AL RAYAN BANK

Annual Report and Financial Statements

For the year ended 31 December 2022

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 provides Sharia compliant savings, finance and current account services to over 90,000 personal, business and premier customers and was the first Islamic bank in the UK to receive a public rating. The Bank has an Aa3(cr) rating from Moody's Investors Service (Moody's), one of the leading global ratings agencies.

The parent company and majority shareholder, of Al Rayan Bank PLC (the Bank) is Al Rayan (UK) Limited, the UK subsidiary of Masraf Al Rayan Q.P.S.C. Masraf Al Rayan is a Qatar-based Islamic bank providing banking, financial, investment and brokerage services across Qatar. Masraf Al Rayan was incorporated in January 2006 and is licensed by Qatar Central Bank. Masraf Al Rayan is one of the largest banks in Qatar. Our ambition is for Al Rayan Bank to be the most trusted, Sharia compliant bank in the UK, providing Premier and Commercial Property Finance. We do this by keeping our business simple and connecting with each other through living our "One Team" values every day, creating a great place to work and a great place for customers to bank. We promote ethical banking, embrace and celebrate diversity and we care about having a positive impact on the world around us.

Current products include Commercial Property Finance (CPF), focused on residential investment financing, Premier Home Purchase Plans, current accounts and a range of savings accounts catering for different needs for resident and non-resident customers.

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 online and mobile, telephone and in person, through its Premier and Commercial premises in London.

The Bank prides itself on delivering value for customers.

> **Our ambition is for Al Rayan Bank to be the most trusted, Sharia-compliant Bank in the UK, providing Premier and Commercial Property Finance. We do this by keeping our business simple and connecting with each other through living our "One Team" values every day, creating a great place to work and a great place for customers to bank. We promote ethical banking, embrace and celebrate diversity and we care about having a positive impact on the world around us.**

Al Rayan Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our firm reference number is 229148. Al Rayan Bank is incorporated and registered in England and Wales with Registration No. 4483430. Registered Office: 44 Hans Crescent, Knightsbridge, London, SW1X 0LZ. alrayanbank.co.uk

Chairman's Statement

This report is my second as Chairman of Al Rayan Bank and reflects my first full financial year. I am very pleased to say that we have continued to reposition the Bank, producing record profits whilst building on our ambition of being the most trusted, Sharia compliant bank in the UK, providing our customers with a great place to bank and our people with a great place to work.

I mentioned in my 2021 statement that we were placing emphasis on reshaping the board and the governance of the Bank and taking the necessary actions to ensure long-term sustainable growth delivering the best services for our customers, a supportive and nurturing environment for colleagues and sustained and long-term returns for our shareholders. I am pleased to say that we have made significant progress across all these fronts.

We have not lost sight of our historic and ongoing commitment to Sharia compliant banking. Last year saw the fortieth anniversary of Islamic banking in the UK and, over the last two decades, Al Rayan Bank has played a hugely significant role in pioneering Islamic finance, helping to cement the Bank's position as a trusted and established member of the banking sector, and creating a model which other Islamic banks have followed.

We are very proud of what we have achieved since our foundation in the UK in 2004. It was Al Rayan Bank that successfully lobbied the UK government for changes to the taxation of Islamic financial products putting them on a level playing field with their conventional counterparts. It was us that launched the first Sharia compliant commercial property finance product back in 2006. And it was us that launched the first online service for Islamic banking customers.

Today, there are 14 banks providing Sharia compliant banking products and services to many thousands of customers throughout the country, generating significant value to the UK economy every year.

Strengthening our foundations for the future

2022 was particularly pivotal for Al Rayan Bank. In a challenging economic environment of high inflation with the prospect of an economic recession, uncertainty in government policy and the war in Ukraine, we continued to deliver robust financial performance, allowing us to provide excellent standards of support for our customers, deliver strong returns to our shareholders and generate the capital to continue transforming our organisation.

The Bank produced another excellent increase in profits in 2022, driven by record drawdowns in commercial property – highlighting the growing demand for Sharia compliant residential investment finance – and also delivering lower, and more competitive funding costs. The CEO details these achievements in more detail in his statement.

The drivers behind this strong financial performance are two-fold: our new strategy – announced mid last year – has focused our operations on premier banking and residential investment finance, to ensure we deliver a viable, resilient, and Sharia compliant business; and after a short period of upheaval in the previous financial year which was covered in my report, 2022 saw the Bank bring further stability to its leadership, complementing the team with an excellent mix of experience and technical skills in key areas.

Philip Trevett joined the Bank as Chief Risk Officer in January 2022 and Harpreet Dhillon joined as Chief People Officer in September 2022. The Board had a very productive year and following last year's successful merger between our parent bank Masraf Al Rayan and Al Khaliji Bank, we welcomed His Excellency Sheikh Hamad Bin Faisal Bin Thani Al Thani (Vice Chairman of our parent bank) and Omar Al-Emadi as Non-Executive Directors.

Parent support

That merger, which concluded in November 2021 created one of the largest Sharia compliant banks in the Gulf Cooperation Council (GCC) region with over QAR167 billion (£38bn) in total assets.

The increased scale and scope of our parent bank has presented a range of new opportunities to leverage the relationship and strengthen our premier banking customer base; and this, combined with the gradual easing of pandemic related travel restrictions, continues to be a source of great opportunities for the Bank.

Relationship with regulators

The relationship with any bank and its regulators is of critical importance and I believe that the conclusion of the longstanding investigation by the Financial Conduct Authority (FCA) into historic weaknesses in the Bank's anti money laundering systems and controls marks a turning point for the Bank and its relationship with its regulators.

Looking forward, we are committed to ensuring that our relationship with all regulators is collaborative and effective, and this is something that we will continue to ensure in the years ahead.

Banking sector uncertainty

Recent events which have led to authorities stepping in to support banks in the USA and Switzerland have had little to no impact on the Bank. The Bank is well-capitalised and well-funded, and as a private institution enjoys the strong support of its parent company, Masraf Al Rayan.

Whilst we always remain attentive to issues facing individual entities within the global banking sector and any potential systemic impact, we are also very confident in the health of our own institution and the UK banking system.

Looking ahead

We are mindful of how the economic and geo-political challenges will affect our customers. At the time of writing, the Russian invasion of Ukraine has just marked its first anniversary and while the Bank is not directly exposed to any economic impact generated by the conflict, we nonetheless continue to hope sincerely for a peaceful resolution as soon as possible.

Focusing on the UK, the economic outlook is showing some signs of improvement. The impact of the Autumn 'mini budget' is softening and confidence across the economy has been buoyed slightly by indications that the risk of a recession is easing, inflation is expected to reduce over the year, and supply chains are improving.

Relatively high base rates will likely endure well into 2023, and it has been made clear by the Bank of England that a low base rate environment is not imminent. We are conscious that rates at their current levels, together with inflation, may dampen business investment and the previously buoyant commercial property sector. However, we are confident that we will continue to see strong demand to invest from our GCC customers who continue to view the UK as offering attractive investment opportunities in the longer term. We are also mindful of the potential economic impact on our retail customers and the duty of care we show to them.

Our more focussed UK business strategy is now well-embedded. The strength of our 2022 performance demonstrates the benefits of this. We will continue to build on and grow our relationships in Commercial and Premier banking, while ensuring we continue to provide competitive and attractive products for savers.

Looking ahead, both Board and Executive are committed to taking the necessary actions to ensure long-term sustainable growth for the Bank, delivering the best services for our customers, providing a productive and supportive working environment and achieving sustained and long-term returns for our shareholders. We are well aware that the economic outlook is less than certain and that we have a responsibility to support and protect our customers and colleagues through the challenges associated with the cost of living.

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. The success we achieved in 2022 could not have been realised without the support of all our stakeholders.

Michael Williams
Chairman
30 March 2023

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 2022 to 31 December 2022

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 2022. 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 institution 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.

والسلام 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 2022 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
14 March 2023

Sheikh Dr Nizam Yaqoobi
Vice-chairman
14 March 2023

Mufti Abdul Qadir Barkatulla
Member
14 March 2023

CEO's Statement

In my first full year as CEO of Al Rayan Bank, I am delighted to report a very strong year across almost every measure in 2022, and a positive outlook for the year ahead.

The economic challenges we have all faced through the last year are well documented. And while uncertainty continues across the global and UK economies, it is clear that the steps we took to re-focus our strategy and drive a new values-led culture have been the foundation of our resilience in the face of these challenges.

Building on the results the Bank achieved in 2021, last year we delivered a record financial performance and in doing so, became the most profitable UK Islamic bank in history. Our pre-tax profits reached £20.8m, up from £9.6m in 2021.

Financial growth and profitability

The Commercial Property Finance asset book increased to £792m last year, representing 18% growth from £672m in 2021 and 41% higher than 2020. Our Commercial division successfully supported high value real estate investors with funding for new purchases, re-finance, equity release, build to sell, built to rent and Permitted Development Rights across ten developments.

Looking at the Bank's total assets, these have remained steady at £2.40bn (2021: £2.26bn), in line with our strategy. Core operating costs continued to fall through 2022, contributing to a cost to income ratio of 62% (2021: 79%), placing us amongst the most efficient banks in our peer group. One-off costs during the last financial year included adjustments to our fixed assets relating to the changes in strategy and a settlement with the Financial Conduct Authority following its review of historic weaknesses in our anti money laundering systems and controls between 2015 and 2017. There was no suggestion of money laundering having taken place or other criminal activity by the Bank or its customers, and I am pleased that this is now fully resolved and behind us.

Looking ahead, we are well positioned to continue to drive profit growth through 2023, aided by the base rate trajectory, and reduce our cost to income ratio further still.

Embedding our strategy

In early 2022 we announced a new strategy focused on residential investment finance and premier banking. Last year we achieved our highest ever level of new business in commercial property finance. Most commercial property finance customers come to us because of our positive reputation for relationship management, speed of execution and competitive products, not only because we are a Sharia compliant provider. This remains a core business for the Bank.

Our premier banking services have faced some understandable challenges in recent years resulting from a number of wider, external factors. Covid-19 travel restrictions significantly reduced inbound tourism and investment in London, and GCC investors remained cautious. We started to see a change in the second half of last year, with favourable exchange rates increasing the appetite for investment. I am confident that our closer working relationship with our parent, Masraf Al Rayan, will continue to pay off as we support our GCC clients with their UK banking needs.

We continued to invest in our digital platform. We currently have more than 40,000 customers registered for our Digital Banking app, and last year more than 280,000 payments were made by customers using it. We will continue to drive improvements across key aspects of the customer journey, most notably in registrations and product applications and the fixed term deposit maturity process.

Other activities

Elsewhere, as outlined in our strategy, our final retail branch closed its doors in August 2022. We also made the decision to permanently close our Home Purchase Plan (HPP) and Buy To Let (BTL) product offerings to new retail customers, but will continue to serve existing HPP and BTL customers with competitively priced Al Rayan Bank products.

Despite our reduced appetite for retail assets, we remain very active in the retail deposit market. In the last year, we opened more than 16,000 new retail savings accounts at a rate of over 62 new accounts per day.

In order to enhance the diversity of funding sources, we launched our first partnership with a savings aggregator, Insignis Cash Solution. At the time of writing, our partnership has already generated more than £50m in funding. We plan to grow our aggregator relationships further.

In addition, several further strategic projects that contributed to our growth were completed in the last year. The Bank launched its new anti money laundering (AML) screening system in September, with over 40,000 Electronic Identification and Verification (eIDV) screenings taking place before the end of the year. This hugely complex project, which was only made possible through excellent cross bank collaboration, has made a material difference to the financial crime prevention tools that the Bank has at its disposal.

Our upgrade to the SWIFT payments architecture has ensured that the Bank continues to comply with global industry standards in payments. The SWIFT process has been simplified, making us more resilient from an operations perspective and driving automation and efficiencies in our payments processing capabilities. These improvements in our payments capabilities, will be further enhanced when confirmation of payee is introduced later this year.

In January 2023 we also completed the process of implementing a new personal current account fee of £5 per month for customers with a month end balance of less than £2,500. This project is designed to ensure that we focus our highest level of service on those customers who actively use our products and services.

Looking ahead, in a further move to enhance security and simplify our savings products, we intend to mandate that all savings accounts have a nominated account that our customers pay into and from.

2023 will also see the Bank implement a series of initiatives in response to Consumer Duty, the new set of principles created by the regulator to govern how firms must act to deliver positive outcomes to retail customers.

Creating a great place to work

In the last year we have all faced various challenges with the on-going cost of living crisis and we understand that this period has been difficult for many. I'm delighted that the Bank's strong financial position allowed us to make material improvements to the compensation and benefits that we provide to our colleagues, including generous increases in maternity provisions, uplifts in holiday entitlements and pension contributions and an unprecedented double-digit out of cycle pay review.

In 2022, we launched our new "TEAM" values which were chosen by our colleagues. Those values – trusted, empowered, able and motivated – are the principles by which everyone at the Bank now operates – underpinning everything that we do.

All these initiatives have been instrumental in generating a material improvement in colleague engagement. Our 2022 independently run and anonymous survey, which achieved a response rate of 92% (2021: 93%), showed strong progress across almost all areas. More than four in five (84%) of our people said they are proud to work for Al Rayan Bank (73% in 2021) and 88% said they would like to develop their career with us (83% in 2021). Particularly pleasing to me are the significant improvements we have seen around communication, motivation and understanding of the Bank's strategy. Our overall engagement score for the Bank was 81% compared to 70% in 2021, confirming our progress as a great place to work.

Our office footprint is also a key aspect of colleague engagement. A strategic decision was made in early 2022 that we needed to build out our London presence, to better represent the brand and get closer to our stakeholders. To this end, we have purchased a new Head Office building on the edge of Mayfair, London into which we will consolidate all our remaining London locations. Our current thinking is that we will continue to have a Birmingham presence, even after the planned opening of the new office in May 2023.

The banking sector

At the time of writing, some concerns are being raised about the condition of the global banking sector. Whilst we have watched closely the events that led to the U.S. and Swiss authorities' support for Silicon Valley Bank and Credit Suisse respectively, we are very confident that the UK banking system is well capitalised and funded.

Al Rayan Bank is in a strong financial position and maintains a conservative and comfortable liquidity stance. It has no exposure to either Credit Suisse or Silicon Valley Bank.

The Bank is well capitalised, has a long-term high-grade rating of Aa3(cr) from Moody's and has reported record results for the year ending 31 December 2022. This position is further strengthened by the bank's ownership. Our parent company is Qatar's second largest bank by market capitalisation and our status as a private institution means we are protected from volatility in capital markets.

An outlook for the year ahead

The UK economy experienced an unusual combination of challenges in 2022 and the impact of high inflation cannot be overstated on our UK customers or our colleagues. At the time of writing, levels of inflation here in the UK are expected to slow down, and we are hopeful that the country will return to an inflationary environment which is more in keeping with recent decades.

Al Rayan Bank has never been in a healthier position, and we're looking forward to building on the benefits that our new strategy has delivered. We will continue our proud legacy of being not only the oldest sharia compliant bank in the UK, but also the most successful.

I'm very proud of our colleagues who have been amazing and deserve all the credit for the Bank's achievements in 2022, and I'm confident in our future as we lean in together to deliver the next exciting stage of Al Rayan Bank's story. Finally, and importantly, I would like to thank the Board, shareholders and Sharia Supervisory Committee for their unwavering support throughout the year to me personally and the Bank overall.

Giles Cunningham
CEO, Al Rayan Bank

Strategic Report

Financial Performance

The financial statements for the year ended 31 December 2022 are shown on pages 32 to 66.

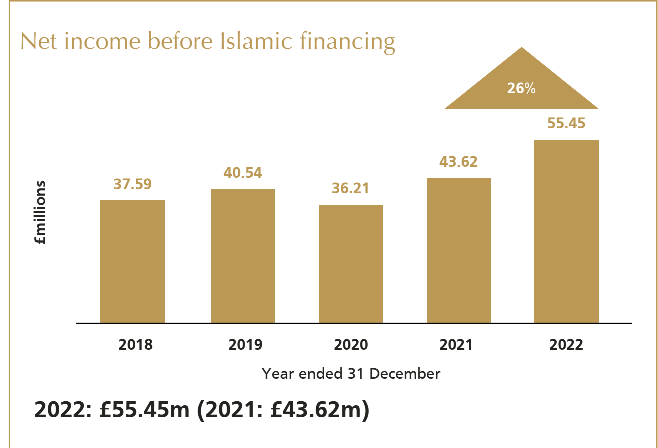
Following on from a successful 2021, the Bank saw another record year for income and profit in 2022. The Bank's profit before tax of £20.8m showed a 116% increase from 2021, driven by global rate changes and an increase in the Bank's commercial financing activity as markets remained strong after Covid-19, despite the challenges from inflation and global tensions.

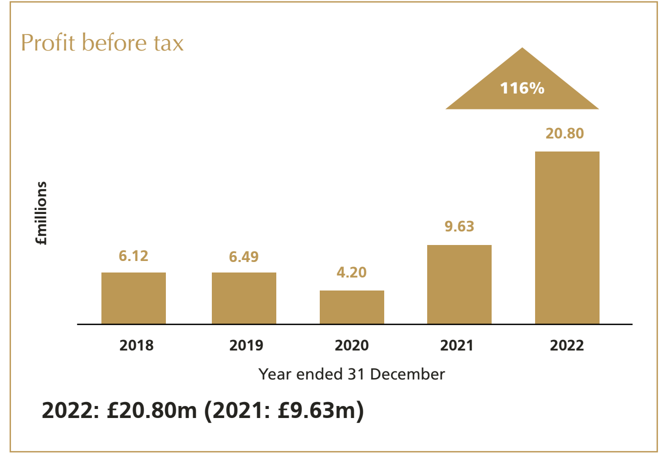
The Bank also significantly increased its returns payable to customers compared to 2021. The increase in central bank base rates, as well as overall market competitiveness, led to significant increases in profit rates during the course of 2022, with the Bank more than doubled the returns paid to customers between January to December 2022. The Bank's Everyday Saver offerings maintained a position near the top of the instant access savings tables throughout 2022, offering significantly better returns than high street banks.

Net financing income increased by 27%, driven by the base rate changes, as well as the change in the Bank's financing asset mix with a shift towards commercial financing as the Bank delivered on its strategy to focus on commercial property finance. The Bank grew its gross CPF book by 18% from £672m to £792m, and CPF revenue by 55% across the year. While the Bank did not significantly grow its financing asset book overall, the Bank's strategy has been to focus on maximising profitability, and the shift in customer mix has facilitated the improved performance of the Bank and highlighted the effectiveness of this strategy.

While the Bank withdrew new retail HPP products from the market during the year, it continued to support its existing customers, offering competitive rental rates for customers who remain with the Bank to ensure that they are able to continue to utilise Sharia compliant home financing. The income from the Bank's Retail Financing customers increased only 3% compared to 2021, although the retail financing balance declined by 11%.

2022 saw the Bank being able to pay the accrued profit on its Additional Tier 1 (AT1) capital as the share premium transfer completed during 2021 gave available reserves from which this payment could be made, with future payments being planned in line with the agreement.





Key financial performance indicators (KPIs):

Key Financial Metric	Use of Metric	Basis of Calculation	2022	2021
Profit before tax	Key measure of the Bank's underlying performance, with profit targets set by the Board as part of the budget process		£20.8m	£9.6m
Profit after tax	Key measure of the Bank's underlying performance		£16.5m	£9.0m
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 (excluding expected credit losses) divided by total income.	62%	79%
Return on equity	Shareholder performance metric against which the performance of investment is measured	The ratio of profit for the year (before tax) to average equity, expressed as a percentage.	12.82%	6.26%
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.	14.92%	15.09%
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 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.	458%	635%

Net income

Net income from financing increased in the year due to the strong CPF and Premier books, alongside an increase in overall returns payable to customers, although this was not as significant due to the Bank's focus on fixed term deposits during 2021 and early 2022 before switching to Everyday Saver accounts later in 2022. The fixed profit rates on these deposits enabled the Bank to delay some of the impact of rate increases, despite providing attractive profit rates to customers through the Everyday Saver products.

The increase in overall market rates also enabled the Bank to generate higher levels of income from its excess liquidity, including through utilisation of the Bank of England Alternative Liquidity Facility (ALF) which provided a further Sharia compliant opportunity for the Bank to place its cash, and improved the ability of the Bank to manage its liquidity effectively.

The Bank expects to continue to increase income in 2023 through the full year impact of higher profit rates, as well as further growth in the CPF book. Financing income for the year is anticipated to be higher than 2022, however the returns to customers will continue to increase as maturing deposits are replaced by higher funding costs, with an expectation that income margins will stabilise over the year as the market settles.

The Bank slightly increased its level of deposits as it restructured the financing book, in order to support the slight overall growth in assets. The Bank's total balance sheet increased by 6.2% during 2022 and the Bank finished the year with £2.40bn in total assets (2021: £2.26bn).

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. These movements will reverse if the investments are held to maturity, and the Bank has a strong liquidity position outside these investments and so does not anticipate having to sell the sukuk and realise these losses. Even including mark to market losses, the Bank still made record profit for the year.

The charts below illustrate the split of financing assets and total income.

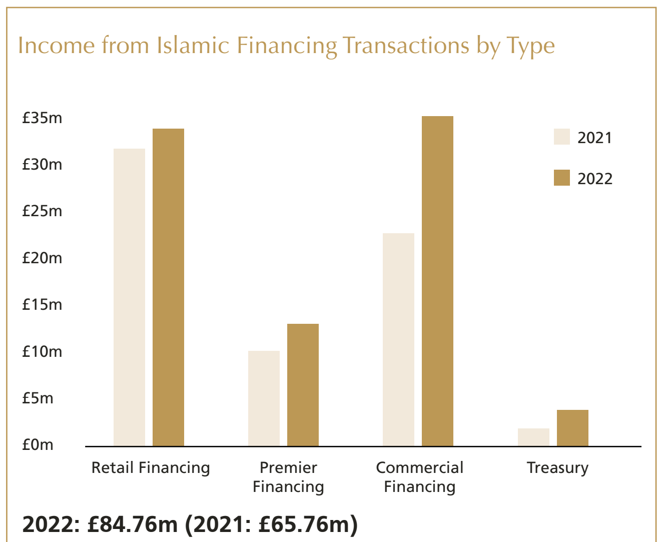
Costs

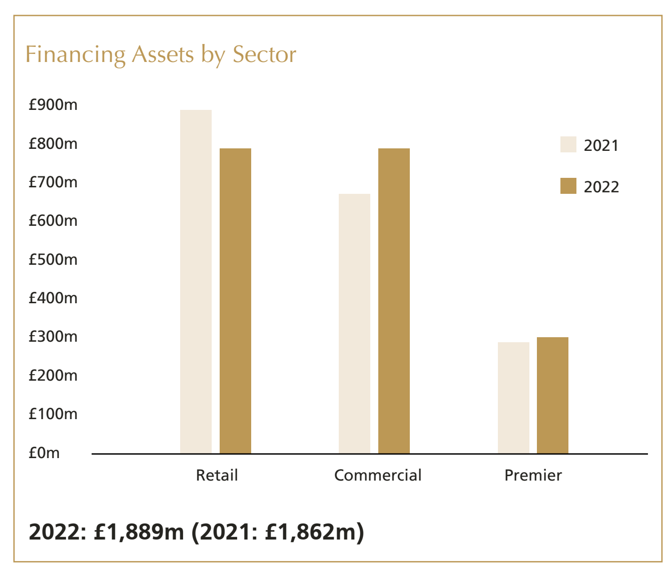
The Bank continued to reduce its costs over the course of 2022, with a 4% reduction in recurring costs despite high inflation, which excludes the impact of premises impairments and adjustments, historic VAT recoveries in 2021, and the FCA penalty for weaknesses in the Bank's anti money laundering systems and controls incurred by the Bank. The Bank's cost to income ratio improved from 79% to 62%, although this was primarily driven by the Bank's increased income. In 2021 the Bank had provided £2.5m for a potential FCA penalty, with a further £1.5m in 2022 after notification by the FCA of the total penalty, which was settled in January 2023. There was no suggestion of money laundering having taken place or other criminal activity by the Bank or its customers, and this is now fully resolved. Despite the focus on reducing overall costs, the Bank has continued to invest in its staff by increasing staff pay and other benefits across 2022, including an out of cycle pay increase to aid with the increase in cost of living during the year. The cumulative result of this was overall staff compensation increased compared to 2021, despite a reduction in the Bank's head count.

The Bank also continues to work to reduce its ongoing operational costs. The acquisition of the new head Office in London will allow the Bank to consolidate its footprint and provide ongoing savings as well as additional capacity for expansion of activities in London. As part of continued infrastructure investment the Bank is also working to modernise and reduce the cost of some of its IT systems, moving to a more cost effective but also robust cloud-based infrastructure over time, with initial steps being taken in 2023.

Expected Credit Losses

In 2022 the Bank saw a slight increase in its Expected Credit Loss (ECL) provision. While the impact of Covid-19 was less significant than had been feared, increasing base rates and the increasing uncertainty in global markets alongside inflationary pressures have resulted in an increase in the provision. The Bank had an increase of £0.18m in its ECL provision (2021: £0.47m release).



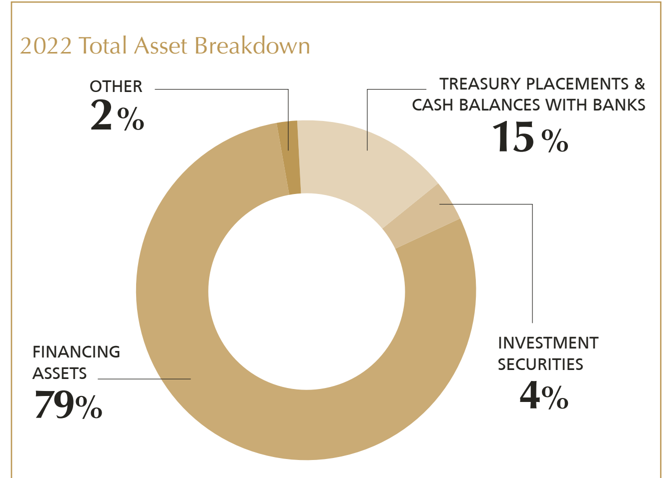


HPP – There was a decrease in overall HPP ECL from £1.10m to £0.87m, with coverage also reducing to 0.08% (2021: 0.09%). This was driven primarily by the removal of a post model adjustment (PMA) relating to cladding where the Bank does not see a significant risk being present on values or saleability of the collateral, with a slight increase in modelled ECL. The Bank's decision to cease taking on new customers in its HPP book means the current stable book has maintained a low level of risk with decreasing Finance to Value (FTVs) so the impact of the model changes has not been significant. In line with the overall market, we have seen an increase in additional acquisition payments, further reducing FTVs. Despite the negative outlook for UK house prices, the Bank does not expect significant credit losses due to its FTV profile minimising the Bank's exposure to any potential losses from house price reductions.

CPF – There was an increase in CPF ECL from £2.32m to £2.71m, however, coverage remained flat at 0.34% (2021: 0.34%). The total CPF provision has been impacted by the increase in asset balances.

The stage 1 ECL increase has been driven by model changes which reflect the continued economic uncertainty in the UK, as well as inflation and rising rates. The combination of these factors has put pressure on both commercial property prices as yield expectations have risen, but also on customers and tenants and their ability to pay. While the Bank's primary commercial property is residential, inflationary pressures, UK housing market changes, increasing base rates and global uncertainty have impacted both the residential and non-residential commercial property market.

While the outlook in the UK has become less negative during the early part of 2023, 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.



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 has commenced its transition to becoming a high calibre Sharia compliant bank which is focused on Commercial Property Financing 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 priorities it has established to support its strategy. 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.

Our market and competition

The Bank's revised strategy has been to focus on Premier and CPF customers, offering competitive products which are also Sharia compliant. The Bank continues to work towards improvements in technology and processes and has delivered new features to improve its customers abilities to manage their accounts through the banking app, as well as continuing to offer attractive profit rates to customers.

The focus on CPF puts the Bank in competition with other non-Sharia compliant banks in the commercial property market, but with its relationships, including a strong and established base in the GCC region from the Bank's parent, there has been continued growth in CPF customers, and the Bank has been flexible in meeting the expectations of commercial customers to compete against other similar institutions.

The Bank's Premier property financing has also been supported by MAR, as well as by the relationships the Bank has in the GCC region, and the ability to offer fully Sharia compliant financing sets the Bank apart from many other UK based banks. The focus on Commercial and Premier customers means the Bank is able to offer a very bespoke service from its London base, which will be further supported by the expansion of its London footprint through its new Head Office which will provide more space than the two premises it will replace, while being located in the heart of London.

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 continued 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 key focus areas for the Bank are:	
Customer and Product	The Bank's strategy for 2022 and the future has focused on expanding the Commercial and Premier Banking offerings. In 2022 the Bank delivered on this with significant growth in its CPF book. The savings opportunities offered to customers have also been simplified, with a simplified range, including market leading offerings such as the Bank's Everyday Saver instant access account, to reward customer savings in an easy to use account. The Bank also worked with CPF customers to ensure that the products offered were able to meet the needs of customers, including development and bridging facilities.
People	The Bank made significant investments in staff across the year, including leadership training programmes and continued support for individual staff training and qualifications. During 2022 the Bank also launched its new values and behaviours ("TEAM") ▶ Trusted to do the right thing ▶ Empowered to Own ▶ Able to Deliver ▶ Motivated to Succeed The Bank also saw stability in its executive team across the year, as well as the non-executive directors, with the appointment of Philip Trevett as Chief Risk Officer in January 2022, and the addition of a new executive team member, Harpreet Dhillon in September 2022, as Chief People Officer who, alongside Giles, has undertaken a number of activities to further enhance the existing employee benefits and conditions. The Independent Non-Executive Directors and Board Committee Chairs were unchanged and after the merger between Al Khaliji Bank and Masraf Al Rayan the Board welcomed His Excellency Sheikh Hamad Bin Faisal Bin Thani Al Thani (Vice Chairman of our parent bank) and Omar Al-Emadi as Non-Executive Directors. MAR have continued to support the Bank's strategy and direction.
Technology	The Bank's recent move to a third party hosted data offering helped the Bank with hybrid working both during and after Covid-19 restrictions were in place. Following on from this, the Bank is continuing to adapt its core technology offerings, working in 2023 to develop a hybrid approach with cloud hosted infrastructure alongside the core data centre offerings. These changes are designed to ensure the Bank has an appropriate technology infrastructure which is both responsive, reliable and flexible and fully meets the Bank's ongoing needs. The Bank has also continued to invest in its digital banking offerings, with new features being released during 2022 including Open Banking and PSD2 support, with further developments planned to meet the evolving needs of customers including self-service account and card management and digital-first onboarding of new customers.
Process	The Bank has continued to invest in its customer relationship management platform across the year, as well as integrating new features in the mobile app to enable customers to utilise additional self-service options as part of its technology journey. The Bank continues to develop its processes and technologies, with continued investment in operational areas such as SWIFT messaging, which has resulted in a simplified and more resilient process, as well as making changes to products to simplify the customer experience and investments in regulatory reporting to improve the reporting processes. The Bank has also continued to improve its anti money laundering systems. The Bank also launched its first partnership with an aggregation service, Insignis Cash Solutions, to provide a simple solution for customers savings. Through the activities undertaken in 2022 and planned across the next few years, the Bank expects to build a more robust set of processes supported by its investment in technology to maintain the Bank's current stable footing.

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, through its executive and board committees closely monitors liquidity to ensure resources 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 had been primarily through USD denominated overseas sukuk, creating operational issues for Sharia compliant institutions. The implementation of the ALF by the Bank of England has allowed the Bank to simplify its 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 and retain deposits to provide sufficient funding for the financing assets being underwritten. The funding mix is also monitored to ensure the Bank has flexibility in its funding and cost bases to maintain sufficient margins.

Wholesale funding

The Bank has continued to seek diversified wholesale funding from local governments, credit unions and corporates in the UK seeking attractive returns from a rated institution. The Bank has continued to maintain its investment grade rating from Moody's. The Bank has also maintained funding from GCC banks and multilateral organisations in the Islamic world.

Principal risks

The Bank's Executives 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, when delivering its strategy.

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 continuous 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 and embed clear risk management roles and responsibilities across the organisation. The Three Lines of Defence and risk strategy of the Bank's governance framework ensure that the Board and executive committees oversee risks, and that there is a clearly defined risk management structure which allows risks to be monitored, controlled and reported effectively to these committees where decision-making can be fully informed. These committees ensure that risk management is embedded into all processes, and report to the Board on risk profiles and the efficacy of risk management controls.

First line of defence:

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

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.

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.

Sharia:

The Sharia compliance monitoring activities also provide a second line of defence from the Sharia compliance team. The Sharia compliance department 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.

Risk Management Categories:

The RMF facilitates the appropriate management of all principal risks that the Bank faces, which are outlined below. These risks can also be affected by the external environment e.g., climate change. This is discussed in more detail in the "Outlook" section. Note that in the table below, loss is defined to include financial losses, reputational damage, loss of customers and regulatory censure/fines.

Principal Risk	Mitigations
Prudential Risk (Market Risk, Liquidity & Funding Risk, Capital Risk) The risk of loss arising from (a) reductions in earnings and/or unfavourable market movements; (b) an inability to meet liquidity obligations as they become due, from an unstable funding profile or from a lack of availability of funds; (c) a sub-optimal quantity and quality of capital, or breach of regulatory capital requirements	▶ Risk appetite framework and metrics, with supporting policies and Key Risk Indicators (KRIs) ▶ Daily monitoring of the financial position of the Bank ▶ Adequacy of liquidity buffer and 3-month forward stress test, as well as longer-term growth forecasting, stress testing and planning to monitor future capital requirements ▶ Annual ICAAP and ILAAP update, or more frequently if required ▶ Contingency funding, Liquidity Contingency Plan (LCP) and Recovery and Resolution Plan (RRP) development
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.	▶ Conservative risk appetite framework and monitoring metrics ▶ 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 ▶ Performance of portfolio stress testing to confirm resilience ▶ Regular reviews of performance against risk appetite
People Risk Loss resulting from failure to recruit, retain, train, manage, reward and incentivise appropriately skilled staff to achieve business objectives	▶ Recruiting high calibre staff with the right skills, capabilities and behaviours to contribute to delivering company objectives and strategy ▶ Robust training programmes to support staff with their development and provide opportunities for growth ▶ Offer competitive salary and benefits including bank wide social wellbeing initiatives to aid retention ▶ Conduct an annual staff engagement survey to understand any areas of dissatisfaction and take action on these as appropriate ▶ The Bank also has processes in place for managing succession planning for key roles

Principal Risk	Mitigations
Information & Cyber Risk Loss resulting from the compromise of information relating to its confidentiality, integrity or availability	▶ 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 availability, 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 ▶ 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
Conduct Risk The risk of loss resulting from unfair customer outcomes	▶ Risk appetite, policies and processes are aligned to the Bank's structure and operating model ▶ Detailed monitoring and management of the Bank's 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 ▶ Collaborative working across the bank to ensure that customers facing financial hardship are offered appropriate support e.g. during the pandemic
Operational Risk and Resilience The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events	▶ Risk appetite, policies and processes are aligned to the Bank's structure and operating model ▶ Regular risk event and rapid loss escalation processes, including reporting of incidents and remediation and follow up programmes ▶ Operational Resilience and Business Continuity Planning, including embedding and regular effectiveness testing on internal controls and outsourced/third party providers ▶ Structured Risk Control Self-Assessment regime ▶ Regular monitoring of change and transition programmes ▶ Transition to full work-from-home ability for the majority of staff, with second line review of changes in processes and controls that result
Strategic and Business Model Risk Loss resulting from a failure to define, deliver, or execute the Bank's strategic goals and objectives, or that result in impacts to the Bank's business model viability.	▶ 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

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 current and 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)
Environmental, Social & Governance (ESG) Risk The risk of loss resulting from failure to manage environmental risks such as physical and transitional climate risks, and from failure to manage corporate behaviour appropriately across all stakeholder groups, market practices, and wider society.	▶ ESG Committee set up to manage the Bank's approach to integrating environmental, social, and governance practices into its business strategy and operations, and its impact and sustainability ▶ Ongoing work to ensure financial risk from climate change is embedded across the Risk Management Framework. A dedicated ESG Committee is overseeing this process with regular updates to the Board ▶ Scenario modelling and analysis to assess the potential impact of external events and downside climate risk events ▶ Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability
Financial Crime Risk Loss resulting from engaging with or facilitating criminal conduct in breach of financial crime laws, rules and regulations	▶ Risk appetite, policies and processes are aligned to the Bank's structure and operating model, including dedicated policies, standards and guidelines across AML/Counter Terrorist Financing (CTF), Sanctions, Anti-Bribery and Corruption, Anti-Fraud, 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
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

Financial Risks from Climate Change

The 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.

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.

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

Other risks may include sukuk investments where counterparties are unable to repurchase amounts when due. While a number of Treasury counterparties are based in countries which are reliant on fossil fuels, these are with multilateral institutions with diversified exposures, minimising potential risk. Investments are also assessed based on credit ratings, which incorporate considerations around the customer's ability to continue to pay, and investment is restricted to highly rated sukuk to minimise risk of default.

The Bank's Climate Change Risk Policy sets out the principles and standards that the Bank will adopt in response to the potential material financial impacts it faces from exposure to climate related financial risk, and ensures that it aligns itself with industry and governmental expectations to achieve a net zero economy by 2050. Furthermore, it forms the basis for managing and monitoring climate change risk and establishes the framework required to ensure that climate change risk management and sustainability is embedded in ARB's longer-term strategy.

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 overall the risk level is expected to be low given the nature of the Bank's overall business. The Bank undertook an assessment of the financing portfolio in 2021, with over 85% of the Bank's financing asset having no associated flood risk, and under 2% having a high level of flood risk.

Metrics and Targets

The Bank is continually assessing the impact of Climate Change Risk as a standing agenda item at its Board Risk Committee meeting, forming part of the Bank's overall ESG initiative.

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. The figures for each year have been calculated using the conversion factor for that year.

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, based on available information from expense claims. All of the Scope 1 and Scope 2 emissions relate to activities within the United Kingdom. Scope 3 emissions include UK and international travel.

The Bank's reduction in footprint as the result of branch closures has resulted in reduced energy consumption and a reduction in Scope 1 and Scope 2 emissions. Scope 3 emissions have increased as the UK has opened up post Covid-19, including from travel between the UK and Qatar. While the Bank has signed up for "zero emission" providers where it has the option to select its providers, the CO2e figures have been presented above based on the average grid emissions in the UK.

	2022 CO_2e (tonnes)	2022 KWh	2021 CO_2e (tonnes)	2021 KWh	2020 CO_2e (tonnes)	2020 KWh
Scope 1 – direct emissions from combustion of fuel (heating gas)	-	-	-	419	7	33,376
Scope 2 – indirect emissions from electricity purchased	**66**	**339,999**	77	362,446	116	496,683
Total Scope 1 and 2 emissions	**66**	**339,999**	**77**	**362,865**	**123**	**530,059**
Environmental intensity indicator (tonnes of carbon dioxide per £1m gross income)	**0.8**		**1.2**		**1.8**	
Scope 3 – business travel only	**38**		10		9	

Ethical Roadmap

Al Rayan is fully aware of its ethical and environmental responsibilities and is continually looking for new ways to improve its impact on the community.

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 continues to review its ethnical roadmap, including ensuring that it is updated in line with the Bank's revised strategy.

The Bank's Environmental, Social and Governance Committee now oversees all the different initiatives that are in place and will measure how the Bank integrates environmental, social, and governance practices into its business strategy and operations, its impact, and how sustainable it is, and over the course of 2023 the committee will develop the Bank's ESG strategy and monitoring.

Gender equality targets

As an employer which prides itself on being ethical, the Bank remains committed to diversity, equality and inclusivity for our colleagues. The Bank has implemented 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.

Stakeholder engagement

Customers

The Board receives feedback from operational teams via various metrics on customer satisfaction and engagement, and feedback (including complaints) 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 and continuing to invest in our customer facing offerings, such as the launch of a new website and the continued improvements to the digital banking app, as well as highly competitive profit rates on savings products.

The Bank's new strategy was to focus on Commercial and Premier customers, but the Bank has continued to support its existing customers. The Bank withdrew its retail HPPs from the market in 2022,but has continued to offer new products to existing customers whose fixed or discounted variable rental rates have come to an end, and have seen significant levels of retention, allowing customers to continue to retain their existing Sharia compliant financing.

The Bank has also expanded its offerings to CPF customers through new types of financing opportunities including bridging finance and development properties, and working closely with customers on the terms of deals to ensure that they meet the needs of our customers.

Employees

In 2021 the Bank undertook an employee survey and has taken actions as a result of this, focusing on key areas of concern. A follow up survey in 2022 showed significant improvements in employee satisfaction across most areas, driven by the changes made during 2022. The Bank has also set up a Wellbeing Group to discuss further initiatives to address issues and look after the needs of employees. The Bank has also continued to hold regular town hall events to ensure staff are informed of the Bank's activities and strategy, as well as a Values launch event in the year.

During 2022 the Bank improved its pension contributions and holiday entitlements for the majority of staff, as well as changing pension provider to offer a more comprehensive scheme for employees. The benefits offered by the Bank were also overhauled to provide a wide variety of new benefits and improve existing benefits, such as a cycle to work scheme, and from 2023 the option to buy and sell holidays on top of the additional entitlements.

In recognition of the cost-of-living pressures during 2022, the Bank also provided an out of cycle pay adjustment, with a focus on lower paid employees, to ensure that all staff received a fair wage and were not struggling financially due to the high levels of UK inflation.

Shareholders

As well as a formal Annual General Meeting (AGM) which is open to all shareholders, the Bank through its executive team and Board has regular dialogue with its ultimate parent company MAR. Through its representation on the Board it has regular updates on the Bank's performance. 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. The Bank also ensures it engages with suppliers on at least an annual basis both to maintain the relationships it has and to 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 regularly engages with the Bank's regulators and as a matter of course will discuss major events such as changes in strategy. The Bank has also been subject to historic regulatory reviews as part of the formal review processes in respect of AML and Sanctions controls, with these reviews being completed in 2020 and 2021. The Bank incurred a penalty in relation to the historic control weaknesses which was paid in January 2023.

Outlook for 2023

Economic outlook

Economic conditions facing the UK in 2023 continue to be challenging, more so than in many other countries, however the outlook is more positive than it had been during the latter part of 2022, with a less significant recession expected, and inflation reducing after the highs of 2022.

The world economy continues to be challenging, especially in Europe and parts of Asia, however the USA appears to be stabilising, and the Middle East has not suffered significantly due to the strong prices of fossil fuels and currency links to the US Dollar. While supply chains continued to struggle in 2022, the opening up and high inflation has helped to rebalance supply and demand.

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 was expected in 2022, this did not materialise, however there is a high level of risk and uncertainty heading into 2023 due to recession risks. The house prices in the UK have also begun to reduce as a result of significantly higher central bank base rates and general inflation, and the UK outlook continues to be weak.

The uncertainty in global markets due to the ongoing conflict in Ukraine continues to cast a shadow on Europe, although energy prices have begun to stabilise and reduce as new sources have been brought into play and a mild winter has tempered demand, however there is still the potential for further shocks. The primary impact on the UK market has been from the global inflation challenges which have arisen as a result of Covid-19 and other global shocks.

House prices continued to rise in early 2022 despite the base rate rises from the Bank of England at the start of the year, but began to decrease from October 2022 onwards. While Nationwide showed a 4.8% increase in house prices from December 2021 to December 2022, however due to the high level of inflation in the UK across 2022, the inflation adjusted house prices decreased by 8.1% across the year. The outlook for 2023 is for continued real decreases in prices even as central bank base rates stabilise. More limited increases are expected in 2023 as inflation reduces from 2022 highs.

Similarly, commercial property has seen a challenging market due to increasing yield expectations and challenges in raising rents, which have negatively impacted commercial property prices. Commercial property prices are generally not expected to grow over the course of 2023, with performance varying by sector, such as office properties which have weak demand, while demand for residential properties is likely to continue, although prices will be impacted by the market.

The majority of the Bank's financing assets are backed by residential property across both the CPF and HPP portfolios, and as such the property market remains the most significant factor affecting the performance of the Bank's asset book. The current forecasts used by the Bank in its IFRS 9 expected credit losses are detailed in note 26, along with a sensitivity analysis of the effect of changes.

The Bank's Board and management continues to monitor the events which led to authorities stepping in to support banks in the USA and Switzerland and are confident that the UK banking system is well capitalised and funded.

The Bank has a strong financial position and maintains a conservative and comfortable liquidity stance and is well capitalised. The Bank made record comprehensive income even after the recognition of mark to market losses and has focused on investment in shorter dated treasury instruments across 2022 to reduce treasury exposure. The Bank has also maintained an investment grade rating from Moody's and has a high-grade rating of Aa3(cr) from Moody's.

The Bank's strong position is further strengthened by its ownership. The Bank is privately owned and is insulated from volatility in capital markets as its equity and additional capital instruments are primarily from its parent, MAR. MAR is one of the largest banks in Qatar.

Business outlook

The Bank's current 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 Commercial Property Finance, primarily for residential financing, and delivers a viable, resilient, Sharia compliant business. The Bank has successfully delivered on this throughout 2022 and expects to continue to do so in 2023 with further growth in the CPF book, although the expectation for full year growth is lower than achieved in 2022.

Premier customers continue to provide a solid base for the Bank with stable Home Financing balances across the year, and the Bank expects to continue to work with its customer base. The strong performance in the Middle East buoyed by oil and gas prices has meant that this segment has not seen significant impacts from wider economic uncertainty and this portfolio is expected to be maintained across 2023.

The Bank's retail HPP book has continued to decrease as customers make regular acquisition payments, and as additional payments are made across the market as customers look to settle home financing across the market. The Bank's limited exposure to the market, with low FTVs across the portfolio, mean that the impact of base rate rises has been limited, and the Bank expects a continued gradual reduction in the HPP book across the year, in line with the Bank's strategy.

Continued competition in the market for customer deposits is expected to increase the returns payable to customers as the Bank competes with other institutions for funding, reducing the net profit margin of the Bank and limiting overall profitability, but the Bank still expects a strong performance in 2023 as it continues to execute on its strategy.

Giles Cunningham
CEO, Al Rayan Bank

30 March 2023

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 2022.

Directors and Directors' interests

The Directors who held office during the year ended 31 December 2022 are as follows:

Michael Williams	Chairman of the Board
Malcolm Brookes	(a) (b) (c) Remuneration and Nomination Committee Chair
Caroline Ashton	(a) (c) Audit Committee Chair
Steven Hicks	(a) (b) (c) Board Risk Committee Chair
Giles Cunningham	Chief Executive Officer
Fahad Abdulla Alkhalifa	* (b)
Hamad Faisal Al Thani	* Appointed 1 June 2022
Omar Abdulrazaq Al-Emadi	* (a) (c) Appointed 1 November 2022
Kathryn Kerle	Resigned 28 February 2022
Ahmed Swaleh Abdisheikh	** Resigned 31 March 2022
Shabbir Barkat Ali	** Appointed 1 June 2022, resigned 8 September 2022

(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

* Fahad Abdulla Alkalifa, Hamad Faisal Al Thani and Omar Abdulrazaq Al-Emadi have current associations with Masraf Al Rayan Q.P.S.C and are therefore not considered independent.

** Ahmed Swaleh Abdisheikh and Shabbir Barkat Ali 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 2022:

	2022	2021
	(%)	(%)
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% (2021: 75%) and Qatar Holding LLC 25% (2021: 25%).

Sharia Supervisory Committee members

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

Sheikh Dr. Waleed Bin Hadi (Chairman)

Sheikh Dr. Nizam Yaqoobi (vice-Chairman)

Mufti Abdul Qadir Barkatulla (member)

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

Dividends

The Directors do not recommend the payment of a discretionary dividend for the year ending 31 December 2022 (2021: £nil). During 2022, £842,850 was paid in respect of Contingent Convertible instruments in line with the terms of these instruments, reflecting profit due from 1 July 2019 to 1 July 2022. The Directors expect to pay the contractual profit on these instruments during 2023. £280,950 profit will be due on 1 July 2023. See note 20 for further details.

Political contributions

The Bank made no political contributions during the year ending 31 December 2022 (2021: £nil).

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's Tier 2 capital began to amortise from a regulatory perspective during 2022, and so is no longer fully available as part of the Bank's capital position. 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 global rate rises during 2022 and into 2023 and other events during 2022 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 has since been reintroduced and is set to increase further in 2023. This has also been incorporated into the Bank's forecasts.

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 26.

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 2023 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.

Further details on the Director's actions and considerations are included in the Strategic Report.

Greenhouse gas emissions and energy disclosures

The Bank's emissions disclosure is included in the Strategic Report on page 16.

Subsequent events

Events subsequent to 31 December 2022 have been highlighted in note 28.

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 9 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

During 2022 the Board invited applicants to tender for the Bank's audit as a result of the Bank's parent going to tender due to mandatory audit firm rotation in Qatar. As a result, the Board recommended that Ernst and Young be appointed the Bank's auditors. A resolution for their appointment will be proposed at the Annual General Meeting.

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

Michael Williams
Chairman

30 March 2023

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 have elected to prepare the financial statements in accordance with UK-adopted international accounting standards. 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, International Accounting Standard 1 requires that directors:

- 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 of the financial reporting framework 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 Bank'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 are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom 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 2022 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 31.

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 matter that we identified in the current year was: • impairment of investment in financing assets Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £1,039,000 (2021: £546,000) which was determined on the basis of 5% of profit before tax (2021: 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 effective profit rate income recognition has been removed for the current year. This is due to the historic stability in the behavioural lives applied and the sensitivity of profit receivable in the context of our materiality. We have changed the basis for determining materiality from net assets to profit before tax as it is a relatively stable metric under the Bank's revised strategy.

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 evaluated management's going concern assessment, to assess the key judgements made by directors.
- 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') and held meetings with both parties as part of our procedures.
- We assessed the appropriateness of the disclosures in the financial statements relating to going concern.

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. Impairment of investment in financing assets

Key audit matter description	The company held allowances for the impairment of financing assets of £3.6 million (2021: £3.5 million) against financing assets of £1,892.7 million (2021: £1,865.1 million). For financial assets measured at amortised cost, IFRS 9 Financial Instruments requires the carrying value to be assessed for impairment using unbiased forward-looking information. Determining impairment under the expected credit loss ('ECL') method is based on a number of assumptions, including the probability of default, loss given default, exposure at default, the timing of cash flows and the application of macroeconomic scenarios in arriving at a probability weighted outcome. Management has also historically utilised post model adjustments in arriving at their final ECL balance, to ensure it reflects those items which may not be fully captured within the core model. The most significant assumptions and judgements applied in the impairment model are: • The accuracy of management's post model adjustments, specifically those relating to inflationary pressures; and • The application of macroeconomic scenarios, including underlying forecasts for unemployment, the house price index ("HPI"), the Bank of England base rate, and the applied weightings. In the prior year, our key audit matter in respect of the impairment of investment in financing assets also included the completeness and accuracy of management post model adjustments, specifically those relating to stage 2 commercial property financing assets, i.e. assets with a significant increase in credit risk. This is no longer considered a key audit matter given that these financing assets have cured into performing and no longer require a specific management post model adjustment. In light of the macroeconomic uncertainties, management applied significant assumptions in determining a management post model adjustment in relation to inflationary pressures and our key audit matter is in respect of the accuracy of the post model adjustment. Given the degree of judgement involved in determining key assumptions, we also identified that there is a risk of fraud or error in respect of this balance. Impairment of financing assets is included in notes 25 and 26 of the financial statements. Management's associated accounting policies are detailed within note 4, with key judgements and sources of estimation uncertainty disclosed in note 26.

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. We have performed the following procedures relating to the application of the macroeconomic scenarios and weightings: • Reviewed management's assessment of the scenarios and the probability weightings assigned to them in light of the macroeconomic uncertainty; and • Engaged our economic specialists to assess the reasonableness of the forecasts and their weightings applied in the modelling. We have performed the following procedures relating to the accuracy of the management post model adjustment relating to inflationary pressures: • we critically assessed the inflationary post model adjustment applied by management to the modelled output, including challenging key inputs to the post model adjustment calculation, with reference to inquiries made with the Bank's credit risk function and consultation with our credit risk specialists; • challenged how the core model changes implemented during 2022 impact on the need to hold a post model adjustment for inflationary pressures; and • assessed the completeness and accuracy of the underlying data used to calculate the post model adjustment. Our wider procedures included the following: • Obtained an understanding and tested relevant controls over impairment of investment in financing assets; • Engaged our credit risk specialists to perform a methodology and implementation review of the model changes; • Assessed the completeness of management post model adjustments applied with the aid of our credit risk specialists, specifically considering those applied across the market to similar portfolios; • Tested the financing asset portfolios through identifying assets of audit interest and gaining an understanding of any unusual characteristics; • Engaged our real estate specialists to review a higher risk sample of collateral valuations across the commercial portfolio; • Tested the completeness and accuracy of the source data used within the ECL modelling; and • Reviewed and challenged the impairment disclosures made in the financial statements including testing of completeness and accuracy of source data and report logic used to prepare the disclosures.
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.

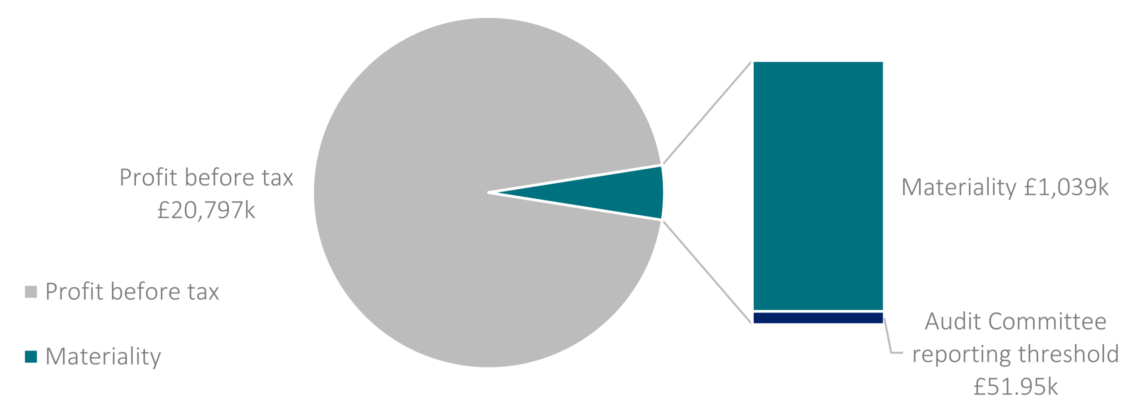
6. Our application of materiality

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	£1,039,000 (2021: £546,000)
Basis for determining materiality	5% of profit before tax (2021: 0.3% of net assets)
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements. We have changed the basis for determining materiality from net assets to profit before tax it is a relatively stable metric under the Bank's revised strategy.



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 low level of uncorrected misstatements identified in prior year and the increased stability of the control environment in the finance function, we increased the performance materiality to 65% of materiality for the 2022 audit (2021: 60%). In determining performance materiality, we also considered a number of factors including: our understanding of the business, the quality of the control environment and whether we were able to rely on controls; 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 £51,950 (2021: 27,300), 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 relevant 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 general 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, which is consistent with prior year. We tested the relevant automated and manual controls for these business cycles and were able to adopt a controls reliance approach, as planned.

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 16 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 in the company's climate risk assessment and evaluating the conclusion that there is no material impact of climate change risk on current year financial reporting;
- evaluating completeness of key judgements and sources of estimation uncertainties disclosed in the financial statements; and
- reading the Annual Report to evaluate whether they are materially consistent 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 directors, management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;;
- 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 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 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 regulatory requirements: PRA and FCA.

11.2. Audit response to risks identified

As a result of performing the above, we identified the impairment of investment in financing assets as a key audit matter 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; 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 30 to the financial statements for the financial year ended 31 December 2022 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 six years, covering the years ending 31 December 2017 to 31 December 2022.

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.

Matthew Perkins FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
30 March 2023

Financial Statements

Statement of comprehensive income

For the year ended 31 December

	NOTE	2022 £'000s	2021 £'000s
Income from Islamic financing transactions	6	84,762	65,755
Returns to banks and customers	6, 21	(29,308)	(22,140)
Net income from Islamic financing transactions		**55,454**	**43,615**
Fees and commission income	7	1,107	1,098
Fees and commission expense	7	(745)	(452)
Net fees and commission income		**362**	**646**
Gain on disposal of investment securities		51	25
Foreign exchange loss		(10)	(354)
Other non-fee (loss) / income		(50)	464
Other (loss) / income		**(9)**	**135**
Total income		**55,807**	**44,396**
Impairment (charge) / reversal	25, 26	(183)	468
Staff costs	8	(18,153)	(17,737)
General and administrative expenses		(12,840)	(13,016)
Depreciation	14	(1,843)	(2,968)
Amortisation	15	(1,991)	(1,516)
Total operating expenses		**(35,010)**	**(34,769)**
Profit before tax		20,797	9,627
Tax charge	11	(4,297)	(624)
Profit for the financial year		**16,500**	**9,003**
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	11, 24	(5,602)	(1,723)
Amounts transferred to the income statement		(51)	(25)
Total other comprehensive loss		**(5,653)**	**(1,748)**
Total comprehensive income for the financial year		**10,847**	**7,255**

- The results from the year are derived entirely from continuing activities
- The notes on pages 36 to 66 are an integral part of these financial statements

Statement of financial position

As at 31 December

Assets	NOTE	2022 £'000s	2021 £'000s
Cash		1,234	1,867
Treasury placements and cash balances with banks	12	353,062	246,809
Home Purchase Plans	25, 26	1,099,728	1,191,984
Commercial Property Finance	25, 26	789,370	669,653
Investment securities	24	108,821	123,532
Property and equipment	14	33,072	7,628
Intangible assets	15	3,075	4,101
Deferred tax asset	11	8,354	7,607
Other assets	13	3,578	5,710
Total assets		**2,400,294**	**2,258,891**
Liabilities and equity			
Liabilities			
Deposits from banks and financial institutions	16	145,703	98,962
Deposits from customers	17	2,044,149	1,959,663
Subordinated funding	18, 21	25,000	25,000
Other liabilities	19	17,261	17,363
Sharia compliant derivative financial instruments	23	866	592
Total liabilities		**2,232,979**	**2,101,580**
Equity			
Share capital	20	121,219	121,219
Contingent convertible investment	20, 21	3,000	3,000
Share premium	20	-	-
Reserve on investment securities		(6,648)	(995)
Retained earnings	20	49,647	33,989
Profit stabilisation reserve	4	97	98
Total equity		**167,315**	**157,311**
Total liabilities & equity		**2,400,294**	**2,258,891**

▶ The notes on pages 36 to 66 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 March 2023 and were signed on its behalf by:

Michael Williams
Chairman

Al Rayan Bank PLC
Registration number: 04483430

Statement of changes in equity

For the year ended 31 December

	Share capital	Share premium	Contingent convertible investment	Reserve on investment securities	Retained earnings / (deficit)	Profit stabilisation reserve	Total
Note	20	20	20	24	20	4	
£'000s							
Balance at 1 January 2022	121,219	-	3,000	(995)	33,989	98	157,311
Profit for the year	-	-	-	-	16,500	-	16,500
Other comprehensive loss	-	-	-	(5,653)	-	-	(5,653)
Total comprehensive income	-	-	-	(5,653)	16,500	-	10,847
Profit Payment to Additional Tier 1 capital holders	-	-	-	-	(843)	-	(843)
Transfer to profit stabilisation reserve	-	-	-	-	1	(1)	-
Balance at 31 December 2022	121,219	-	3,000	(6,648)	49,647	97	167,315
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**

▶ The notes on pages 36 to 66 are an integral part of these financial statements

Statement of cash flows

For the year ended 31 December

	NOTE	2022 £'000s	2021 (restated)* £'000s
Cash flows from operating activities			
Profit before tax		20,797	9,627
Adjustments for:			
Depreciation	14	1,843	2,968
Amortisation	15	1,991	1,516
Gain on disposal of investment securities		(51)	(25)
Impairment charges on financial assets	25	183	(464)
Other non-cash items included in profit before tax		292	565
		25,055	14,187
Movement in:			
Treasury Placements	12	120	(1,318)*
Home Purchase Plans	25	92,488	1,971
Commercial Property Finance	25	(120,113)	(112,138)
Other assets	13	2,191	(1,514)
Sharia compliant derivative financial instruments	23	275	5,137
Deposits from banks and financial institutions	16	46,741	61,095
Deposits from customers	17	84,485	(5,338)
Other liabilities		2,767	3,871
Taxation paid		(3,140)	(1,945)
Net cash inflow / (outflow) from operating activities		**130,869**	**(35,992)**
Cash flows from investing activities			
Net sales of investment securities		7,253	46,245
Purchase of property and equipment	14	(29,430)	(40)
Net investment in intangible assets	15	(966)	(548)
Net cash (outflow) / inflow from investing activities		**(23,143)**	**45,657**
Cash flows from financing activities			
Redemption of sukuk funding	21	-	(146,944)
Payment of principal in respect of leases	14	(1,019)	(1,318)
Payment of financing in respect of leases	14	(116)	(194)
Payment of Additional Tier 1 Financing profit	20	(843)	-
Net cash outflow from financing activities		**(1,978)**	**(148,456)**
Net change in cash and cash equivalents		**105,748**	**(138,791)**
Foreign exchange loss		(10)	(354)
Cash and cash equivalents at 1 January		244,090	383,234*
Cash and cash equivalents at 31 December		**349,828**	**244,090***

* These balances have been restated to reflect the underlying nature of balances included in cash and cash equivalents following updated guidance from the IFRS Interpretations Committee. The Bank of England cash ratio deposit had previously been included in 'Cash and cash equivalents' and balances related to MasterCard had been excluded. The cash ratio deposit has been removed from 'Cash and cash equivalents' due to the nature of its restrictions, and the MasterCard balances have now been reclassified as a component of 'Cash and cash equivalents' for the same reason. The cash balances and movements have been restated to reflect these changes in classification. See note 12 for further details

▶ The notes on pages 36 to 66 are an integral part of these financial statements

Notes to the Financial Statements

1. Reporting entity

Al Rayan Bank PLC (the Bank) 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 2022. 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

The following standards have been endorsed by the UK Endorsement Board and are effective for periods commending on or after 1 January. The Bank does not anticipate being impacted by any of these standards or interpretations.

- IFRS 17 Insurance Contracts and amendments
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)

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).

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.

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. These fees 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 Bank 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.

4. Significant accounting policies (cont'd)

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 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.

Cash balances with banks are stated at amortised cost and are non-return bearing.

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.

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.

Where a modification has been made to contractual cash flows, the changes are assessed for qualitative factors which would indicate a significant modification, and the revised cash flows are compared to the original cash flows to identify whether the derecognition threshold of a 10% difference in the value of the cashflows has been exceeded. If qualitative factors indicate a significant modification or the 10% threshold is met or exceeded then the asset would be derecognised, and re-recognised as a new asset, with any difference in value recognised to profit and loss. The credit risk on the new asset would also be assessed to identify the relevant stage and whether this asset would be purchased or originated credit-impaired (POCI).

Where the derecognition threshold has not been met, the revised cashflows are compared to the previous cashflows and a gain or loss is recognised in respect of the difference at the point of modification through the relevant income line for the asset.

Investment securities

The Bank's investment security holdings are in US dollar and British pound denominated sukuk. 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 Fair Value through Other Comprehensive Income (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.

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.

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.

4. Significant accounting policies (cont'd)

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.

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 FVOCI.

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 based on the assumptions used in the Bank's financial planning process, updated for any changes to the prevailing economic conditions at year end. 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 26.
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.

4. Significant accounting policies (cont'd)

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 26 for further details of the post model adjustments.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment in accordance with IAS 36. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in accordance with IAS 37 if the Bank has a present legal or constructive obligation, as a result of a past event, that gives rise to a probable outflow of economic benefit which can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of cost of funds and, where appropriate, the risks specific to the liability. Where a reliable estimate of the expected future cash flows cannot be made, a contingent liability is disclosed but no value is recognised.

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. Freehold land is recognised at cost and assessed for impairment on an annual basis.

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
Freehold buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

4. Significant accounting policies (cont'd)

Leases

A lease liability is recognised 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.

A right of use (ROU) asset is recognised at commencement of the lease, 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.

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 or there are modifications to lease agreements, the lease asset and liability will be adjusted to reflect the value of the revised lease payments where these are different from initial recognition. 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.

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 the Bank has opted to use the short term lease exemption.

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 seven years.

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.

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.

Items where there is a significant risk of material change to the carrying value of assets and liabilities within the next year due to estimates, judgements and uncertainties are disclosed in the following notes:

Allowance for expected credit losses (ECL)	Judgements and estimates included in Note 26
Deferred Tax	Judgements and estimates included in Note 11

Other areas of judgement and accounting estimates include useful economic lives of property, plant and equipment, lease liabilities and intangible assets, see notes 4, 14 and 15 for further details. Within these balances, due to changes in the Bank's strategy, the figures included as at 31 December 2022 are based on the Bank's revised strategic direction. Management has judged that the useful lives of certain assets has been reduced as a result of the strategic change, and the value of the related assets has been impaired.

6. Net income from Islamic financing transactions

£'000s	2022	2021
Treasury placements	2,537	467
Home Purchase Plan	46,191	41,819
Commercial Property Finance	34,894	22,579
Investment securities	1,226	1,301
Loss on Profit rate swaps held at fair value	(86)	(411)
Income from Islamic financing transactions	84,762	65,755
Deposits from banks and financial institutions	(4,086)	(2,229)
Deposits from customers	(25,222)	(19,911)
Returns to banks and customers	(29,308)	(22,140)
Net income from Islamic financing transactions	55,454	43,615

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.

7. Net fees and commission income

£'000s	2022	2021
Fees and commission income		
Retail customer banking fees	962	972
ATM commission	60	46
Other	85	80
Total fees and commission income	1,107	1,098
Transaction fees	(745)	(452)
Total fees and commission expense	(745)	(452)
Net fees and commission income	362	646

8. Staff costs

£'000s	2022	2021
Wages and salaries	15,678	15,408
Social security costs	1,664	1,531
Contributions to defined contribution pension plans	781	774
Other staff costs	30	24
Total	18,153	17,737

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

	2022	2021
Average for the period	210	227

9. Directors' emoluments

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

	2022			2021		
	Fees/Salary	Pension	Total	Fees/Salary	Pension	Total
Directors' Salaries and Fees	1,193	3	1,196	892	16	908
Of which: Highest paid Directors' Salaries and Fees	819	-	819	383	16	399

The total amount paid to non-executive directors during the year ended 31 December 2022 was £377,000 (2021: £317,000).

10. Auditor's remuneration

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

£'000s	2022	2021
Audit of these financial statements	592	536
Audit-related assurance services	109	339
Total	701	875

Audit related assurance services for 2021 and 2022 included credit reviews and quarterly financial reporting reviews for reporting to the Bank's parent, MAR. In 2021 these also included Internal Controls over Financial Reporting work performed at the request of the MAR and in 2022 profit verification for reporting to the Bank's UK regulator.

11. Tax

£'000s	2022	2021
Current tax expense:		
Current tax charge on profits for the year	(3,231)	(1,752)
Adjustment in respect of prior years credit / (charge)	71	7
Current Year tax charge	(3,160)	(1,745)
Deferred Tax through income statement:		
Current year (charge) / credit	(940)	(319)
Adjustment in respect of previous periods charge	(47)	(28)
Effect of changes in tax rates	(150)	1,468
Deferred tax (charge) / credit through income statement	(1,137)	1,121
Charged to income statement:	(4,297)	(624)
Other Comprehensive Income items: Deferred tax credit	1,884	508
Total tax (charge)	(2,413)	(116)
Reconciliation of effective tax rate:		
Profit before tax	20,797	9,627
Tax on profit at standard UK tax rate of 19% (2021: 19%)	(3,951)	(1,829)
Effects of:		
Adjustments in respect of prior years through profit and loss	24	(22)
Expenses not deductible	(232)	(378)
Effects of tax rate changes	(150)	1,468
Exempt amounts	-	108
Income not taxable	12	29
Income tax expense reported in the income statement	(4,297)	(624)

The movement on the deferred tax account is as follows:

£'000s	2022	2021
Asset at start of period	7,607	5,977
Adjustment in respect of prior years	(47)	(28)
Deferred tax credit to comprehensive income for the period	794	1,658
Deferred tax asset as at 31 December	8,354	7,607

Within the deferred tax balance is a £2,216,000 asset (2021: £332,000 asset) relating to fair value movements on investment securities. Movements on this amount are recognised through other comprehensive income.

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, which was incorporated into the deferred tax calculations as at 31 December 2021 and 2022.

Key estimates and judgements: 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 the Bank's ongoing ability to generate sufficient profits to utilise the carried forward losses represent the most subjective areas of judgment in management's projections of future taxable profits.

The Bank had accumulated tax losses prior to 2014 of £66.8m, of which £43.2m have been utilised against tax profits. 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 £94.4m of profit to fully utilise the remaining losses.

The value of the deferred tax asset has been estimated based on the prevailing tax rates and expected future profitability. There is uncertainty over the timing and valued of the realisation of the deferred tax asset held due to these uncertainties.

Management has judged that the losses should be recognised in full as the Bank has consistently made profits since 2014 and expects to continue to do so and expects to realise all of the deferred tax balance.

12. Treasury placements and cash balances with banks

Balances with banks classified as cash and cash equivalents are balances available on demand and placements with less than three month maturity.

£'000s	2022	2021
Balances with banks available on demand	66,425	95,941
Balances subject to encumbrance *	5,562	5,861
Treasury placements with original maturity less than 3 months	281,075	145,007
Total placements and balances with banks	353,062	246,809
Of which: cash and cash equivalents	348,594	242,223

*** Balances with banks subject to encumbrance**

This balance comprises the non-return bearing deposit with the Bank of England as well as repayable security deposits held by banks that have issued a guarantee to cover the Bank's future customer card transactions with Mastercard, and do not earn a return. In 2021 this balance also included amounts relating to margin calls on the Bank's profit rate swaps. In 2021 Mastercard deposit balances were shown separately as non-cash equivalents with a maturity of 3-12 months. These have been reclassified as encumbered balances as they do not have a specific maturity, but are not freely available for the Bank to use, but could be used to cover any shortfall that arose from the Bank in respect of transactions made by the Bank's customers.

Restated opening cash and cash equivalent balance:

£'000s	
31 December 2020 cash and cash equivalents	**385,376**
Adjustment to cash and cash equivalents:	
Addition of Mastercard balances	1,126
Removal of Bank of England cash ratio deposit (CRD)	(3,268)
Restated cash as at 1 January 2021	**383,234**

£'000s	2021
Change in cashflow line items:	
Movement in Treasury Placements	**148**
Removal of movement in Mastercard balances	(148)
Addition of movement in Bank of England CRD	(1,318)
Restated movement in Treasury Placements	**(1,318)**

13. Other assets

£'000s	2022	2021
Prepayments and other receivables	2,167	3,271
Tax recoverable	1,411	2,439
Total other assets	3,578	5,710

There are no receivable balances which are expected to be recovered in more than 12 months in (2021: £50,000).

14. Property and equipment

£'000s	Computer Equipment	Office Equipment	Leasehold Improvement	Right of Use assets	Fixtures & Fittings	Long leasehold Land & Buildings	Freehold Land & Buildings	Total
Cost								
Balance at 1 January 2022	3,942	343	3,958	7,908	811	3,736	-	20,698
Additions	19	16	-	540	1,695	-	27,160	29,430
Disposals	(3,335)	-	(766)	(356)	-	-	-	(4,457)
Right of Use asset adjustments	-	-	-	(2,143)	-	-	-	(2,143)
Balance at 31 December 2022	626	359	3,192	5,949	2,506	3,736	27,160	43,528
Depreciation and impairment								
Balance at 1 January 2022	3,805	284	3,175	4,289	745	772	-	13,070
Depreciation charge for the year	105	30	218	1,080	38	127	-	1,598
Impairment charges	7	-	315	609	-	-	-	931
Impairment reversal	-	-	-	(686)	-	-	-	(686)
Disposals	(3,335)	-	(766)	(356)	-	-	-	(4,457)
Balance at 31 December 2022	582	314	2,942	4,936	783	899	-	10,456
Net book value								
As at 31 December 2022	44	45	250	1,013	1,723	2,837	27,160	33,072
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)
Balance at 31 December 2021	**3,805**	**284**	**3,175**	**4,289**	**745**	**772**	**-**	**13,069**
Net book value								
As at 31 December 2021	**137**	**59**	**783**	**3,619**	**66**	**2,964**	**-**	**7,628**

14. Property and equipment (cont'd)

During 2022 the Bank purchased a freehold property in London which it intends to use as its new Head Office and to provide its Premier and Commercial services starting in 2023.

A breakdown of the carrying amounts and movements recognised under IFRS16 in respect of Right of Use assets by class of asset is shown below:

£'000s	Branches	IT infrastructure	Total
Cost			
Balance at 1 January 2022	6,931	977	7,908
Additions	-	540	540
Disposals	(356)	-	(356)
Right of Use asset adjustments	(2,143)	-	(2,143)
Balance at 31 December 2022	4,432	1,517	5,949
Depreciation and impairment			
Balance at 1 January 2022	3,455	834	4,289
Depreciation charge for the year	555	525	1,080
Impairment charges	609	-	609
Impairment reversal	(686)	-	(686)
Disposals	(356)	-	(356)
Balance at 31 December 2022	3,577	1,359	4,936
Net book value at 31 December 2022	855	158	1,013

The impairment relates to a branch lease, and has been recognised in respect of the revised expectations for the use of the Bank's branch network and transition to its new London head office and a lease modification has been recognised where the Bank expects to utilise a break clause in this lease, which has also reduced expected cash outflows and the lease liability balance.

The impairment reversal relates to a lease where the Bank now expects to continue to use the space for part of 2023, and then sub-letting the space over part of the remaining lease. This has resulted in a partial reversal of an impairment recognised in 2021 in respect of this asset, and reflects the net present value of the benefit and cashflows to be derived from use of the asset.

The cost and liability in respect of this lease have been reduced to reflect the reduction in expected payments. A further modification has been recognised in respect of IT Infrastructure, where the Bank has extended the use of the leased assets beyond the original end date of the contract and recognised an additional element of lease cost and associated lease liability on this asset. See note 19 for the total lease liability balance.

In 2022 the Bank surrendered a lease which had been impaired in 2021, for which the right of use assets had been written down to nil. 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		2022	2021
Maturity Analysis – Contractual undiscounted cash flows			
Less than one year		977	719
One to five years		1,066	3,186
More than five years		-	1,333
Total undiscounted lease liabilities at 31 December		2,043	5,238
Lease liabilities included in the statement of financial position at 31 December (see note 19)		1,952	4,675
Of which:	**Current**	969	701
	Non-current	983	3,974

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 £237,000 for the year (2021: £336,000).

15. Intangible assets

£'000s	Computer licences	Purchased & developed software	Work in progress	Total
Cost				
Balance at 1 January 2022	1,786	11,557	1,185	14,528
Additions	-	-	1,210	1,210
Write-downs and disposals	(523)	(1,734)	(244)	(2,502)
Transfers	-	1,563	(1,563)	-
Balance at 31 December 2022	1,263	11,385	588	13,236
Amortisation				
Balance at 1 January 2022	1,779	8,648	-	10,427
Amortisation charge for the year	7	1,707	-	1,714
Impairment charges	-	277	-	277
Disposals	(523)	(1,734)	-	(2,257)
Balance at 31 December 2022	1,263	8,898	-	10,161
Net book value as at 31 December 2022	-	2,487	588	3,075
Cost				
Balance at 1 January 2021	1,786	11,257	937	13,980
Additions	-	-	548	548
Write-downs and disposals	-	-	-	-
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**

Work in progress relates to the development of internal-use software projects, which will be transferred to 'purchased & developed software' when the software is capable of operating as intended. During the year some work in progress which had commenced was subsequently written down within the year and is reflected as a disposal. These costs have been reflected within Operating Expenses.

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. The Bank has moved to short term licenses and/or software-as-a-service for its computer licenses, which are recognised as part of operating expenses as over the periods to which the licenses relate.

16. Deposits from banks and financial institutions

£'000s	2022	2021
Repayable on demand	3,783	3,975
1 months or less but not repayable on demand	35,201	7,230
1-3 months	35,000	-
3 months to 1 year	61,929	54,916
1 year to 2 years	6,738	24,188
Between 2 year and 5 years	3,052	8,653
Over 5 years	-	-
Total deposits from banks and financial institutions	145,703	**98,962**
Non-profit paying accounts	3,783	3,975
Profit sharing / paying accounts	141,920	94,987
Total deposits from banks and financial institutions	145,703	**98,962**

17. Deposits from customers

£'000s	2022	2021
Repayable on demand	955,797	809,358
1 months or less but not repayable on demand	26,657	40,126
1-3 months	268,510	258,968
3 months to 1 year	606,440	610,365
1 year to 2 years	147,504	199,140
Between 2 year and 5 years	39,241	41,706
Over 5 years	-	-
Total deposits from customers	**2,044,149**	**1,959,663**
Comprising:		
Non-profit paying	224,960	299,675
Profit sharing / paying accounts	1,819,189	1,659,988
Total deposits from customers	**2,044,149**	**1,959,663**

18. Subordinated funding

£'000s	2022	2021
Subordinated funding	25,000	25,000
Total	25,000	25,000

Total returns paid on this funding for the year ended 31 December 2022 were £2,000,000 (2021: £2,000,000). All returns were fully paid during the year and there was no outstanding payables as at 31 December 2022 (2021: £nil). This amount is included in returns to banks and other financial institutions in note 6.

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 2022, and there were no further drawdowns in 2022.

At 31 December 2022, £15m of the nominal amount had less than five years to maturity (2021: nil), and under the Capital Requirements Regulation II the value for regulatory capital is required to be amortised when there is less than five years to maturity. At 31 December 2022 the Tier 2 capital value of the subordinated funding was £22.7m (2021: £25.0m). This does not impact the carrying amount of these amounts under IFRS 9.

19. Other liabilities

£'000s	2022	2021
Social security and income tax	339	570
Accruals	5,597	4,384
Provisions	4,024	2,500
Other creditors	5,349	5,234
Lease liabilities	1,952	4,675
Total	17,261	17,363

The 'Lease liabilities' line reflects the present value of balances due on leases under IFRS 16. Note 14 includes further details of assets held under leases and the contractual cash flows for these leases.

The provisions figure relates to amounts in respect of FCA regulatory enforcement action, which was settled in January 2023.

20. Capital

Share Capital

Allotted, called up and fully paid (£'000s)	2022	2021
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 25 April 2023.

Contingent Convertible Investment

On 1 July 2019 the Bank received £3m of contingent convertible investment as Additional Tier 1 (AT1) capital funding from MAR, its ultimate parent company. This investment is classified as AT1 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 capital ratio falling below 7.5%. As the investment agreement contains no obligation on the Bank to make payments of principal or profits 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 2022 £141,630 (2021: £704,299) in profit was outstanding in respect of the AT1 capital investment, based on the contractual profit rate. During 2022 a profit payment from reserves of £842,850 was paid to MAR, as distributable reserves were available to make payment. This amount related to the profit for the period from 1 July 2019 to 1 July 2022 and reflected full settlement of the outstanding amounts at that time.

2021 Share Premium Cancellation

During 2021 the Directors approved a resolution for the cancellation of the Bank's share premium account in full which was confirmed by 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 is reflected in the Statement of Changes in Equity.

21. Related parties

(a) Transactions with key management personnel

At 31 December 2022, Directors of the Bank and their immediate relatives have no shareholding in the Bank (2021: £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	2022	2021
Key management emoluments including social security costs	2,847	2,577
Long term emoluments payable to key management	271	-
Bank contributions to defined contribution pension plans	86	89
Total	3,204	2,666

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £121,984 as at 31 December 2022 (2021: £160,973). Total returns paid on these accounts during the year were £1,773 (2021: £1,549).

There were no Commercial Property Finance or Home Purchase Plan balances relating to key management personnel and immediate relatives as at 31 December 2022 (2021: £nil).

(b) Transactions with ultimate parent company

Masraf Al Rayan Q.P.S.C (MAR) owns 75% (2021: 75%) and Qatar Holding LLC incorporated in Doha, Qatar owns 25% (2021: 25%) 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. All deposits, placements and swap agreements are on an arm's length basis.

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.

£'000s	2022			2021		
	Cash	Less than 3 months	3-6 months	Cash	Less than 3 months	3-6 months
Placements with MAR	-	30,059	-	2,100	20,000	-
Deposits from MAR	3,783	-	15,072	3,974	-	-

21. Related parties (cont'd)

As at 31 December 2022 there was an outstanding subordinated financing balance payable to MAR of £25m (2021: £25m). See note 18 for further details of this facility. A Contingent Convertible Investment of £3m was made during 2019 and profit of £842,850 was paid during 2022 in respect of this investment relating to the period from 2019 to 2022. See note 20 for further details.

Profit paid to MAR on deposits received, included in returns to banks and other financial institutions in note 6, was £423,000 (2021: nil), excluding amounts paid on subordinated funding (see note 18). Profit received from MAR on placements was £309,000 (2021: 74,000) included in Treasury placements income in note 6.

At the start of 2021 the Bank also held some open foreign exchange swap contracts with MAR. These matured during 2021 and settled for the nominal values. There were no foreign exchange swap contracts with MAR during 2022.

(c) 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 continued to service. It was determined that the relevant derecognition criteria under IFRS 9 were not 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 holders.

At the start of 2021, the Bank held £11.66m of the Tolkien sukuk from the market which had been purchased at prevailing market prices. Upon full redemption of the Tolkien sukuk on 20 April 2021, the outstanding balance was paid and at the end of the year there was no outstanding balance as the sukuk was fully redeemed.

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. The Bank exercised its right to redeem the Sukuk in full on 26 March 2021. The Sukuk was repurchased in 2021 through a distribution for the outstanding capital amounts, plus payment of accrued profit. The Bank has no further obligations in respect of the Sukuk holders.

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 and the SPV was dissolved on 15 July 2022.

22. 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 2022			
Assets	113,820	1,455	75
Deposits	(103,160)	(1,460)	-
Net on balance sheet exposure	10,660	(5)	75
Forward foreign exchange contracts (revalued nominal)	9,930	-	-
31 December 2021			
Assets	94,402	12,553	67
Deposits	(83,729)	(12,743)	-
Net exposure	10,673	(190)	67
Forward foreign exchange contracts (revalued nominal)	10,626	193	-

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 23.

23. 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 balance £'000
2022				
Forward exchange rate contracts	-	(866)	(866)	10,796
Profit rate swaps	-	-	-	-
Total	-	(866)	(866)	
2021				
Forward exchange rate contracts	-	(276)	(276)	10,433
Profit rate swaps	-	(316)	(316)	150,000
Total	-	(592)	(592)	

Maturity £'000s	Up to 1 month	1-3 months	3-12 months	1-5 years
2022				
Forward exchange rate contracts	10,796	-	-	-
Profit rate swaps	-	-	-	-
2021				
Forward exchange rate contracts	10,433	-	-	-
Profit rate swaps	50,000	-	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 (2021: GBP to EUR & 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 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 a fixed term profit rate with reference to SONIA GBP swap rates, and were done against the financing asset portfolio to reduce exposure to potential negative base rates. Profit rate swap instruments are accounted for at fair value through profit and loss and all matured prior to 31 December 2022.

24. 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	Fair value through profit or loss	Total carrying amount
At 31 December 2022				
Cash	1,234	-	-	1,234
Treasury placements and balances with banks	353,062	-	-	353,062
Consumer finance	-	-	-	-
Home Purchase Plans	1,099,728	-	-	1,099,728
Commercial Property Finance	789,370	-	-	789,370
Investment securities	-	108,821	-	108,821
Total	2,243,394	108,821	-	2,352,215
Deposits from banks	145,703	-	-	145,703
Deposits from customers	2,044,149	-	-	2,044,149
Sharia compliant derivatives held for risk management	-	-	866	866
Total	2,189,852	-	866	2,190,718
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
Total	2,110,312	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

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 Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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. All of the Bank's investments are valued at Level 1 as an active market exists. The Bank's investment security holdings are in US dollar and British pound denominated sukuk.

Sharia compliant derivatives held for risk management: The derivatives held are forward foreign exchange rate contracts (2021: forward foreign exchange rate contracts and profit rate swaps), see note 23. These are valued at Level 2 and priced using comparable market rates prevailing at year end.

24. Financial Instruments (cont'd)

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	108,821	-	-	108,821
As at 31 December 2022	108,821	-	-	108,821
Financial Liabilities				
Sharia compliant derivatives held for risk management	-	866	-	866
As at 31 December 2022	-	866	-	866
Financial Assets				
Investment securities	123,532	-	-	123,532
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

25. Financing assets

	2022			2021		
£'000s	Gross amount	2022 Impairment Allowance	Carrying amount	Gross amount	2022 Impairment Allowance	Carrying amount
Consumer finance	64	(64)	-	47	(47)	-
Home Purchase Plans	1,100,598	(870)	1,099,728	1,193,086	(1,102)	1,191,984
Commercial Property Finance	792,082	(2,712)	789,370	671,968	(2,315)	669,653

Total impairment allowance on financing assets:

£'000s	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	1,279	1,806	378	3,463
Charge for the year	1,240	(1,700)	643	183
Amounts written off during the year	-	-	-	-
Balance as at 31 December 2022	2,519	106	1,021	3,646
Balance at 1 January 2021	1,797	1,765	369	3,931
Charge for the year	(518)	41	14	(463)
Amounts written off during the year	-	-	(5)	(5)
Balance as at 31 December 2021	1,279	1,806	378	3,463

26. 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), Credit Risk Committee (CRC) and Executive Risk Committee (ERC), supported by other sub-committees, 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:

f) 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.

g) Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.

h) Reviewing and assessing credit risk prior to agreements being entered into with customers.

i) Limiting concentrations of exposure to counterparties, countries or sectors and reviewing these limits.

j) Ongoing assessment of exposure and implementation of procedures to reduce this exposure.

k) Providing advice, guidance and specialist skills to all business areas to promote best practice throughout the Bank in the management of credit risk.

(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 2022, which are set out in note 23.

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.

SICR 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. Qualitative factors are the primary drivers of movement into stage 2 for CPF deals, while quantitative factors are the primary driver for HPP deals.

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.

26. Financial risk management (cont'd)

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.

The Bank has aligned its definition of stage 3 default with the regulatory and accounting definitions.

Key Judgements and estimates

Financial assets are evaluated for impairment on the basis described in note 4 under the IFRS 9 expected credit loss (ECL) model. 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 calculation of the ECL provision includes a number of judgements and estimates. The ECLs are calculated at the individual exposure level using three main components, a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD).

Component	Judgements and Estimates
Staging / Significant increase in credit risk (SICR) **Judgement**	Staging is a significant judgement, and the Bank considers staging on an individual account basis. Key judgements around whether a SICR has occurred which would change the stage of a customer's account are: ▶ there is a significant decrease in credit score relative to the credit score at time of origination, or significant movement in the customer credit scorecard; ▶ a customer is in arrears of greater than 30 days for stage 2, or 90 days for stage 3; ▶ For HPP customers, if the credit score drops below the Bank's minimum underwriting standards for the type of exposure, the exposure will be deemed to be in stage 2 For CPF customers, where breaches of covenants are noted customers may be moved to stage 2 or 3 in combination with other qualitative and quantitative factors as determined by management. These customers will be monitored on a watchlist by management.
Post-model adjustments **Judgement**	Where Management views that certain factors are not captured within the ECL model, a post model adjustment may be included in the ECL balance, which will be determined based on the specific factors identified by Management which are outside the scope of the model, which may include additional forward looking factors, specific property type risks, or other economic uncertainty or shock factors which are not captured within the economic scenarios used in the ECL model. These post model adjustments will be based on Management's judgement of the probability and severity of these factors and the impact they would have on expected losses. The post model adjustments are detailed later in this note.
Loss Given Default (LGD) **Estimate**	LGD is the estimated 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 value of any collateral that is linked to the financial asset, including the impact of forward-looking economic assumptions where relevant, which may impact the expected value of the collateral.
Multiple economic scenarios (MES) **Estimate**	Macro factors incorporated within the scenario are Management's estimates of potential economic outcomes over the future which carry inherent uncertainty. These have been derived from economic analysis performed by the Bank's ALCO, as well as benchmarking against economic data and forecasts. The key variables included in the MES are benchmark rates, unemployment, and house prices. Judgement is then applied by Management in respect of the number and weighting of the scenarios which are used to model the ECL. The worst-case scenario is aligned with the regulatory stress testing scenarios while other scenarios are identified by Management based on internal expectations and probabilities. The Bank has used four economic scenarios for the current year's ECL (2021: four) and these scenarios, sensitivities and weightings are set out later in this note.

26. Financial risk management (cont'd)

(a) Credit risk (continued)

(ii) Exposure to credit risk (continued)

Total financing assets and ECL at 31 December 2022	Investment grade £'000s	Below investment grade £'000s	Unrated financial assets £'000s	Gross Total £'000s	ECL £'000s	Net Total £'000s	Coverage %
Treasury placements and deposits with banks							
Stage 1	353,062	-	-	353,062	-	353,062	0.00%
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	353,062	-	-	353,062	-	353,062	0.00%
Investment securities							
Stage 1	108,839	-	-	108,839	(18)	108,821	0.02%
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	108,839	-	-	108,839	(18)	108,821	0.02%
Home Purchase Plans							
Stage 1	-	-	1,019,249	1,019,249	(380)	1,018,869	0.04%
Stage 2	-	-	70,443	70,443	(106)	70,337	0.15%
Stage 3	-	-	10,906	10,906	(384)	10,522	3.52%
Total	-	-	1,100,598	1,100,598	(870)	1,099,728	0.08%
Commercial Property Finance							
Stage 1	-	-	783,525	783,525	(2,139)	781,386	0.27%
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	8,557	8,557	(573)	7,984	6.70%
Total	-	-	792,082	792,082	(2,712)	789,370	0.34%
Consumer Finance							
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	64	64	(64)	-	100%
Total	-	-	64	64	(64)	-	100%
Total Financial Assets							
Stage 1	461,901	-	1,802,774	2,264,675	(2,537)	2,262,138	0.11%
Stage 2	-	-	70,443	70,443	(106)	70,337	0.15%
Stage 3	-	-	19,527	19,527	(1,021)	18,506	5.23%
Total	461,901	-	1,892,744	2,354,645	(3,664)	2,350,981	0.16%

Of the £70.4m (2021: £143.6m) of total gross financial assets in stage 2 that have experienced a significant increase in credit risk, £4.8m (2021: £13.9m) are included in stage 2 due to arrears of 30 days or more past due, of which 100% of balances relate to HPPs (2021: 100%), and the remaining £65.6m (2021: £130.7m) are included in stage 2 due to non-arrears factors which have impacted the credit risk, including other qualitative factors taken into consideration as part of the Bank's credit assessment.

The Bank does not hold any purchase or originated credit-impaired (POCI) assets. Investment grade financial assets have a minimum rating of BBB-.

26. Financial risk management (cont'd)

Total financing assets and ECL at 31 December 2021	Investment grade £'000s	Below investment grade £'000s	Unrated financial assets £'000s	Gross Total £'000s	ECL £'000s	Net Total £'000s	Coverage %
Treasury placements and deposits with banks							
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%**

26. Financial risk management (cont'd)

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:

2022	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
Customer financing - HPP and CPF £'000s	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**
At 1 Jan 2022	**1,713,570**	**1,279**	**143,576**	**1,807**	**7,907**	**331**	**1,865,053**	**3,416**
ECL on customer financing matured/settled during the period	**(147,632)**	**(164)**	**(6,834)**	**(14)**	**(191)**	**(4)**	**(154,657)**	**(182)**
Transfers of financial instruments:								
Transfers from Stage 1 to Stage 2	**(50,547)**	**(23)**	**50,547**	**23**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**111,594**	**1,734**	**(111,594)**	**(1,734)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(9,426)**	**(9)**	**(3,431)**	**(14)**	**12,857**	**23**	**-**	**-**
Transfers from Stage 3	**-**	**-**	**1,000**	**25**	**(1,000)**	**(25)**	**-**	**-**
Net transfers	**51,621**	**1,702**	**(63,478)**	**(1,700)**	**11,857**	**(2)**	**-**	**-**
Net remeasurement of ECL on deals which have transferred stage*		**(973)**		**43**		**680**		**(250)**
Net new financing/payments and remeasurement of continuing customer ECL	**185,215**	**675**	**(2,821)**	**(29)**	**(110)**	**(48)**	**182,284**	**598**
At 31 Dec 2022	**1,802,774**	**2,519**	**70,443**	**106**	**19,463**	**957**	**1,892,680**	**3,582**
ECL income statement (charge)/release for the period on customer financing	**-**	**(1,240)-**	**-**	**1,700-**	**-**	**(626)**		**(166)**
ECL movements on other assets						**(17)**	**-**	**(17)**
Total income statement (charge)/release in ECL provision for the period on assets								**(183)**

2021	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
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)	-	(3,317)	(19)	4,147	20	-	-
Transfers from Stage 3	254	82	436	50	(691)	(132)	-	-
Net transfers	(38,196)	14	34,739	99	3,456	(112)	-	-
Net remeasurement of ECL on deals which have transferred stage*		(207)		438		185		416
Net new financing/payments and remeasurement of continuing customer ECL	313,955	(63)	9,697	(482)	13	(66)	323,664	(611)
At 31 Dec 2021	1,713,570	1,279	143,576	1,807	7,907	331	1,864,585	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

* 'Net remeasurement of ECL on deals which have transferred stage' is calculated from December to December, and includes the impact of changes in model, MES and any post model adjustments on those deals, as well as the impact of the change in staging.

26. Financial risk management (cont'd)

(a) Credit risk (continued)

(ii) Exposure to credit risk (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 acquisition payments or new drawdowns, and the remeasurement may result in increases or decreases in ECL balances for these customers year on year.

The reduction in HPP ECL has been driven by the removal of the post model adjustment relating to cladding. The impact of house price rises since December 2021 and acquisition payments during 2022 have reduced the average FTV, but the modelled ECL output has increased compared to 2021 due to the changes in economic scenarios. As the Bank has stopped taking on new customers average FTVs have decreased through capital repayments, and the impact of economic uncertainty has not had a significant impact due to low average FTVs.

The increase in the CPF ECL has been driven by the continued economic uncertainty as well as significant rate increases, which has increased both the likelihood and impact of defaults in the CPF portfolio. This has been further increased by a post model adjustment to reflect additional risk in respect of potential contractual covenant breaches for certain customers where profit cover covenants may be breached. The customers impacted by the post model adjustment are included in stage 1 based on their present position and have not been reclassified to stage 2 as the Bank does not view the potential for a breach of covenant to constitute a SICR for the purpose of staging.

Sensitivity analysis:

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.

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 2022 has been calculated using the available Bank of England base rate forecast as at that date. For 2021 the rate forecast used for the ECL was based on the forecast LIBOR rate as at 31 December 2021.

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:

2022		Base case	Downturn	Moderate downturn	Slight upturn
Scenario weighting		60%	5%	20%	15%
BOE Rate	**Highest rate**	4.25%	6.00%	5.13%	3.75%
Unemployment	**Peak**	4.88%	8.30%	6.59%	3.80%
House price index	**Start to trough**	-6.72%	-30.28%	-21.11%	+ve

2021					
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	Start to trough	-0.39%	-20.41%	-9.56%	+ve

26. Financial risk management (cont'd)

Key economic variables:

		Model scenario inputs					2022	2021
		2023	2024	2025	2026	2027	Average	Average
Base case	BOE Rate	4.25%	3.50%	3.00%	3.00%	2.75%	3.30%	0.64%
	Unemployment	4.10%	4.88%	4.73%	4.35%	4.15%	4.44%	4.81%
	Annual HPI growth	-1.15%	-5.63%	1.23%	3.05%	3.53%	0.21%	2.76%
Downturn	BOE Rate	6.00%	5.70%	4.90%	4.10%	3.85%	4.91%	0.07%
	Unemployment	7.80%	8.30%	7.70%	7.10%	6.90%	7.56%	7.30%
	Annual HPI growth	-17.00%	-16.00%	4.00%	7.00%	7.48%	-2.90%	-2.45%
Moderate downturn	BOE Rate	5.13%	4.60%	3.95%	3.55%	3.30%	4.11%	0.16%
	Unemployment	5.95%	6.59%	6.22%	5.73%	5.53%	6.00%	5.29%
	Annual HPI growth	-11.54%	-10.82%	2.62%	5.03%	5.51%	-1.84%	0.83%
Slight upturn	BOE Rate	3.75%	3.00%	2.50%	2.50%	2.25%	2.80%	1.82%
	Unemployment	3.50%	3.65%	3.73%	3.80%	3.80%	3.70%	4.09%
	Annual HPI growth	2.43%	4.55%	4.90%	4.33%	4.33%	4.11%	4.19%

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 2022 and has been updated for changes to the prevailing economic conditions at year end. 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 number of scenarios modelled was reduced to four, and the Bank has continued to utilise four scenarios since 2020, with no "strong upturn" scenario included. Scenario weightings are revised periodically throughout the year to reflect management's view on the probability of each outcome.

In 2022, as the impacts of Covid-19 and Brexit were 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 based on the Bank's current view, with reference to Office for National Statistics and Bank of England data.

The alternative plausible scenarios are calculated by modifying the base case, and these are designed to be cyclical, with reversion to mean after year five. The impact of individual scenarios at 100% weighting, to illustrate sensitivities to model weightings is shown below.

2022	Weighted scenario ECL, no PMA	Base case, no adjustment	Slight upturn scenario	Moderate downturn scenario	Downturn scenario
	£'000	£'000	£'000	£'000	£'000
HPP	870	646	573	1,272	2,827
CPF	2,489	1,223	967	5,009	12,171
Total	3,359	1,869	1,540	6,281	14,998
2021					
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

Post Model Adjustments:

	2022			2021		
	ECL model output	PMA	Total ECL	ECL model output	PMA	Total ECL
HPP	870	-	870	721	380	1,101
CPF	2,489	223	2,712	2,089	226	2,315
Total	3,359	223	3,582	2,810	606	3,416

The Bank has applied post model adjustments to the ECL output to reflect considerations not captured within the underlying modelled output.

26. Financial risk management (cont'd)

HPP: In 2021 the post model adjustment these included a PMA on HPP relating to cladding risks, which impacted the potential loss on certain properties. In 2022 this PMA has been removed as the Bank has reviewed its exposure to potential cladding risk, as well as government action and market changes in respect of at-risk properties, and the Bank does not believe there is a significant specific risk.

CPF: The 2022 CPF post model adjustment relates to uncertainty over affordability as rates continue to rise. The post model adjustment reflects the risk in respect of potential contractual covenant breaches for certain customers where profit cover rations may be exceeded. The ECL and customers balances impacted by the PMA are included in stage 1 based on their present position, and have not been reclassified to stage 2 as the Bank does not view the potential for a breach of covenant to constitute a SICR for the purpose of staging. The total outstanding financing this PMA relates to is £40.7m, included in stage 1 assets.

The 2021 post model adjustment related to one individual customer in stage 2 where there was additional uncertainty over the recoverable value of the underlying collateral.

(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 2022, £nil (2021: £5,000) of financing assets were written off. In 2021 this related 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. 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.

Commercial Property Finance

CPF	Gross exposure	ECL Total	Net balance	ECL coverage	Collateral
	£'000	£'000	£'000		£'000
2022	**792,082**	**2,712**	**789,370**	**0.34%**	**1,414,366**
2021	671,968	2,315	669,653	0.34%	1,164,672

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

2022

FTV band	Gross exposure	ECL Total	Net balance	ECL coverage	Collateral
	£'000	£'000	£'000		£'000
<=60%	801,248	582	800,666	0.073%	2,092,734
60%-70%	217,639	187	217,452	0.086%	337,482
70%-80%	74,964	88	74,876	0.117%	103,232
>80%+	6,747	13	6,734	0.193%	8,193
Total	1,100,598	870	1,099,729	0.079%	2,541,641

2021

FTV band	Gross exposure	ECL Total	Net balance	ECL coverage	Collateral
	£'000	£'000	£'000		£'000
<=60%	767,150	534	766,616	0.070%	1,941,351
60%-70%	268,158	368	267,790	0.137%	415,976
70%-80%	140,315	184	140,131	0.131%	189,685
>80%+	17,463	16	17,447	0.092%	20,744
Total	1,193,086	1,102	1,191,984	0.092%	2,567,755

26. Financial risk management (cont'd)

(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	Central Banks	Government/ MDB*	Individuals	Corporate/ SME	Bank	Total
2022						
Treasury placements and balances with banks	79,473	-	-	-	273,589	353,062
Investment securities	5,852	101,630	-	1,339	-	108,821
Home Purchase Plans	-	-	1,092,554	7,174	-	1,099,728
Commercial Property Finance	-	-	25,474	763,896	-	789,370
Total	85,325	101,630	1,118,028	772,409	273,589	2,350,981
2021						
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
Total	89,586	120,638	1,206,308	658,223	157,223	2,231,978

* Multilateral development banks (MDB)

Concentration by geographical location of assets:

£'000s	UK	Europe	Asia	Middle East	Total
2022					
Treasury placements and balances with banks	295,371	-	-	57,691	353,062
Investment securities	34,591	-	-	74,230	108,821
Home Purchase Plans	1,099,539	189	-	-	1,099,728
Commercial Property Finance	789,060	310	-	-	789,370
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

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 2022, 24 of the facilities within the secured finance portfolios were in arrears of 30 days or more (31 December 2021, 20).

26. Financial risk management (cont'd)

(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.

£'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
2022										
Deposits from banks	**16**	**145,703**	**147,043**	**39,062**	**35,273**	**62,727**	**6,867**	**3,114**	**-**	**-**
Deposits from customers	**17**	**2,044,149**	**2,074,966**	**985,226**	**271,321**	**620,780**	**154,596**	**43,038**	**5**	**-**
		2,189,852	**2,222,009**	**1,024,288**	**306,594**	**683,507**	**161,463**	**46,152**	**5**	**-**
2021										
Deposits from banks	16	98,962	99,675	11,212	-	55,018	24,538	5,793	3,114	-
Deposits from customers	17	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	-

(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.

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 2022, a shift of 1.00% to base rates (both GBP and USD) would result in a £2.1m movement in the market value (2021: £3.5m). At 31 December 2022 the mark to market loss net of deferred tax was £6.7m (2021: £1.0m loss)

26. Financial risk management (cont'd)

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 wholesale 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 sensitivity of the Bank's balance sheet to an increase or decrease in effective rates (based on 31 December statement of financial position) is as follows:

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. This mismatch is identified by examining details of profit rate sensitive assets and liabilities to establish when they will next reprice and then tabulating those which reprice within set time periods.

£'000s	2.00% parallel increase	2.00% parallel decrease
31 December 2022	**(6,980)**	**7,990**
31 December 2021	(6,862)	8,042

(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. See page 62 for breakdowns of assets by customer types and geography.

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.

(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.

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.

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

26. Financial risk management (cont'd)

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

£'000s – figures Unaudited	2022	2021
Tier 1 capital		
Total equity excluding profit stabilisation reserve	167,218	157,213
Less intangible assets	(3,075)	(4,101)
Less deferred tax	(8,354)	(7,607)
Less additional value adjustments	(110)	(124)
	155,679	145,381
Tier 2 capital		
Subordinated funding	22,690*	25,000*
Total regulatory capital	178,369	170,381

* The first £10m tranche and second £5m tranche of Tier 2 capital held by the Bank began to be amortised from the available capital balance from 24 March 2022, in line with regulatory requirements, as these had a remaining maturity of less than five years after this date. The remaining £10m will begin to be amortised during 2023. This is not expected to impact the Bank's activities, as there will be sufficient capital available to continue operations. The amortisation of Tier 2 funding has been incorporated in the Bank's capital forecasts.

27. Contingent liabilities and other commitments

Under the terms of some of the Bank's Commercial Property Financing, there are undrawn customer financing amounts. The outstanding undrawn amounts in respect of these agreements at 31 December 2022 was £16,000,000 (2021: £1,366,000).

28. Events after the reporting period

On 11 January 2023 the FCA confirmed a penalty of £4,023,600 due by the Bank in respect of historic weaknesses in the Bank's anti money laundering systems and controls between 2015 and 2017. There was no suggestion of money laundering having taken place or other criminal activity by the Bank or its customers.

This penalty was paid by the Bank in January 2023 in line with the announced settlement agreement.

29. 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 £131,602,789, and total zakat due would be £3,392,062 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.

30. Country by Country reporting

The Bank is required as a CRD IV regulated institution to disclose annually under UK legislation the following information:

Name, nature of activities, and geographical location	Al Rayan Bank PLC
	Providing Sharia compliant banking services in the UK.
Turnover (£'000s)	£85,861
Number of employees on a full-time equivalent basis	210
Profit or loss before tax (£'000s)	£20,797
Tax charge on profit (£'000s)	£4,297
Public subsidies received	Nil

31. 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/en/investor-relations/financial-information/financial-statements or from Masraf Al Rayan (Q.P.S.C) Al-Atya Building, Grand Hamad Street, PO Box 28888, Doha, Qatar.

Notes

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