8%
Commercial property finance*	669.7	669.7	636.9	388.7	31.1	44.9%
Other assets**	26.9	15.2	19.1	13.3	1.1	1.5%
Sub-total	**2,258.9**	**2,247.2**	**2,334.0**	**863.7**	**69.1**	**99.8%**
Commitment to finance*		0.7	3.0	1.1	0.1	0.1%
Sharia compliant derivatives		1.0	2.2	0.3	0.0	0.0%
Total	**2,258.9**	**2,248.9**	**2,339.2**	**865.1**	**69.2**	**100%**

*These two amounts have been combined and reported as Commercial property finance in all the following tables.
** Other asset exposures exclude deferred tax (£7.6m) and intangibles (£4.1m), which are deducted from own funds.

Table 8: Pillar 1 capital requirements: credit risk: 31 December 2020 (£m):

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

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

Table 9: Movements in RWAs for credit risk from 1 January 2021 to 31 December 2021:

	£m
Decrease in Treasury Assets	(79.6)
Decrease in investment securities	(19.7)
Increase in home purchase plans	0.5
Increase in commercial property finance	34.0
Decrease in other assets	(7.2)
Sharia compliant derivatives	0.3
Credit risk RWAs decrease for 2021	(72.2)

Table 10: 31 December 2021 Exposures subject to Standardised Approach (£m):

	Financing – Individuals	Financing - Commercial	Financial	Sovereign	Other Assets	Total
Treasury assets	-	-	157.2	89.6	-	**246.8**
Investment securities	-	-	1.1	122.4	-	**123.5**
Home purchase plans	1,192.0	-	-	-	-	**1,192.0**
Commercial property finance	-	670.4	-	-	-	**670.4**
Other assets	-	-	-	-	15.2	**15.2**
Sharia compliant derivatives	-	-	1.0	-	-	**1.0**
Total	**1,192.0**	**670.4**	**159.3**	**212.0**	**15.2**	**2,248.9**

Table 11: 31 December 2020 Exposures subject to Standardised Approach (£m):

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

Table 12: 31 December 2021 Standardised Approach by risk weight percentage (£m):

Asset Class	0%	20%	35%	50%	75%	100%	150%	Total
Treasury assets	89.6	132.2	-	25.0	-	-	-	**246.8**
Investment securities	122.4	1.1	-	-	-	-	-	**123.5**
Home purchase plans	-	-	1,183.6	-	0.8	7.6	-	**1,192.0**
Commercial property finance	-	-	466.5	-	-	158.6	45.3	**670.4**
Other assets	1.87	-	-	-	-	13.3	-	**15.2**
Sharia compliant derivatives	-	0.5	-	0.5	-	-	-	**1.0**
Total	**213.9**	**133.8**	**1,650.1**	**25.5**	**0.8**	**179.5**	**45.3**	**2,248.9**

Table 13: 31 December 2020 Standardised Approach by risk weight percentage (£m):

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

4.5 Credit Concentration Risk

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

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

Geographic distribution of credit risk exposures

The Bank's credit risk exposures, based on the location of the asset being financed, are largely within the UK, however at 31 December 2021, £131.7 million of the Bank's assets were held outside the UK (31 December 2020: £384.3 million) of which £47.1 million account for treasury assets.

Table 14: Credit risk exposures analysed by exposure class: 31 December 2021

	UK (£m)	Middle East (£m)	Rest of the World (£m)	Global Supra-national (£m)	Total (£m)
Treasury assets (bank counterparties)	199.7	47.1	-	-	246.8
Investment securities	39.9	21.1	-	62.5	123.5
Home purchase plans	1,191.8	-	0.2	-	1,192.0
Commercial property finance	669.6	-	0.8	-	670.4
Sharia compliant derivatives	1.0	-	-	-	1.0
Total	**2,102.0**	**68.2**	**1.0**	**62.5**	**2,233.7**

Table 15: Credit risk exposures analysed by exposure class: 31 December 2020

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

Distribution of Credit risk exposures by residual maturity

Table 16: Residual contractual maturity of credit risk exposures: 31 December 2021

	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury placements and cash balances with banks	246.8	-	-	**246.8**
Investment securities	5.6	117.9	-	**123.5**
Home purchase plans	44.0	189.3	958.7	**1,192.0**
Commercial property finance	137.3	472.3	60.8	**670.4**
Sharia compliant derivatives	1.0	-	-	**1.0**
Total	**434.7**	**779.5**	**1,019.5**	**2,233.7**

Table 17: Residual contractual maturity of credit risk exposures: 31 December 2020

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

Credit risk management: Financing to customers

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

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

Credit risk mitigation: Financing to customers

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

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

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

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

	31 Dec 21 Finance Value (£m)	Collateral value (£m)	Average FTV (%)	31 Dec 20 Finance Value (£m)	Collateral value (£m)	Average FTV (%)
Home finance	1,192.0	2,567.8	46%	1,193.7	2,382.6	50%
Commercial property finance	669.7	1,164.7	57%	557.2	1,021.7	55%
Total	**1,861.7**	**3,732.5**	**-**	**1,750.9**	**3,404.3**	**-**

The Bank holds collateral against secured financing made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and are updated on a periodic basis. The estimated fair value of collateral held against financial assets as at 31 December 2021 is £3,732m (2020: £3,404m). There were £7.6m non-performing exposures (net of provision) in the secured book as at 31 December 2021.

Home Purchase Plan (HPP) finance

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

Home Purchase Plans Premier (Premier)

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

Buy to Let Purchase Plan (BTLPP)

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

Commercial Property Finance (CPF)

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

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

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

Unsecured Personal Finance (PF)

The Bank has a legacy, closed and financially negligible portfolio of Unsecured Personal Finance. This product has been withdrawn from the market.

Credit approval and governance

HPP, CPF, Premier and BTLPP applications are underwritten internally by staff experienced in residential and commercial property finance, with specific underwriting mandates approved via a delegate authority matrix from the Board.

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

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

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

Treasury assets and investment securities

The Bank deposits funds with bank counterparties for liquidity management purposes. Investments in the High Quality Liquid Asset (HQLA) portfolio are in accordance with the Regulatory requirements for such assets. Any exceptions to this policy are approved by the Board. All treasury transactions are undertaken on a Sharia compliant basis and, therefore, due to the limited number of UK counterparties, the Bank has exposures with financial institutions resident within the Middle East and other parts of the world. The Bank was also one of the first participants to make use of the new Bank of England Alternate Liquidity Facility (ALF) which was set-up to provide a sharia compliant alternative to the Bank of England reserve account. Monies deposited within the BoE ALF are classed as HQLA.

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

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

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

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2021 (£m)	Exposure value 2020 (£m)
1	Aaa to Aa3	AAA to AA-	111.7	82.8
2	A1 to A3	A+ to A-	135.1	301.0
3	Baa1 to Baa3	BBB+ to BBB-	-	-
4	Unrated	Unrated	-	-
Total			**246.8**	**383.8**

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

Credit quality step	Moody's rating	Fitch/S&P rating	Exposure value 2021 (£m)	Exposure value 2020 (£m)
1	Aaa to Aa3	AAA to AA-	123.5	94.7
2	A1 to A3	A+ to A-	-	72.5
3	Baa1 to Baa3	BBB+ to BBB-	-	3.6
4	Unrated	Unrated	-	-
Total			**123.5**	**170.8**

As at 31 December 2021 and 31 December 2020, none of the treasury assets were past due or impaired. Credit rating assessment is based on the asset and the specific obligor the Bank is exposed to.

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

Impairment

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

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

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

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

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

Table 21: Past due exposures for the year to 31 December 2021:

	Treasury assets (£m)	Investment securities (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	246.8	123.5	669.7	1,183.3	**2,223.3**
Past due but not impaired:	-	-	-	-	**-**
Up to 3 months	-	-	-	0.8	**0.8**
3 to 6 months	-	-	-	3.0	**3.0**
6 to 12 months	-	-	-	3.0	3.0
Over 12 months	-	-	-	1.9	1.9
Total gross exposure	**246.8**	**123.5**	**669.7**	**1,192.0**	**2,232.0**

Table 22: Past due exposures for the year to 31 December 2020:

	Treasury assets (£m)	Investment securities (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	383.8	170.8	557.2	1,181.8	**2,293.6**
Past due but not impaired:	-	-	-	-	**-**
Up to 3 months	-	-	-	7.3	**7.3**
3 to 6 months	-	-	-	1.1	**1.1**
6 to 12 months	-	-	-	2.0	**2.0**
Over 12 months	-	-	-	1.5	**1.5**
Total gross exposure	**383.8**	**170.8**	**557.2**	**1,193.7**	**2,305.5**

Table 23: The movement in impairment provisions for the year ended 31 December 2021:

	Treasury Assets £m	Investment Securities £m	Commercial Property Finance £m	Home Purchase Plans £m	Total £m
IFRS 9 ECL provision at 1 January 2021	-	-	2.6	1.3	3.9
Decrease in provisions during year	-	-	(0.3)	(0.2)	(0.5)
Amounts written off during the year	-	-	-	-	-
IFRS 9 ECL provision at 31 December 2021	**-**	**-**	**2.3**	**1.1**	**3.4**

Table 24: Credit quality of performing and non-performing exposures by past due days at 31 December 2021:

	Gross Carrying Amount										
	Total	Performing Exposures		Non-Performing Exposures							
		Not past due or past due up to 30 days	Past due 30-90 days	Unlikely to pay but less than 90 days past due	Past due 90-180 days	Past due 180 days – 1 year	Past due 1 year to 2 years	Past due 2 -5 years	Past due 5-7 years	Past due > 7 years	Of which defaulted
Home Purchase Plans £m	1,192	1,183.3	0.8	-	3.0	3.0	1.6	0.3	-	-	-
Commercial Property Finance £m	669.7	669.7	-	-	-	-	-	-	-	-	-

Table 25: Credit quality of performing and non-performing exposures by past due days at 31 December 2020:

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

Table 26: Performing and non-performing exposures and related provisions at 31 December 2021:

	Gross carrying amount						Accumulated impairment and provisions					
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment provisions			Non-performing exposures – accumulated impairment and provisions		
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
Home Purchase Plans £m	1,192	1,135.7	48.4	7.9	-	7.9	0.8	0.7	0.1	0.3	-	0.3
Commercial Property Finance £m	669.7	574.5	95.2	-	-	-	2.3	0.6	1.7	-	-	-

Table 27: Performing and non-performing exposures and related provisions at 31 December 2020:

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

4.6 Prudential Risk - Market Risk

ARB does not run a proprietary trading book, and therefore, for Pillar 1 purposes only have to calculate a market risk requirement in respect of its foreign currency positions.

The base currency of ARB is GBP, and any net positions in other currencies than GBP results in a foreign currency risk own funds requirement.

The Bank receives the vast majority of its funding (liabilities) in GBP but a portion of the Bank's assets are in USD. This creates a currency mismatch, which is hedged using sharia compliant forward rate FX swaps. These are prefunded swap lines, and the Bank may need to post additional collateral if its position is adversely impacted.

Market Risk is defined by the Bank as "the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements". The Bank accepts a degree of market risk in the banking book but does so in a way that manages and controls market risk exposures to optimise return on risk while maintaining a limited and clearly controlled market risk profile consistent with the Bank's relatively small size and complexity. The Bank has no appetite to undertake trading activities or to take proprietary positions in financial instruments.

The Bank operates a banking book only. Market risk for the Bank is therefore associated (predominantly) with:

• Profit Rate Risk in the Banking Book ('PRRBB')

All profit rates and re-pricings are reviewed at ALCO or its sub-committees. ALCO is principally responsible for monitoring market risk, and it also reviews sensitivity of the Bank's assets and liabilities to standard and non-standard changes in achievable effective rates.

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

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

2% shift up of the yield curve:	2021 (£m)	2020 (£m)
	(6.9)	(2.9)

2% shift down of the yield curve:	2021 (£m)	2020 (£m)
	8.0	3.9

4.7 Operational Risk

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

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

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

The Bank's Risk department supports management in fulfilling their risk management responsibilities, providing assistance and guidance to staff, undertaking risk and control reviews and making recommendations for control enhancements, and preparing risk related management information.

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

The CORC Risk Dashboards form the basis the ERC pack, which in turn forms the basis of the BRC pack.

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

The tables below show movements in RWAs for operational risk during 2021 and 2020:

Table 29: Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2021

	£m
RWAs at 1 January 2021	75.2
Increase in revenue generation	3.6
RWAs at 31 December 2021	78.8
Operational risk Pillar 1 capital requirement at 31 December 2021	6.3

Table 30: Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2020

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

4.8 Prudential Risk - Liquidity Risk

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

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

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

An additional measure used by the Bank for managing liquidity risk is the comparison of the maturity of assets and customer deposits. This analysis is reviewed on a monthly basis by ALCO.

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. 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. As at 31 December 2021 the balance within the BoE ALF was £85m.

The Bank holds a High Quality Liquid Assets (HQLA) portfolio, which is analysed (post haircut) at 31 December 2021 and at 31 December 2020 as follows:

Table 31: HQLA portfolio

	31 December 2021 (£m)	31 December 2020 (£m)
Central Bank Reserve Account*	85.0	-
Central governments	60.0	18.4
Regional governments and central banks	-	69.7
Multinational development banks	61.9	62.5
Corporates	1.1	7.7
Cash	1.9	2.6
Total	**209.9**	**160.9**

* The BoE Alternate Liquidity Facility was established in the first week of December, the bank currently has a balance of £85m placed within this facility. The facility is completely Sharia-compliant and can only be used by Sharia-compliant banks. The facility in the eye of the regulator holds the same regulatory definition as the non Sharia-compliant reserve account.

Liquidity Ratios

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

Liquidity Coverage Ratio

The Bank's LCR as at 31 December 2021 was 635% (31 December 2020: 288%). This is significantly in excess of the minimum standard of 100% mandated by the PRA. The HQLA below also consisted of £85 million deposited into the new Bank of England Alternate Liquidity facility (ALF) which was created to provide a sharia compliant alternative to the reserve account.

The amounts reported in the table below represent the bank's average position over a 12 month period to 31st December 2021.

Table 32: Analysis of the Bank's _average_ liquidity coverage ratio (LCR) during 2021

		Total unweighted value (average) (£m)	Total weighted value (average) (£m)
	High-quality liquid assets		
1	Total HQLA		151.88
	Cash outflows		
2.0	**Retail deposits and deposits from small business customers, of which:**	**923.6**	**77.3**
3.0	Stable deposits	639.0	31.9
4.0	Less stable deposits	284.6	45.4
5.0	**Unsecured wholesale funding, of which:**	**141.5**	**60.3**
7.0	Non-operational deposits (all counterparties)	142.8	60.9
13.0	**Credit and liquidity facilities**	41.3	39.8
15.0	**Other contingent funding obligations**	2.6	-
16.0	**TOTAL CASH OUTFLOWS**		189.4
	Cash inflows		
18.0	**Inflows from fully performing exposures**	265.8	261.8
19.0	Other cash inflows	-	-
20.0	**TOTAL CASH INFLOWS**	265.8	261.8
	Total adjusted value		
21	**Total HQLA**		151.5
22	**Total net cash outflows ****		47.9
23	**Liquidity Coverage Ratio (%) *****		316%

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

Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio (NSFR) is a long-term stable funding metric, which measures the stability of our funding sources relative to the assets (financing balances) we are required to fund.

The Bank's NSFR as at 31 December 2021 was 146% (31 December 2020: 145%) which is in excess of the expected minimum level of 100%.

4.9 Sharia non-compliance risk

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

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

5 Capital Requirements and Resources

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

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

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

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

The ICAAP is considered by the PRA as part of its Supervisory Review and Evaluation Process (SREP) and is used in part to determine the Total Capital Requirement (TCR) for the Bank. The Board approved ICAAP will highlight risks faced by the business for which additional capital above Pillar 1 (8.00% of total risk weighted assets) is required. The additional capital will be part of the Bank's Pillar 2A requirement which forms part of the organisation's overall TCR requirement. As at 31 December 2021, the Bank's current Pillar 2A requirement equated to 2.82%.

Capital adequacy is monitored as per risk appetite by ALCO and reported to ERC, BRC and the Board.

5.1 Pillar 1 Capital

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

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

Table 33: Pillar 1 requirement and total capital resource

	2021 (£m)	2020 (£m)
Total Capital Resource	170.4	163.7
Total Pillar 1 Capital Requirement	75.5	81.0
Surplus over Pillar 1 requirements	94.9	82.7

5.2 Total Capital Resources

The following table shows the composition of the Bank's regulatory capital position as at 31 December 2021 and at 31 December 2020.

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

	31 Dec 21 RWA (£m)	31 Dec 21 Pillar 1 (£m)	31 Dec 20 RWA (£m)	31 Dec 20 Pillar 1 (£m)
Credit risk	865.1	69.2	937.3	75.0
Operational risk	78.8	6.3	75.2	6.0
Total requirement	**943.9**	**75.5**	**1,012.5**	**81.0**
Capital resources		170.4		163.7
Capital resources surplus over Pillar 1 requirement		94.9		82.7

As at 31 December 2021, total capital resources have increased by £6.7 million to £170.4million (2020: £163.7 million) over 2021 as a result of the inclusion of the Bank's 2021 audited total comprehensive income for the year in retained earnings offset slightly by the increase in deferred tax assets.

The table below shows movements in regulatory capital during 2021.

Table 35: Movement in regulatory capital during 2021

	£m
Total capital at 01 January 2021	163.7
Profit after tax for the year	9.0
Decrease in intangible asset deduction	1.0
Increase in deferred tax deduction	(1.6)
Decrease in mark-to-market reserve	(1.8)
Decrease in additional value adjustment	0.1
Total capital at 31 December 2021	**170.4**

Reconciliation of statutory equity to regulatory capital resources

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

	31-Dec-21 £m	31-Dec-20 £m
Equity per statement of financial position	157.2	150.0
Regulatory adjustments		
Add: tier 2 issuance	25.0	25.0
Less: deferred tax assets	(7.6)	(6.0)
Less: intangible assets	(4.1)	(5.1)
Less: additional value adjustment	(0.1)	(0.2)
Total capital resources	**170.4**	**163.7**

Regulatory capital requirement buffers CRD IV buffers

The Bank is subject to a number of CET1 capital buffers over and above the required minimum CET1, Tier 1 and total capital ratios. These capital buffers were implemented under CRD IV. The buffers applicable to the Bank include the capital conservation buffer (CCB) of 2.5% and the counter-cyclical buffer (CCyB). The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer which creates a cushion for banks to absorb potential losses in the event of a stress.

As at 31 December 2021, the institution specific CCyB rate for the Bank is 0.0% (2020: 0.0%). The buffer requirement is based on the relevant risk weight assets multiplied by the specific buffer rate.

Following the economic recovery after the COVID-19 pandemic, the FPC announced an increase in the UK countercyclical capital buffer from 0% to 1% to be effective from December 2022.

PRA buffer

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

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

5.3 Leverage ratio

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

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

The Bank's Leverage ratio as at 31 December 2021 is 6.4% (2020: 5.9%) (see Annex 2 for details of the calculation).

6 Remuneration Code Disclosures

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

This statement sets out the disclosures required under the Code as they apply to the Bank. The Remco is responsible for the governance and implementation of the Code and the annual review of adherence to it. The Remco is comprised of three non-Executive Directors. The Company Secretary or their nominee is secretary of the committee but carries no vote in decision making. The non-Executive Directors are regarded as being independent of Al Rayan Bank and possess the necessary skills to exercise the appropriate judgement. The Remco has recently reviewed and approved the Bank's remuneration policies.

Table 37: Staff Costs for 2021

Code staff fixed costs	£3.9m
Code staff variable costs: bonus awards	£0.5m

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

In total, 39 Code Staff have been identified as being employed during the year. Additional restrictions apply to the remuneration of Code Staff. All Directors (Executive and Non-Executive) and Senior Managers have been identified as Code staff. No Code staff had either variable or total remuneration in excess of £500,000.

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

At the beginning of each performance year, objectives are agreed for each individual based on the Bank's corporate objectives and linked to their specific job role. Achievement of these objectives is reviewed periodically throughout the performance year as part of the Bank's performance management process and at the end of the year an assessment is made of each individual's overall performance against the agreed objectives. All individual ratings are calibrated as part of the annual performance management cycle. Whether any awards will be payable at the end of the performance year will depend on whether the Bank has met its overall business objectives, including mandatory risk management objectives and the end of year financial results. Any awards that are payable to individuals will be paid as a one-off cash payment where the Code permits, but bonus payments may be deferred and can be subject to claw back. Budget proposals are presented to Remco each year, including Remco colleagues. Guaranteed bonuses are not offered as part of Al Rayan Bank's current performance award arrangements, except where agreed during a hiring process. During 2021 we offered guaranteed bonuses in exceptional cases to ensure we attracted high calibre candidates.

7 Governance

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

Directorships held by members of the Board

The number of external directorships and partnerships held by the Executive and independent Non-Executive Directors who served on the Board as at 31 December.

Michael Williams was appointed Non-Executive Director (Chairman) on 21 July 2021, Giles Cunningham was appointed Executive Director (CEO) 30 September 2021, Steven Hicks was appointed Independent Non-Executive Director 6 September 2021 and Fahad Abdulla AlKhalifa was appointed Non-Executive Director (Group CEO) 1 December 2021

Name	Position	Directorships
Michael Williams	Chairman	2
Malcolm Brookes	NED & Senior Independent Director	3
Giles Cunningham	Executive Director	0
Caroline Bradley	Non-Executive Director	1
Steven Hicks	Non-Executive Director	4
Fahad Abdulla AlKhalifa	Non-Executive Director	0
Ahmed Swaleh Abdisheik[1]	Non-Executive Director	1
Kathryn Kerle[2]	Non-Executive Director	13

[1]Ahmed Swaleh Abdisheikh resigned on 31 March 2022, [2]Kathryn Kerle resigned on 28 February 2022

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

Board recruitment

Appointment of Executive Directors

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

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

Appointment of Non-Executive Directors

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

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

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

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

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

Diversity & Inclusion

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

8 Annex I

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

		2021 (£m)	2020 (£m)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	121.2	176.0	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Paid up capital	121.2	121.2	EBA list 26 (3)
	of which: Share premium	-*	54.8	EBA list 26 (3)
2	Retained earnings	34.0	(29.8)	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	(1.0)	0.7	26 (1)
6	***Common Equity Tier 1 (CET1) capital before regulatory adjustments***	***154.2***	146.9	

* 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.

Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(0.1)	(0.2)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(4.1)	(5.0)	36 (1) (b), 37, 472 (4)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(7.6)	(6.0)	36 (1) (c), 38, 472 (5)
28	***Total regulatory adjustments to Common Equity Tier 1 (CET1)***	*(11.8)*	*(11.2)*	
29	***Common Equity Tier 1 (CET1) capital***	***142.4***	***135.7***	

Additional Tier 1 (AT1) capital: instruments

44	Additional Tier 1 (AT1) capital	3.0	3.0	
45	***Tier 1 capital (T1 = CET1 + AT1)***	***145.4***	***138.7***	

Tier 2 (T2) capital: instruments and provisions

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

Tier 2 (T2) capital: regulatory adjustments

58	***Tier 2 (T2) capital***	***25.0***	***25.0***	
59	***Total capital (TC = T1 + T2)***	***170.4***	***163.7***	
60	***Total risk-weighted assets***	***943.9***	***1,012.5***	

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.1%	13.4%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	15.4%	13.7%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	18.1%	16.2%	92 (2) (c)
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.2%	4.7%	CRD 128

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

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

9 Annex II

Leverage Ratio – Disclosure Template
Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2021.

		2021 (£m)	2020 (£m)
LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, applicable amounts			
1	Total assets as per published financial statements	2,258.9	2,339.8
4	Adjustments for the Sharia compliant derivative financial instruments	1.0	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	6.9	25.9
7	Other adjustments	(11.0)	(11.2)
8	Total leverage ratio exposure	2,255.8	2,354.5

LRCom: Leverage ratio common disclosure, CRR leverage ratio exposures

1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,258.9	2,339.8
2	(Asset amounts deducted in determining Tier 1 capital)	(11.0)	(11.2)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,247.9	2,328.6
EU-5a	Exposure determined under Original Exposure Method	1.0	-
11	Total Sharia complaint derivative exposures (sum of lines 4 to 10)	1.0	-
17	Off-balance sheet exposures at gross notional amount	63.3	168.5
18	(Adjustments for conversion to credit equivalent amounts)	(56.4)	(142.6)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	6.9	25.9
20	Tier 1 capital	145.4	138.7
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,255.8	2,354.5
22	Leverage ratio	6.4%	5.9%

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

EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2,258.9	2,339.8
EU-3	Banking book exposures, of which:	2,258.9	2,339.8
EU-5	Exposures treated as sovereigns	149.69	91.3
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	61.9	66.0
EU-7	Institutions	110.1	158.7
EU-8	Secured by mortgages of immovable properties	1,809.2	1,715.6
EU-9	Retail exposures	-	-
EU-10	Corporate	48.2	237.7
EU-11	Exposures in default	7.6	5.1
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	72.3	65.4

10 Annex III

Disclosure on asset encumbrance, as of 31 December 2021

Template A-Assets (£m)

	Carrying amount of encumbered assets	Fair value of encumbered asset	Carrying amount of Unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	4.9	4.9	2,254.0	2,254.0
Finance payments on Demand	-	-	95.9	95.9
Equity Instruments	-	-	-	-
Asset securities	-	-	123.5	123.5
Financing other than finance on demand	4.9	4.9	2,007.4	2,007.4
Of which: Financing assets	-	-	1,865.1	1,865.1
Other assets	-	-	27.2	27.2