



AL RAYAN BANK PLC

Annual Report and  
Financial Statements

Registered number 04483430  
(England & Wales)

For the year ended 31 December 2023

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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: 4 Stratford Place, London W1C 1AT.

[alrayanbank.co.uk](http://alrayanbank.co.uk)

## 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 (MAR) 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 PLC 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.

## Chairman's Statement

In this report, my third as Chairman of Al Rayan Bank, I am very pleased to confirm that the repositioning of the Bank - which we started in 2021 - is continuing to show very positive results, demonstrated by our best ever financial performance.

I mentioned in my statement last year that we would continue to implement our focussed strategy to drive 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. I am pleased to say that we have made strong progress against all of these objectives.

The record year in 2023 not only resulted in an excellent financial performance; we also achieved growth in our financing activities and made strategic investments that have transformed our operations, particularly in our new flagship Head Office in Stratford Place London.

We continued to provide our customers with a great place to bank and our people with a great place to work. Importantly, we have made meaningful progress in mitigating our impact on the environment and supporting the communities we work in, whilst making great strides in creating a positive, inclusive environment for our employees.

### Delivering a record financial performance

In a challenging economic environment of enduring high inflation, the prospect of an economic recession in the UK, uncertainty on potential political developments at home and elsewhere, the continuing conflicts in Ukraine and Gaza, escalating tensions between Israel and Iran, and the shipping crisis in the Red Sea, the Bank delivered a record financial performance, building on the growth achieved in the previous financial year.

The Bank closed 2023 with a pre-tax profit of £30.61 million, reaffirming its position as the most successful Islamic bank in the UK and testament to the validity of the strategic decisions we took in 2021 and the benefits we see of a stable executive group, strong board and sound governance. But none of this would have been possible without the skill and hard work of our people.

We continued to deliver growth across our two focus areas of Premier Banking and Commercial Property Finance, while ensuring we provided attractive products for savers, regularly topping saving rates tables throughout the last financial year. Our CEO, Giles Cunningham, provides further detail on the commercial success of this strategy in his statement.

There were relatively few executive changes in 2023, and at the board level we welcomed Cathy Lewis as an independent non-executive director and Chair of our Nominations and Remuneration Committee. Cathy replaced Malcolm Brookes, who concluded his nine-year tenure. On behalf of the Bank, I'd like to take the opportunity to share our sincere thanks to Malcolm for his support and hard work as a Board Member and Interim Chairman. Additionally, we were pleased to welcome Charlotte Birks to the Executive Committee as General Counsel and Company Secretary.

We continued our close collaboration with our parent bank, Masraf Al Rayan (MAR), throughout the last financial year. In October, members of our Board and Executive Management visited Doha for meetings with counterparts from MAR to discuss the long-term strategies for both banks and explore avenues for even closer collaboration in the future. We extend our gratitude to our hosts for their continued support and hospitality during the visit.

## **Chairman's Statement (continued)**

### **The banking and regulatory landscape**

The relationship between any bank and its regulators is of vital importance and I am pleased that the Bank has such strong relations with our regulators. We are focused on ensuring these relationships are both collaborative and effective and we will remain committed to this approach for the long term.

More broadly, the last year marked a period of significant change in financial services from a UK regulatory perspective.

Notably, the Financial Services and Markets Act 2023, which received royal assent last June, represents one of the most significant pieces of legislation in UK financial services for many years. It comes at a time when the sector is undergoing radical change, driven by the introduction of new financial products and rapid advances in technology, which provide opportunities for innovation but pose new risks to businesses and consumers.

Elsewhere, the implementation and embedding of Consumer Duty continues to be a key priority. Last November, the FCA reminded the sector that the Duty is not a 'once and done' exercise and emphasised the requirement for continuous learning and improvement, as such, the Bank anticipates increased supervisory measures and robust messaging this year from the regulator.

I can assure that this is the approach being taken by Al Rayan Bank and we are supportive of the regulatory changes that have been made and are very much aware of regulatory priorities.

Amongst those are financial and operational resilience and we pay keen attention to these at board and executive level. Whilst we are very confident in the health of our organisation, we remain attentive to issues facing other entities across the banking sector and any systemic impact, Al Rayan Bank is well-capitalised and well-funded, and as a Public unlisted institution enjoys the strong support of MAR.

Like any responsible Bank, our risk framework is under constant review – a process which has resulted in a number of notable enhancements to our risk assessment processes across the Bank. These improvements build upon the enhanced controls implemented over the preceding financial year.

### **Making a positive impact**

Al Rayan Bank has long been committed to reducing its environmental impact and is continually striving to find new ways of making a positive impact on the communities we operate in.

Last year we established an Environment, Social and Governance (ESG) Committee, reflecting our commitment to this crucial area, and our third employee engagement survey highlighted the significant strides forward the Bank has made in staff engagement in recent years with a large number of staff contributing. I would like to thank all of our colleagues who shared their views with us. These views are very much listened to.

### **Looking ahead**

We are mindful of how ongoing economic and geo-political challenges could affect our customers. While the Russian invasion of Ukraine has marked its second anniversary, we continue to hope for a peaceful resolution to the conflict. Additionally, we share deep sadness over the war in Gaza, as well as concerns over the recent escalations between Israel and Iran, and join others in wishing for an end to the violence and a permanent peace for the region.

**Chairman's Statement (continued)**

Despite the challenges faced by the UK economy in 2023, the Board is encouraged by the relative normalisation of inflationary conditions and the expected, gradual shift to a lower base rate environment in the months ahead. We saw strong demand from Gulf Cooperation Council (GCC) customers last year who see the UK as an attractive destination for investment, and we expect to see this continue to strengthen in the year ahead supported also by the cooperation of our parent Bank and our own growing visibility within the GCC.

Following the successful delivery of our three-year strategy that focused on solidifying our position as a commercial and GCC premier focused Bank, we will now embark on a new three-year strategy that will run to 2027 and focus on delivering long-term sustainable growth.

On behalf of the Board, I want to express our gratitude to all of our customers, investors, Sharia Supervisory Committee, regulators, colleagues, and Masraf Al Rayan for their support. The achievements the Bank made in 2023 - the most successful year in its history - would not have been possible without the ongoing support of all our stakeholders.

We are committed to building on this success and guiding Al Rayan Bank through the next phase of its journey as we move into our twentieth anniversary year.



Michael Williams  
Chairman  
18 April 2024

## Report of the Sharia Supervisory Committee

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

السلام عليكم ورحمة الله وبركاته

(Assalamu Alaykum Wa Rahmatu Allah Wa Barakatuh)

To the shareholders and customers of Al Rayan Bank PLC  
For the period from 1 January 2023 to 31 December 2023

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 2023. 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.

In our opinion:

- The contracts, transactions and dealings entered into by Al Rayan Bank during the year ended 2023 that we have reviewed are in compliance with the Sharia rules and principles;
- 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;
- 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;
- All earnings that have been realised from sources or by means prohibited by Sharia rules and principles will be disposed of to charitable causes.

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 وبركاته

(Wassalamu Alaykum Wa Rahmatu Allah Wa Barakatuh)

Sheikh Dr. Waleed Bin Hadi  
Chairman

Sheikh Dr. Nizam Yaqoobi  
Vice-Chairman

Mufti Abdul Qadir Barakatulla  
Member

18 March 2024

## CEO's Statement

As we enter our twentieth year of operation, I am delighted to share the excellent achievements the Bank made in 2023 and provide a positive outlook for the year ahead as we continue to create long-term sustainable value.

Building on the strong results the Bank achieved in 2022, we delivered another record financial performance in 2023. Pre-tax profits reached £30.61 million, an increase of 47% from the previous financial year. This once again cements our place as the most profitable and successful Sharia compliant Bank ever in the UK.

This performance has been driven by the three-year strategy we launched in 2021, which has seen the Bank grow income through the expansion of commercial financing and Premier banking. The base rate cycle has partially aided the growth of revenues in 2023, as is the case with most banks.

The success of this strategy reflects our strategic resilience and dedication, the strong support of our stakeholders, the skill and effort of our colleagues and the trust and engagement of our valued customers.

### Delivering growth and profitability

Aligned with our strategic vision, the Bank's overall financing asset book remained relatively stable at £1.89 billion in 2023, compared to £1.89 billion in the previous year as we continued to focus on maximising profitability, with strong growth in Commercial Property Finance (CPF) largely offsetting a planned reduction in the legacy retail portfolio. We also continued to improve operational efficiencies, which contributed to a further fall in our cost to income ratio to 53% (2022: 62%).

The CPF division played a pivotal role in supporting high-value real estate investors last year, with the asset book increasing to £904 million, representing 14% year-on-year growth from £792 million in 2022, and revenue up by 85% to £64.5 million.

And we continued to manage and deliver a range of competitive products to cater for the needs of customers, regularly topping rates tables for our range of award-winning savings accounts – our Digital Banking Platform is now used by more than 40,000 customers.

Recognising the changing landscape of the UK savings market, we also began making our products available through aggregators and by the end of the financial year, our award-winning products were accessible through four such platforms. This has enabled us to diversify our funding streams to reach more UK savers while meeting real customer demands.

### Streamlining our operations

A key element of our three-year strategy was to streamline our processes to become a simpler, lower risk bank, and our commitment to innovation is reflected in the progress we've made against this objective through a number of key initiatives.

For example, the nominated accounts project, once completed will simplify our savings proposition and reduce the risk of fraud and financial crime for our customers.

## **CEO's Statement (continued)**

Complementary to this initiative are the enhancements we are making to our digital banking proposition, which include the Fixed Term Deposit (FTD) self-service launched in March, which will replace outdated paper-based processes and enable customers to reinvest their FTDs seamlessly.

Of particular note in the strengthening of our cyber posture and defenses was the achievement of ISO27001 status. This signifies that we have met rigorous international standards for establishing, implementing, maintaining and continually improving our information security management systems.

Looking ahead, we have plans for further digital transformation, with a focus on enhancing our customer onboarding and account opening processes, and to continue to enhance financial crime screening, demonstrating our commitment to closely monitoring transactions and reducing the risk for our customers.

## **Other activities**

Elsewhere, as outlined in our strategy, we re-centered our operations to London last year by opening a new 10,000 sq ft headquarters at 4 Stratford Place – a significant milestone for the Bank – to serve as a hub for our board, executive, commercial and premier banking divisions, while providing a fantastic new destination for our premier customers.

We were honoured to welcome His Excellency Fahad bin Mohammed Al Attiyah, Ambassador of the State of Qatar to the United Kingdom to the opening ceremony, which was hosted by His Excellency Sheikh Hamad Bin Faisal Bin Thani Al Thani, Vice Chairman of Masraf Al Rayan QPSC, and our Chairman, Michael Williams.

Both spoke of the transformative effect the new head office would have in bringing the Bank's London teams together for the first time to better serve customers – a tangible, positive impact that we have felt since the site opened last July. And at the same time, we secured new, modern premises for our teams in Birmingham to address their operational needs and better support their evolving working patterns.

As an ethical Bank, we have always placed our customers at the forefront of our operations. This commitment to delivering positive outcomes and ensuring customers understand our products and services positioned us well to implement the Consumer Duty regulations which were introduced by the FCA last July and is an ongoing focus for the Bank.

## **Our commitment to ESG**

Beyond our financial and operational accomplishments, 2023 marked a pivotal year for the Bank in our commitment to environmental, social, and governance (ESG) issues.

Demonstrating a proactive approach to sustainability, we established an ESG committee that oversaw the offset of 256.5 tonnes of CO<sub>2</sub>e – twice as much as we produced in 2022 - in partnership with Carbon Neutral Britain, enabling the Bank to become operationally carbon neutral.

We recognise that while we are a relatively small UK bank with a low carbon footprint, it is still extremely important that we take these responsibilities seriously. Becoming operationally carbon neutral is a significant milestone and marks the first step in our long-term plan to become a net-zero producer of CO<sub>2</sub>e.

I'm delighted that our strong financial position has allowed us to continue making material improvements to the compensation and benefits that we provide to our colleagues, and that our 'TEAM' (trusted, empowered, able, motivated) values – introduced in 2022 and chosen by our colleagues – have continued to shape and enhance our organisational culture.



## **CEO's Statement (continued)**

The initiatives we have put in place to focus on colleague well-being and hybrid working have contributed to consistently high employee engagement scores. Our latest engagement survey, which is anonymous and independently run, was conducted in November last year and completed by 97% of our employees (2022: 92%). It revealed an engagement score of 86% (2022: 81%), confirming our continued progress as a great place to work, and showed 93% (2022: 90%) are proud to work for Al Rayan Bank and 96% (2022: 92%) want to develop their career with us.

Recognising the challenges within financial services, we are also proud of the significant progress we have made in improving the diversity of our team, particularly at the most senior levels of the Bank on the Board and Executive Committee.

### **Implementing a new three-year strategy**

At the turn of the year, we agreed a refreshed three-year strategy for 2024-2027 that will see the Bank continue to hold CPF as its core focus, with an ambition to accelerate growth in residential CPF and shift incrementally to higher margin assets, such as commercial offices and bridging finance. At the time of writing, we have already seen significant growth in the CPF book since January.

The new strategy will also see the Bank aim to grow its GCC high-net worth customer base by doubling down on business origination in Qatar, alongside expansion into Saudi Arabia and the UAE, which will be supported by further enhancements to our Premier Banking proposition.

From a funding perspective, we will look to gradually shift our funding mix towards aggregators, wholesale and structured lines, alongside direct deposits.

And alongside these three core objectives, we will continue to streamline our operations and processes through digital transformation, simplify our core banking and digital banking systems for customers, create propositional enhancements, including payment upgrades and business and green accounts, and importantly, continue to invest in our people and their wellbeing and reduce our impact on the environment.

Further to this, we will explore opportunities to enhance our propositions, with a focus on tech-enabled businesses with the right synergies for our Bank that can support us in diversifying our products and services. We are open to opportunities that would see our brand return to the UK home finance market, currently underserved from a sharia compliant perspective.

### **The year ahead**

We expect to continue a strong financial performance in 2024 as we execute our new three-year strategy, driven by continued growth in our core areas of CPF and Premier Banking. The changing base rate cycle presents a new challenge; however, I remain confident in our underlying business to mitigate any significant impact.

And despite the economic headwinds faced by the UK in 2023, which impacted our customers and colleagues, and the upcoming general election, we are encouraged by the relative normalisation of inflationary conditions and remain optimistic about the UK returning to a more typical inflationary environment.

Despite global challenges, including the ongoing conflicts in Ukraine and Gaza, and escalating tensions between Israel and Iran, our strategic positioning and limited exposure ensure there will be a negligible impact on the Bank.

Al Rayan Bank is well capitalised and has never been in a healthier position, which is further strengthened by our ownership and status as an unlisted institution that means we are protected from any volatility in capital markets.

**CEO's Statement (continued)**

We are proud of our legacy as the first and most successful Sharia compliant Bank in the UK and look forward to building on the achievements we have made, for which our colleagues, of whom I'm immensely proud, deserve huge credit.

I'm looking forward to leading Al Rayan Bank through the next stage of its journey and would like to thank the Board, shareholders, the Sharia Supervisory Committee and our parent Bank, Masraf Al Rayan, for their unwavering support.

A handwritten signature in black ink, appearing to read 'Giles Cunningham', followed by a long horizontal line extending to the right.

Giles Cunningham  
CEO, Al Rayan Bank  
18 April 2024

## Strategic Report

### 1. Financial Performance

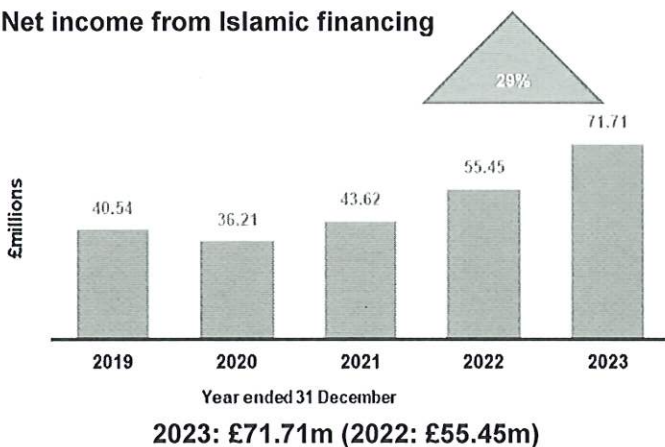
The financial statements for the year ended 31 December 2023 are shown on pages 40 to 78.

Building on the strong results achieved in 2022, the Bank delivered another record performance in terms of income and profit in 2023, cementing its position as the most profitable and successful Sharia compliant bank ever in the UK. The Bank's profit before tax of £30.61m showed a 47% increase from 2022, driven by the three-year strategy we launched in 2021, which has seen the Bank grow income through the expansion of commercial financing and Premier Banking. In line with most banks, global rate changes also partially aided the growth in revenues.

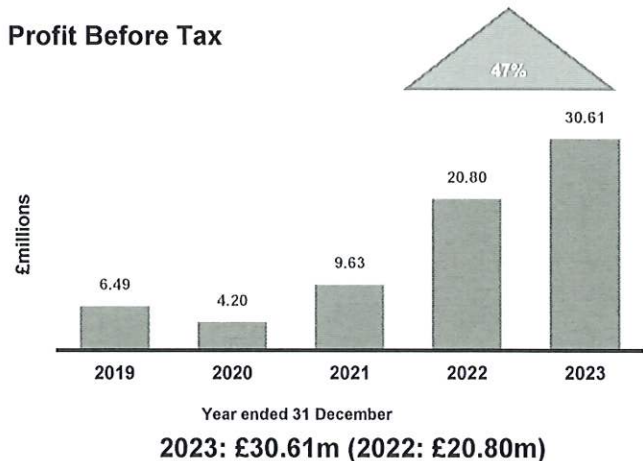
The Bank also delivered a range of competitive products and an enhanced digital banking service that is now used by more than 40,000 customers. The Bank regularly topped rates tables for its award-winning savings products, which it started making available through aggregator platforms. This has enabled the Bank to diversify funding streams and reach more UK savers.

Net financing income increased by 29%, driven by a strategic shift towards commercial financing and Premier Banking. The Bank's strategy to focus on Commercial Property Finance (CPF), including supporting high-value real estate investors, delivered strong growth and a 14% increase in its gross CPF asset book from £792m to £904m. In addition, CPF revenue growth also increased from 55% to 85%.

Net income from Islamic financing



Profit Before Tax



In line with its strategic vision, the Bank's overall asset book remained stable at £1.89 billion in 2023 (compared to £1.89 billion in 2022) as it continued to focus on maximising profitability. In addition to growth in CPF and Premier Banking, the Bank delivered a planned reduction in its legacy retail portfolio, including the withdrawal of new HPP products from the market in 2022 which saw the retail financing balance decline by 10%, whilst income from retail customers increased by 37%.

The Bank also continued to improve operational efficiencies through a strategic plan to streamline operations and become a simpler, lower risk bank. This contributed to a reduction in the Bank's cost to income ratio from 62% down to 53% in 2023.

## Strategic Report (continued)

### Key financial performance indicators (KPIs):

Key Financial Metric	Use of Metric	Basis of Calculation	2023	2022
Profit before tax	Key measure of the Bank's underlying performance, with profit targets set by the Board as part of the budget process		£30.6m	£20.8m
Profit after tax	Key measure of the Bank's underlying performance		£23.0m	£16.5m
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.	53%	62%
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.	16.89%	12.82%
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.	17.36%	14.92%
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.	786%	458%

## 2. Net income

The Bank's strategic focus on CPF and Premier customers led to an increase in net income from financing and strong liquidity. In response to changing dynamics in the savings market, the Bank began making its savings products available through aggregators. This continued a strategic shift in the funding mix which also included an increase in wholesale and structured lines, as well as direct deposits.

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

The success of the Bank's strategy means it expects to continue to increase income in 2024 through the full year impact of increasing profit rates, as well as further growth in the CPF book. Financing income for the year is anticipated to be higher than 2023, 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.

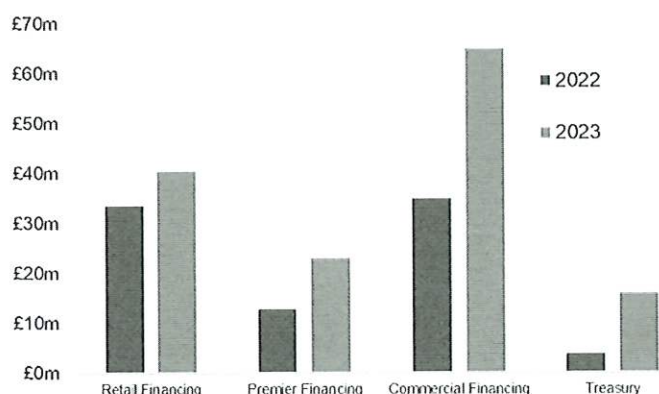
The Bank slightly increased its level of deposits as it delivered on the planned restructuring of its financing book to support an overall growth in assets. The Bank's total balance sheet increased by 3.9% during 2023 and it finished the year with £2.49bn in total assets (2022: £2.40bn).

Throughout the year the Bank's investment security holdings were held in US dollar and British pound denominated sukuk, and the rate rise in the United States and UK have resulted in negative price movements on these assets, impacting the Bank's Other Comprehensive Income. The Bank exited one of its sukuk holding positions, realising a one-time market-loss on disposal to create a potential opportunity for higher revenue gain in subsequent years.

## Strategic Report (continued)

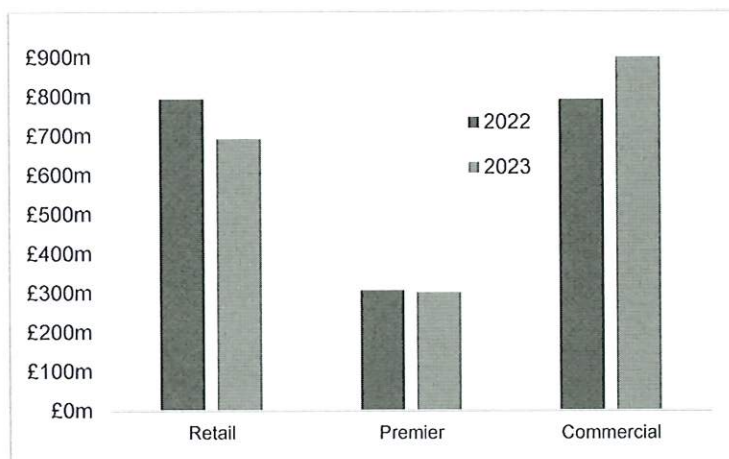
The following charts illustrate the split of financing assets and total income.

**Income from Islamic Financing Transactions by Type**



**2023: £143.58m (2022: £84.76)**

**Financing Assets by Sector**



**2023: £1,893m (2022: £1,889m)**

### 3. Costs

The Bank's strategy to streamline its operations and become a simpler, lower risk Bank has helped it maintain a stable re-occurring base line cost levels over the course of 2023, despite high inflationary pressure. The Bank's decisive action and strategic focus on CPF and Premier customers saw its cost to income ratio improve from 62% to 53%. Despite the focus on managing overall costs, the Bank has continued to invest in its staff through material improvements in compensation and benefits across 2023. This included an out of cycle pay increase in 2022 to aid with the increased cost of living. Overall staff compensation increased in 2023.

The Bank also continues to work to reduce its ongoing operational costs. The Bank re-centered its operations in a new 10,000 sq ft headquarters in London, providing a new destination for its Premier customers and consolidating its executive, commercial and premier banking divisions in one location.

### 4. Expected Credit Losses

The strategic positioning of the bank and its limited exposure to global, regional and national economic and political risk ensured that the business faced negligible exposure to new risks last year.

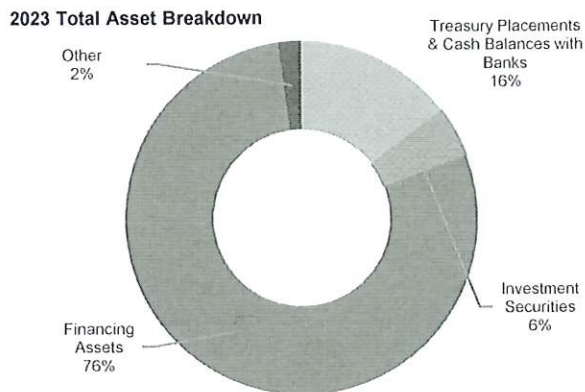
However, in 2023 the Bank increased its Expected Credit Loss (ECL) provision as a prudent measure to account for rising base rates, increasing uncertainty in global markets, and inflationary pressures. The Bank had an increase of £1.43m in its ECL provision (2022: £0.18m).

**HPP** – There was an increase in overall HPP ECL from £0.87m to £1.20m, with a corresponding increase in coverage to 0.120% (2022: 0.08%). The increase in ECL was driven primarily by a decrease in customer credit scores and an increase in arrears, both caused by the impacts of the macro-economic scenario. Notwithstanding this, the Bank's decision to withdraw new HPP products means it maintains a low level of risk with decreasing Finance to Value (FTVs). In line with the overall market, the Bank has seen an increase in additional acquisition payments, further reducing FTVs. Despite the ongoing uncertainty in the economy, the Bank does not expect significant credit losses due to its FTV profile.

## Strategic Report (continued)

**CPF** – There was an increase in CPF ECL from £2.71m to £3.81m, with an increase in coverage at 0.42% (2022: 0.34%). The total CPF provision has been impacted by the increase in asset balances and changes in the model.

An overall ECL decrease on performing assets has been driven by the integration of enhanced model changes to better reflect the underlying HPP & CPF books and by the evolving economic conditions in the UK, as well as inflation and rates. However, it is noted that bespoke assessment of the non-performing



CPF facilities has resulted in an overall increase in the total ECL. The combination of the macro-economic factors continues to put pressure on customers' and tenants' ability to pay, as well as commercial property prices in response to rising yield expectations. The Bank's primary commercial property is residential, but 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 more positive towards the end of 2023, the Bank has continued to make ECL provisions to account for continued higher levels of risk in areas where the economy continues to be challenging.

## 5. The Strategic Plan

2023 marked a pivotal year for the Bank in which it successfully concluded its three-year strategy with record profits and a simplification of its operations and commercial priorities. The Bank has now agreed a refreshed three-year strategy for 2024-2027 that will see it continue to place CPF at its core with an ambition to accelerate growth in residential CPF and shift towards higher margin assets such as commercial offices and bridging finance.

The Bank will continue to focus on growing its GCC high-net worth customer base, particularly business origination in Qatar, as well as further opportunities in Saudi Arabia and the UAE, working closely with the Bank's parent bank, Masraf Al Rayan. It will build on recent digital enhancements with further action to meet the needs of its Premier Banking customers, including upgrades to payment processes and new business and green accounts.

The digitalisation of banking services, coupled with further action to streamline operations and processes will aim to increase efficiency and the return on equity across the business. With regards to the Bank's deposits, this will be complemented by a gradual shift towards aggregators, wholesale and structured lines, as the Bank evolves its funding mix further.

Alongside the digital transformation and organic growth opportunities, the Bank will assess opportunities to enhance its current product and service offer. This will include considering synergistic, tech-enabled businesses in HPP and Property Ancillary Services that could support a return to the Sharia-compliant home finance market.

The new three-year strategy will also see the Bank extend its commitment to ESG, building on its strong relationship with regulators, further reducing its carbon impact and creating new opportunities to build a more diverse and inclusive workplace.

Together, this strategy will help the Bank achieve its mission to be the most trusted, Sharia-compliant bank in the UK.

## Strategic Report (continued)

The key focus areas for the Bank are:

- 
- |                             |   |
|-----------------------------|---|
| <b>Customer and Product</b> | <ul style="list-style-type: none"><li>• Target Commercial and Premier assets, funded by deposits</li><li>• Closely align to parent bank to take advantage of its size and reach</li><li>• Simple banking products through relationship and digital channels</li></ul> |
|-----------------------------|---|
- 

The Bank made significant investments in staff throughout 2023, including leadership training programs and continued support for individual staff training and qualifications.

During 2023 the Bank worked to embed its TEAM values.

- Trusted to do the right thing
- Empowered to Own
- Able to Deliver
- Motivated to Succeed

### People

The Executive team has experienced a prolonged period of stability, with the addition of one Exec Role in 2023 and no departures. Charlotte Birks joined the Executive as Company Secretary & Legal Counsel.

Likewise the Independent Non-Executive Directors and Board Committee Chairs have enjoyed the benefit of stability, with one new Independent Non-Executive Director, Cathy Lewis replacing outgoing Independent Non-Executive Director Malcolm Brookes.

The Bank's parent company Masraf Al Rayan, AR has continued to support the Bank's strategy and direction. Notably with the confirmation of a long-term investment in the Bank's new operational offices in Birmingham.

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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 center 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.

### Technology

The Bank has also continued to invest in its Digital Banking offerings, with new features being developed in 2023 including Confirmation of Payee. Further developments, such as Fixed Term Deposit self-service, nominated accounts for savings accounts, digital customer onboarding and account opening are planned for 2024 to meet the evolving needs of customers.

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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.

### Process

The Bank also launched partnership with a range of liabilities aggregation service to provide a simple solution for customers' savings, this has generated significant funding with limited operational impact on the Bank.

The Bank has implemented a range of initiatives in response to Consumer Duty regulation, considering its existing products and reviewing customer journeys to assess the risk of consumer harm. Throughout the year ahead the Bank will undertake similar assessments on its closed book.

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## Strategic Report (continued)

### 6. Our Market and Competition

The Bank's refreshed strategy will place even greater focus on serving Premier and Commercial Property Finance (CPF) customers by offering competitive products that are Sharia compliant. The digitalisation of services empowers customers by providing easier access to account services and the Bank's products.

The Bank's strategic alignment with its parent company has enabled it to leverage strong relationships in the GCC region. This has delivered growth in CPF customers and helped to mitigate competition from non-Sharia compliant banks.

Premier property financing has been bolstered by new and established GCC relationships. The Bank's ability to provide fully Sharia-compliant financing distinguishes it from many other UK-based banks and it intends to expand beyond Qatar into KSA and the UAE.

The recent establishment of a new London headquarters provides a destination for CPF and Premier customers in the UK capital.

Through ongoing competitor analysis, the Bank stays abreast of the evolving landscape, enabling informed strategic decisions. Its solid foundation, specialist expertise, and comprehensive range of products and services position it well to capitalise on the demand for UK-based financing, evident in the robust growth of its CPF book.

### 7. Liquidity and Funding

#### *Liquidity*

The Bank has made a strategic decision to maintain low levels of 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.

Since its establishment in December 2021, the Bank of England Alternative Liquidity Facility (ALF) has played a pivotal role in the Bank's operational strategy. The Bank has proactively maintained substantial holdings within the facility. The residual portion of the High-Quality Liquid Assets (HQLA) comprises Level 1 Sukuk denominated in USD.

In December 2023, the Bank reallocated a portion of its HQLA by divesting its holdings in UK government Sukuk. These holdings were subsequently replaced by deposits held in the ALF, alongside other USD-denominated Sukuk instruments. This decision marks a deliberate effort by the Bank to streamline its liquidity management approach and mitigate associated risks.

#### *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.



## Strategic Report (continued)

### *Deposit Aggregator funding*

During the year, the Bank has commenced relationships with a number of deposit aggregators. The relationships and approach to receiving funding via aggregators are new to the Bank and growing within UK financial markets. The Bank has taken note of regulatory perspectives in respect of these relationships, is cognisant of the opportunities and potential downsides that they present and has acted cautiously by setting appropriate limits to mitigate concentration risks.

The Bank offers a range of saving accounts through aggregator marketplaces, where the aggregator executes the sale of the savings accounts and the on-going management of the customers administration. This channel provides an operationally light touch proposition for the Bank and enables the Bank to raise funding as required.

### *Wholesale funding*

The Bank funding book is complemented by its Wholesale Funding to diversify the funding base and liquidity requirements. The Bank has continued to diversify its wholesale funding sources from several key sectors such as, multilateral organisations, financial institutions, large corporates, credit unions, local governments, and client funds across the UK and GCC.

## 8. Risk Management Framework

The Bank is committed to effectively managing risks to protect its people, assets, reputation, and overall business objectives. The Bank's Risk Management Framework (RMF) outlines its approach to identifying, assessing, controlling / effectively managing, monitoring and reporting risks the Bank is, or might be exposed to, as well as detailing the internal control mechanisms that are consistent with, and promote, sound and effective risk management. The RMF also provides an effective, consistent and transparent approach to managing risks across the Bank. The RMF is supported by a more in-depth suite of policies that detail how risks are controlled and effectively managed across the bank on a more granular basis.

Sound risk management supports the business strategy and enables the Bank to minimise losses (both financial and reputational), provide a fair and appropriate service to its customers, and deliver returns for shareholders in a Sharia compliant manner.

The Bank's approach to risk management supports and complements its overall strategic aims, but also seeks to add value through challenge and independent oversight of business activities. Through the deployment of a robust RMF, the Bank aims to deliver the following risk objectives:

1. Support the establishment of a strong, empowered risk management culture, together with risk management and control arrangements embedded throughout the Bank.
2. Promote a risk aware culture across the Bank, creating an environment where individuals take responsibility and ownership for both risk and high standards of customer conduct.
3. Ensure all risks are identified, assessed, controlled / effectively managed, monitored, and reported through appropriate governance, with clear accountability and responsibility for risk management across the Bank.
4. Maintain positive stakeholder confidence and reputation with customers, colleagues, shareholders, the Sharia Supervisory Committee, rating agencies and regulators.
5. Ensure sustainability and ongoing viability through continuing capital and liquidity strengths, and operational stability and resilience, including that of third party providers.

## Strategic Report (continued)

### Risk Governance

Risk governance is an integral aspect of the Bank's corporate governance which focuses on the structures, processes and approach to the management of the Primary Risks to the Bank's objectives. This includes clearly defined accountabilities and expectations for all relevant parties, including the roles and responsibilities of the Board, management and employees for the management and oversight of all Primary Risk Types.

The Bank's approach to risk governance ensures that risk management is directed and controlled by the Bank's Board, and utilises hierarchical management control structures and management information (MI) as appropriate.

Whilst the Board is ultimately accountable for the Bank's Risk Management Framework, everyone in the Bank has responsibility for risk management. The Bank operates a 'three lines of defence' model in order to embed clear risk management roles and responsibilities. These are outlined as follows:

- **First line of defence:** Line management within each business area is responsible for the identification, measurement, monitoring, mitigation, management and reporting of the risks within the Bank's risk appetite, ensuring appropriate controls are in place and operating effectively.
- **Second line of defence:** Risk and Compliance functions provide risk management expertise and challenge managers and staff in their performance of risk management activities through independent reviews, monitoring and testing. Specific Sharia compliance monitoring activities performed by the Sharia Compliance Department fall within the second line of defence. The Sharia Compliance Department also conduct an independent Sharia audit on an annual basis to provide assurance to the Sharia Supervisory Committee on the appropriateness and operational effectiveness of Sharia governance, Sharia non-compliance risk management and internal Sharia compliance controls.
- **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 reports directly to the Chair of the Board Audit Committee (BAC). The BAC approves the internal audit work programme and receives reports on the results of the work performed. The Internal Audit function is also supported by resources from the Masraf Al Rayan QPSC (MAR) and co-source on certain audits, as and when required.

### Risk Appetite

A key pillar of the Bank's risk strategy is its Risk Appetite Statement (RAS), and its application to strategic and day-to-day decision-making processes. The RAS articulates the nature and level of risk that the Bank is prepared to accept in order to meet its strategic objectives, the business plan and regulatory obligations, before action is deemed necessary to reduce the risk. This is articulated to the business through a series of risk appetite statements and limits. Management then seek to embed these into all business activities through effective process design and appropriate risk governance.

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.

## 9. Risk Management Categories/Primary Risk Types

The main tool of risk classification is the Bank's risk taxonomy, whereby the Bank defines (at a high level) the primary types of risk to which the Bank is exposed. This supports the clear allocation of ownership of risk, and provides structure to risk reporting across the Bank.

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

Note that in the table below, loss is defined to include financial losses, reputational damage, loss of customers and regulatory censure/fines.

## Strategic Report (continued)

Primary Risk Type	Mitigations
<p><b>Strategic and Business Model Risk</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Setting of the Bank's risk appetite by the Board with a focus on identification and monitoring of risks, with financial limits in place to limit exposure to risks where appropriate</li> <li>• Continual monitoring of performance through financial and non-financial KPIs against the Bank's strategy and financial plans</li> <li>• 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</li> <li>• Continued review of external risks, including competitor analysis, the financial impact of climate change and operational dependencies on third parties</li> <li>• Scenario modelling and stress testing to assess the potential impact of external events and downside risk events</li> <li>• 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</li> </ul>
<p><b>Prudential Risk (Market Risk, Liquidity &amp; Funding Risk, Capital Risk)</b></p> <p>The risk of loss arising from</p> <p>(a) reductions in earnings and/or unfavourable market movements;</p> <p>(b) an inability to meet liquidity obligations as they become due, from an unstable funding profile or from a lack of availability of funds;</p> <p>(c) a sub-optimal quantity and quality of capital, or breach of regulatory capital requirements</p>	<ul style="list-style-type: none"> <li>• Risk appetite statements and metrics, with supporting policies and Key Risk Indicators (KRIs)</li> <li>• Daily monitoring of the financial position of the Bank</li> <li>• 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</li> <li>• Regular monitoring of risks relating to the effect of changes in market rates</li> <li>• Annual ICAAP and ILAAP update, or more frequently if required</li> <li>• Recovery and Resolution Plan (RRP) development</li> </ul>
<p><b>Credit Risk</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Appropriate risk appetite and monitoring metrics</li> <li>• 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</li> <li>• Appropriate level of supporting asset cover security and reviews of affordability</li> <li>• Robust policies and guidelines in place which are regularly reviewed and updated in response to internal and external developments and changes in risk appetite</li> <li>• Performance of portfolio stress testing to confirm resilience</li> <li>• Regular reviews of performance against risk appetite</li> </ul>

Primary Risk Type	Mitigations
<p><b>Conduct Risk</b></p> <p>The risk of loss resulting from unfair customer outcomes</p>	<ul style="list-style-type: none"> <li>• Risk appetite, policies and processes are aligned to the Bank's structure and operating model</li> <li>• Detailed monitoring and management of the Bank's defined key customer outcomes</li> <li>• Development of simple, understandable products aligned to core offering</li> <li>• Application of governance and rigour to the approval of new products and initiatives, incorporating best practice and Consumer Duty principles</li> <li>• Ongoing staff awareness training (including as part of induction training), supported by a clearly defined risk culture</li> <li>• Collaborative working across the Bank to ensure that customers facing financial hardship are offered appropriate support e.g. during the pandemic</li> </ul>
<p><b>Compliance and Legal Risk</b></p> <p>The risk of loss resulting from failing to comply with laws, rules, regulations, standards and codes of conduct, or from litigation</p>	<ul style="list-style-type: none"> <li>• Risk appetite, policies and processes are aligned to the Bank's structure and operating model</li> <li>• Active monitoring of regulatory changes, including engagement with regulators and industry bodies to keep abreast of current and future developments</li> <li>• Continuous horizon scanning and forward planning to ensure compliance with current and new regulatory requirements</li> <li>• Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability</li> <li>• 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</li> <li>• Ongoing staff awareness training (including as part of induction training) and assurance mechanisms (e.g. Compliance Monitoring Plan)</li> </ul>
<p><b>Environmental, Social &amp; Governance (ESG) Risk</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• Scenario modelling and analysis to assess the potential impact of external events and downside climate risk events</li> <li>• Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability</li> </ul>

Primary Risk Type	Mitigations
<p><b>People Risk</b></p> <p>Loss resulting from failure to recruit, retain, train, manage, reward and incentivise appropriately skilled staff, or from poor organisational culture, to achieve business objectives</p>	<ul style="list-style-type: none"> <li>• Recruiting high calibre staff with the right skills, capabilities and behaviours to contribute to delivering company objectives and strategy.</li> <li>• Robust training programmes to support staff with their development and provide opportunities for growth.</li> <li>• Offer competitive salary and benefits including bank wide social wellbeing initiatives to aid retention.</li> <li>• Conduct an annual staff engagement survey to understand any areas of dissatisfaction and take action on these as appropriate.</li> <li>• The Bank also has processes in place for managing succession planning for key roles</li> </ul>
<p><b>Operational Risk and Resilience</b></p> <p>The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events</p>	<ul style="list-style-type: none"> <li>• Risk appetite, policies and processes are aligned to the Bank's structure and operating model</li> <li>• Regular risk event and loss escalation processes, including reporting of incidents and remediation and follow up programmes</li> <li>• Operational Resilience and Business Continuity Planning, including embedding and regular effectiveness testing on internal controls and outsourced/third party providers</li> <li>• Structured Risk Control Self-Assessment regime</li> <li>• Regular monitoring of change and transition programmes</li> </ul>
<p><b>Financial Crime Risk</b></p> <p>Loss resulting from engaging with or facilitating criminal conduct in breach of financial crime laws, rules and regulations</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Financial Crime customer risk assessments, including the use of enhanced due diligence and enhanced governance via a risk-based approach</li> <li>• On-going monitoring activities, including transaction monitoring, suspicious activity reporting (SAR), customer due diligence and sanctions screening</li> <li>• Active monitoring of regulatory and legal changes, including engagement with regulators and industry bodies to keep abreast of current and future developments</li> <li>• Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability</li> <li>• Maintenance of system infrastructure and technology to meet operational requirements for customer due diligence and transaction monitoring</li> <li>• Ongoing staff awareness training and assurance mechanisms, including dedicated Bank-wide Financial Crime training delivered during the year</li> </ul>

Primary Risk Type	Mitigations
<p><b>Information Technology &amp; Cyber Risk</b></p> <p>Loss resulting from the compromise of information relating to its confidentiality, integrity or availability</p>	<ul style="list-style-type: none"> <li>• Maintenance and monitoring of policies, including continual refinement of processes and controls to ensure ongoing suitability</li> <li>• Application of governance and rigour to data quality, confidentiality and availability,</li> <li>• Regular risk event and loss escalation processes are in place, including reporting of incidents and remediation and follow up programmes</li> <li>• Active monitoring of regulatory and legal changes, including engagement with regulators and industry bodies to keep abreast of current and future developments</li> <li>• Ongoing staff awareness training and assurance mechanisms</li> <li>• Maintenance of ISO27001 status through continual improvement of information management systems</li> </ul>
<p><b>Sharia Non-Compliance Risk</b></p> <p>The risk of loss resulting from failing to comply with Sharia requirements</p>	<ul style="list-style-type: none"> <li>• Products, services, policies, procedures, transactions and behaviours are aligned to Sharia principles and the ethical code of the Bank</li> <li>• Monitoring, oversight and challenge of the Bank's activities by an independent Sharia Supervisory Committee and internal Sharia compliance department</li> <li>• Review of products and initiatives prior to changes being implemented to ensure continuing Sharia compliance across all areas of the business and product offerings</li> </ul>

## 10. Financial Risks from Climate Change

Climate change affects our planet, our economy, and our financial system. Whilst financial risks from climate change may crystallise in full over longer time horizons, they are becoming apparent now.

The Bank has created an Environmental, Social and Governance (ESG) Policy which acts as the overarching document detailing roles and responsibilities, and the Bank's approach to managing the risks associated with ESG, including financial risks from climate change. This Policy sets out the principles and standards that Al Rayan 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 the Bank's longer-term strategy.

The Bank also has a management level ESG committee in which climate change risks are a key focus. As part of its remit, the ESG Committee considers how the Bank assesses its emissions, which in line with the Greenhouse Gas ('GHG') Protocol are categorised into three groups or 'Scopes'. Scope 1 covers direct emissions from owned or controlled sources, Scope 2 covers indirect emissions from the generation of purchased electricity consumed and Scope 3 includes all other indirect emissions that occur in a company's value chain.

In order to review the current potential environmental risks posed to the Bank's real estate finance portfolio, the Bank engaged with an external specialist in 2022/23 to provide a preliminary climate change assessment. The Bank identified risks in its Real Estate Finance portfolio, namely flood, subsidence and coastal erosion (Physical Risks) and energy efficiency (Transitional Risk). These risks were quantified against the 4 IPCC Representative Concentration Pathways ('RCPs') for every 5 year period to 2050 and then 2060 and 2080. Overall, the Bank's review found that the impact of climate change was deemed to be negligible.

## Strategic Report (continued)

It should also be noted that 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.

### 11. 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 worked closely with Carbon Neutral Britain, a recognised independent provider of carbon audits and carbon offsetting schemes.

Carbon Neutral Britain has used the GHG Protocol Corporate Accounting and Reporting Standards for greenhouse gas emissions calculated based on the Bank's energy usage and travel and 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 premises. 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.

	2023 CO <sub>2</sub> e (tonnes)	2023 KWh	2022 CO <sub>2</sub> e (tonnes)	2022 KWh	2021 CO <sub>2</sub> e (tonnes)	2021 KWh
Scope 1 – direct emissions from combustion of fuel (heating gas)	4	20,733	-	-	-	419
Scope 2 – indirect emissions from electricity purchased	108	520,396	66	339,999	77	362,446
<b>Total Scope 1 and 2 emissions</b>	<b>112</b>	<b>541,129</b>	<b>66</b>	<b>339,999</b>	<b>77</b>	<b>362,865</b>
Environmental intensity indicator (tonnes of carbon dioxide per £1m gross income)	0.8		0.8		1.2	
Scope 3 – business travel only	246		38		10	

The Bank's annual scope 1 and 2 carbon emissions increased as the bank transitioned to its new office footprint.

The data included the emissions of offices closed in 2023 which will not be reportable in the next financial year. Scope 3 emissions increased due to more travel between the UK and Qatar.

The Bank is committed to reducing its carbon footprint and has signed up to "Zero Emission" providers where possible.

## Strategic Report (continued)

### 12. Ethical Roadmap

#### ESG Committee

In 2019, the Bank outlined its “Ethical Roadmap” to ensure that it engaged with areas considered as ethical by all audiences. This informal roadmap was superseded in 2023 by the Environmental Sustainability and Governance (ESG) Committee.

The ESG Committee is Chaired by the Bank’s Chief People & Sustainability Officer.

#### ESG Strategy

2023 marked a significant moment in the Bank’s ESG approach, including the establishment of a major new commitment to offset 256.5 tonnes of CO<sub>2</sub>e, as well as making further material improvements in the compensation, rewards and working culture for its employees.

The Bank’s ESG strategy outlines a framework for integrating sustainable practices into its business operations, decision-making processes, and stakeholder engagements.

By incorporating ESG considerations, the Bank aims to enhance long-term value creation, manage risks, and contribute positively to society and the environment.

This strategy will drive the Bank in achieving its sustainability goals and aligning actions with the principles of responsible business practices.

#### Key deliverables

The Bank has agreed the following key ESG deliverables:

##### Environmental:

- **Achieve Carbon Neutrality:** Set a clear roadmap and targets to reduce greenhouse gas emissions and adopt renewable energy sources.
- **Maximise Resource Efficiency:** Minimise waste generation, optimise resource usage and promote sustainable principles across value chain.
- **Climate Resilience:** Evaluate and manage climate-related risks to our operations, supply chain, and assets.

##### Social:

- **Effective Stakeholder Engagement:** Engage with stakeholders to understand their needs, concerns and expectations regarding social impact.
- **Promote Diversity Equality & Inclusion:** Promote diversity, equality, and inclusion ensuring equal opportunities, fair treatment, and diverse representation at all levels.
- **Prioritise Employee Health & Wellbeing:** Through comprehensive programs, training, and a supportive environment.

##### Governance:

- **High Ethical Conduct:** Promote high standards of integrity, transparency, and ethics, ensuring compliance with laws, regulations and standards.
- **Board Oversight:** Strengthen Board oversight for ESG matters, integrating ESG considerations into Board discussions, and ensuring appropriate reporting and disclosure.
- **Effective Risk Management:** Integrate ESG risks into enterprise risk management framework. Regularly assess / monitor risks and establish mechanisms to mitigate and address them effectively.
- **Performance Measurement:** Develop KPIs and targets to monitor progress to measure the effectiveness of our ESG initiatives. Disclose relevant information to stakeholders and regulator.



## Strategic Report (continued)

### Gender equality targets

- The Bank is committed to making further progress in its effort to become a more diverse and inclusive workplace. It has made significant progress increasing the diversity of its team, particularly at a senior level. The Bank has also implemented initiatives which have helped close gender pay gaps, including changes to our recruitment and selection process, provision of more support for hybrid working, and by offering leadership and development training.

### 13. Customers

The Bank's strategic plan is informed by feedback from customers, whose input has led to the development of new products, including improvements to Digital Banking services. The executive team use customer insights to help define the Bank's ongoing business strategy, actions and investment plan.

The Bank is helping to manage customer risk, simplifying savings propositions and reducing the risk of fraud. Further investment in the Bank's digital transformation will enhance customer onboarding and account handling, as well as the Bank's ability to monitor transactions to reduce the risk of financial crime.

The Bank will continue to target CPF and Premier customers, whilst responding to changing market dynamics through an increased use of aggregators to secure retail customers for its savings products.

### 14. Employees

The Bank continues to invest in its employees, with a material change to compensation, rewards and benefits and the introduction of a new destination hub for its executive, commercial and Premier Banking teams in the last year.

The Bank's 'TEAM' (trusted, empowered, able, motivated) values, which were first introduced in 2022, have played a significant role in shaping the culture of the business. As a result of a series of employee-wellbeing initiatives, the team is highly engaged and committed to the Bank. In total, 97% of employees completed the Bank's latest independently run engagement survey. The survey showed an engagement score of 86% (2022: 81%), while showing that 93% (2022: 90%) are proud to work for Al Rayan Bank and 96% (2022: 92%) want to develop their career with the Bank.

### 15. 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 company is also a key stakeholder in respect of future growth plans and the Bank's future capital and other funding requirements.

### 16. Suppliers

#### Vendor Management

The Bank has established relationship managers to act as a primary point of contact between the Bank and its vendors. The Bank aims to make all payments to vendors within 30 days of invoices being received, or in line with its payment terms if sooner, and the Bank does not engage in vendor financing arrangements. The Bank also ensures it engages with its Strategic and Tactical vendors on 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.

## Strategic Report (continued)

### 17. Regulators

The Board regularly engages with the Bank's regulators and as a matter of course will discuss relevant matters. In the past, the Bank had been subject to historic regulatory reviews as part of the formal review processes in respect of AML and Sanctions controls, with these reviews completed in 2020 and 2021. The Bank did incur a penalty in relation to the historic (pre 2017) control weaknesses which was paid in January 2023 and recognised in the previous year's financial statements.

### 18. Outlook

Economic conditions facing the UK in 2024 continue to be challenging but the outlook has improved and is somewhat more positive than it had been during the latter part of 2022, with a softer landing expected in the economy and inflation reducing after the peak in 2023.

Markets have reinforced the notion of a soft landing for the global economy in 2024 but several significant events persistently loom. Chief among them are geopolitical risks, such as the ongoing US-China trade tensions, the war at the eastern gate of NATO, and the armed confrontations in the Middle East and the Red Sea, leading to increased fears of larger-scale escalation, fluctuations in oil prices, and impacts to global trade.

The UK is one of a number of countries heading into an election year in 2024, which coincides with the potential of new leadership across the Atlantic. In the UK, economic growth is expected to remain stalled as the impact of previous monetary tightening continues to feed through to the real economy.

The key economic indicators which impact the Bank are unemployment, residential and commercial property prices and central bank base rates. Whilst we expected unemployment rates to increase in 2023, this has not materialised and unemployment rates have remained broadly in line with 2022. Although wage inflationary pressures have come down, the employment market remains robust in 2024, creating the potential for higher than average level of wage growth.

House prices fell throughout H1 2023 as the base rate increased from 3.5% to 5.25% but stabilised towards the end of 2023. The Nationwide Building Society showed a 1.8% decrease in house prices from December 2022 to December 2023. The outlook for 2024 has started off positively with a 0.7% increase in house prices between December 2023 and January 2024 on the back of falling home finance rates and the view that the Bank of England will lower base rates in the future. While a rapid rebound in prices is unlikely, there are tentative signs of a pickup in the number of properties coming onto the market at the start of 2024.

Similarly, commercial property has faced a challenging market due to increasing yield expectations coupled with difficulties raising rents, which have negatively impacted commercial property prices. Commercial property prices are generally not expected to grow in 2024 as increasing numbers of landlords face the prospect of refinancing with increased costs and new RICS rules on valuer rotation come into effect. It is anticipated that there will be a shift towards more ESG compliant properties creating a pricing disparity between the most and least compliant assets.

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 27, along with a sensitivity analysis of the effect of changes.

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 materialising part of mark-to-market losses and has focused on investments in shorter-dated and low-risk Treasury instruments across 2023. 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 who are one of the largest banks in Qatar.

## Strategic Report (continued)

### Business outlook

The Bank's successful strategy has reduced risk, streamlined operations, lowered costs and increased the profitability of the business. The Bank will continue to focus on growing its Premier Banking and CPF customers with an enhanced digital service and Sharia compliant products.

The new strategy will target growth from GCC high-net worth customers, expanding the Bank's customer base in Qatar and extending to KSA and the UAE. The continued strong performance of the GCC states, buoyed by oil and gas prices, has meant that this segment has not seen significant impacts from wider economic uncertainty.

The Bank continues to services its existing HPP customers and has seen its retail HPP book continue to decrease as customers make regular acquisition payments, and as additional payments are made across the market as customers look to settle home financing. The Bank has limited exposure to the market, with low FTVs across the home financing book, resulting in continued high retention in a high Base rate environment. The Bank expects a continued gradual reduction in the HPP book across the year, in line with the Bank's strategy.

Competition in the deposit market intensified in 2023 as market rates increased. The Bank was able to diversify its deposit base by utilising deposit aggregators and secure longer-term funding, however this, coupled with the higher market rates, resulted in higher returns payable to customers during the year. The deposit market is expected to remain competitive in 2024 as deposit rates soften and banks look to secure funding.

The Bank still expects a strong performance in 2024 as it continues to execute on its strategy.



Giles Cunningham  
CEO, AI Rayan Bank

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

AI Rayan Bank PLC  
4 Stratford Place  
London  
W1C 1AT

18 April 2024

## Directors' report

The Directors present their report and audited financial statements for the year ended 31 December 2023.

### Directors and Directors' interests

The Directors who held office during the year ended 31 December 2023 are as follows:

Michael Williams		Chairman of the Board
Malcolm Brookes **	(a) (b) (c)	Resigned 31 December 2023
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 *		
Omar Abdulrazaq Al-Emadi *	(a) (c)	
Catherine Lewis	(b) (c)	Appointed 1 July 2023 as a director, and 29 November 2023 as Remuneration and Nomination Committee Chair

- (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 Alkhalifa, 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.

\*\* Malcom Brookes was part of Audit Committee, Remuneration and Nomination Committee and Board Risk Committee during the year ended 31 December 2023.

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 2023:

	2023 (%)	2022 (%)
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% (2022: 75%) and Qatar Holding LLC 25% (2022: 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 Barkatullah (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 2023 (2022: £nil). During 2023, £280,950 was paid in respect of Contingent Convertible instruments in line with the terms of these instruments, reflecting profit due from 1 July 2022 to 1 July 2023. The Directors expect to pay the contractual profit on these instruments during 2024. £280,950 profit will be due on 1 July 2024. See note 21 for further details.

### Political contributions

The Bank made no political contributions during the year ending 31 December 2023 (2023: £nil).

## Directors' report (continued)

### 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 regulatory 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 2023 and other events during 2024 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.

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 27.

### 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 2024 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.

## Directors' report (continued)

### Greenhouse gas emissions and energy disclosures

The Bank's emissions disclosure is included in the Strategic Report on page 21.

### Subsequent events

Events subsequent to 31 December 2023 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 2023 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 as the Bank's new auditors. A resolution for their appointment was passed at the Annual General Meeting.

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



Michael Williams  
Chairman

Al Rayan Bank PLC  
4 Stratford Place  
London  
W1C 1AT

18 April 2024

## 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;
- make an assessment of the Bank's ability to continue as a going concern; and
- make judgements and accounting estimates that are reasonable and prudent.

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

### Opinion

We have audited the financial statements of Al Rayan Bank Plc (the Bank) for the year ended 31 December 2023 which comprise statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes 1 to 32, except for note 30 and the section of note 27(e) identified as "unaudited", including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards (IAS UK).

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 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 Bank's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Bank's financial statement close process, we confirmed our understanding of management's going concern assessment process and engaged with management early to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment for the Bank, including forecasts for the going concern period covering the period to 30<sup>th</sup> April 2025 and compared historical budgeted financial information with actual results to form a view of the reliability of the forecasting process.
- We evaluated management's going concern assessment which included assessing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. We used economic specialists in assessing the macroeconomic assumptions and also evaluated management's assessment by considering viability under different stress scenarios, including the impact of strategic plans and the current economic scenarios.
- We reviewed the results of adverse scenarios modelled by management to incorporate unexpected changes to forecasted liquidity and capital positions of the Bank, as well as its reverse stress testing exercise, to identify whether they indicated significant issues that might impact the Bank's ability to continue as a going concern.
- We read and evaluated the adequacy of the disclosures included in the Annual Report and financial statements for conformity with the reporting standards and considered whether there



were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.

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 Bank's ability to continue as a going concern for a period which covers not less than 12 months to 30 April 2025. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern.

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>• Allowance for expected credit loss</li> <li>• Improper revenue recognition on income from Islamic financing transactions and fees and commission income, including effective profit rate</li> <li>• Information Technology general controls</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall materiality of £1.27m which represents 5% of forecast profit before tax at the planning stage.</li> </ul>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Climate change

Stakeholders are increasingly interested in how climate change will impact the Bank. The Bank has determined that the most significant future impacts from climate change on its operations will be from the duration of financing, and the specific physical and transitional risks that may be present within the UK, which is the primary market for the Bank. These are explained on pages 22 and 23 in the strategic report. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information". In planning and performing our audit we assessed the potential impacts of climate change on the Bank's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, and whether the effects of potential climate risks have been appropriately reflected in determining that the impact on the financial statements would be immaterial. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Allowance for expected credit loss (ECL): £5.1m (2022: £3.7m)</b></p> <p><i>Refer to Accounting policies (page 48); and Note 27 of the Financial Statements (page 66)</i></p> <p>The forward-looking nature of <i>International Financial Reporting Standard 9 – Financial Instruments</i> requirements mean that a range of subjective inputs are required in determining a final position. These include the impacts of continuing uncertain geopolitical and economic outlook, higher base rate environment, a protracted period of inflation that is above the policy target, refinance risks and stresses on recoverable values, which were all considered in our risk assessment.</p> <p>The key judgements and estimates in respect of the timing and measurement of ECL include:</p> <ul style="list-style-type: none"> <li>• <i>Staging</i>: Allocation of assets to stage 1, 2 or 3 using criteria in accordance with the accounting standard;</li> <li>• <i>Model and model assumptions</i>: The accounting interpretations and modelling assumptions used to build the models that calculate ECL and the data inputs to the models;</li> <li>• <i>Economic scenarios</i>: Inputs, assumptions and weightings</li> </ul>	<p>We assessed the design effectiveness of key controls across the processes relevant to the ECL calculation, involving specialists to assist us where appropriate. We reviewed the minutes of the Board committees where inputs, assumptions, and adjustments to the ECL were discussed and approved.</p> <p><i>Staging</i>: We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We recalculated the staging of the complete population of assets based on management’s criteria, and performed sensitivity analysis to assess the impact of different criteria on the ECL.</p> <p><i>Model and model assumptions</i>: We involved EY modelling specialists to test the assumptions, inputs, methodology and model build. This included a combination of assessing model design and formulae, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default. We also considered the results of the Bank’s internal model monitoring and validation results.</p> <p>To perform testing over completeness and accuracy of data used in the ECL models, we agreed a sample of key data fields, to source system and contracts and two-way</p>	<p>Based on the work we performed, we were satisfied that the ECL is reasonably stated in compliance with the requirements of IFRS 9.</p> <p>We raised observations in relation to data inputs, model recalibration and validation, none of which individually or in aggregate had a material impact on the ECL recorded.</p> <p>Based on our sensitivity analysis of the staging criteria, we noted that substantial changes would be needed to the criteria to result in a material difference to ECL.</p> <p>We also noted no model overlays needed to be applied.</p> <p>We assessed the individual provisions recorded for the stage 3 portfolio and noted no issues.</p> <p>Although certain forecast macroeconomic variables used within the models were outside of expected ranges, the impact on the ECL was not material.</p>

<p>used to estimate the impact of multiple economic scenarios, particularly those influenced by current economic conditions;</p> <ul style="list-style-type: none"> <li>• <i>Individual provisions:</i> Measurement of individual provisions including the assessment of multiple scenarios and probability weights, the impact of the current uncertain geopolitical and economic outlook on exit or recovery strategies, collateral valuations, and time to collect.</li> </ul>	<p>testing between the ledger and other sources of information.</p> <p><i>Economic scenarios:</i> We involved EY economic specialists to assist us in evaluating the base case and alternative economic scenarios, including evaluating probability weights, and comparing these with peer banks. This assessment included the impacts of the current geopolitical and economic environment and whether forecast macroeconomic variables such as GDP, unemployment rate, Consumer Price Index, Bank of England base rates and the House Price Index were appropriate. With the support of our credit modelling specialists, we evaluated the correlation and translation of the macroeconomic factors, including the impacts of alternative paths or weights to ECL.</p> <p><i>Post model adjustment:</i> We challenged the management as to whether any model overlays were required using our knowledge and experience across the industry.</p> <p><i>Individual provisions:</i> We challenged the economic scenarios, assumptions, collateral or exit values and cashflows for individual provisions estimated by management, involving EY Valuation, Modelling and Economics (EY VME) specialists where appropriate. We also assessed the individual provisions recorded for the stage 3 portfolio and considered if they were in line with industry-specific risks highlighted by our EY VME specialists.</p>	
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<p><b>Improper revenue recognition on income from Islamic financing transactions and fees and commission income, including effective profit rate: £144.6m (2022: £85.9m)</b></p> <p><i>Refer to Accounting policies (page 46 and 48); and Note 6 and 7 of the Financial Statements (page 51 and 52)</i></p> <p>The risk of improper revenue recognition may result in a material misstatement in the income from Islamic financing transactions and fees and commission income included in the income statement.</p> <p>There is judgement applied in determining the behavioural life of assets over which to determine the expected profit rate (EPR), and a risk of management override from the manual recognition of fees recognised as part of the expected profit.</p>	<p>We obtained an understanding of processes and controls related to revenue recognition and assessed the design effectiveness, and tested the operating effectiveness, of the key controls.</p> <p>We performed analytical procedures to identify trends and further investigated the movements not in line with our expectations.</p> <p>We recalculated, on a sample basis, the EPR income recognised across different product classes to determined that it has been calculated in accordance with the underlying transaction documentation and recorded in the appropriate accounting period.</p> <p>We performed back testing to confirm whether the EPR calculation assumption of behavioural life being equal to contractual life is appropriate.</p> <p>We tested whether appropriate fees are included within, or excluded from, the EPR calculation in accordance with IFRS 9, considering whether they are integral to the EPR of the financing facility.</p> <p>We performed year end cut-off testing to determine that revenue was recognised in the correct period.</p>	<p>Based on the procedures performed, we have no material findings to report.</p>
<p><b>Information Technology (IT) general controls</b></p> <p>Effective IT general controls are needed to ensure that IT applications process business data as expected and that changes are appropriately approved before being implemented in the applications.</p> <p>The possibility of users gaining access beyond those necessary to perform their assigned duties may result in breaches in segregation of</p>	<p>We evaluated the design and operating effectiveness of IT general controls over the application, operating system and database that is relevant to financial reporting.</p> <p>We involved EY Technology specialists where appropriate to test the controls in place, in particular, testing the addition, revocation and periodic recertification of users' access, and changes made to the program and configuration of</p>	<p>Where control deficiencies were identified in the core banking application, alternative IT substantive procedures were performed and we concluded that the IT environment appropriately supports the financial reporting process.</p> <p>On a key front-end application, where IT controls were ineffective, we performed significant additional testing of the completeness and accuracy of data and concluded that the weaknesses had not resulted in</p>

duties, including inappropriate manual intervention, and unauthorised changes to systems or programmes.	the applications that are critical for financial reporting.	material error in the financial statements.
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## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Bank to be £1.27 million, which was 5% of forecast profit before tax at the planning stage of the audit. We believe that profit before tax provides us with an appropriate basis for materiality to reflect the performance of the Bank, as this is also the level at which management considers the financial performance of the Bank when reporting internally or to any external stakeholders.

At year-end, we reassessed initial materiality and used the 5% rate of actual profit before tax. There was a slight increase in materiality to that used at the planning stage of the audit. As our planning materiality was lower, we have used that in our audit.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £635k. We have set performance materiality at this percentage based on a variety of risk assessment factors such as the expectation of misstatements, internal control environment considerations and other factors including this being an initial audit.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £63.5k, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## 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 this 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## 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 directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 30, 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

## 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.

***Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012, Capital Requirements Regulation, and relevant Prudential Regulation Authority, Financial Conduct Authority Regulations and tax legislation;
- We understood how Bank is complying with those frameworks by making inquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed regulatory correspondence and minutes of the Board, Audit Committee and Risk Committee meetings held and gained an understanding of the Bank's approach to governance.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We made enquiries of management and internal audit to supplement our assessment of how fraud might occur. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, testing year-end adjustments and other targeted journal entries and performing procedures to identify any significant items inappropriately held in suspense. We also assessed the risks of fraud in our key audit matters. Our procedures over our key audit matters and other significant accounting estimates included challenging management on the assumptions and judgements made in determining these estimates.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of internal and external legal counsel, executive management and internal audit, and reviewing the key policies, reports on the legal and regulatory frameworks. We also conducted a review of correspondence with the regulators and gained an understanding of the penalty paid in the year in relation to historical (pre 2017) deficiencies in AML and sanctions controls. The Bank operates in the financial services industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

Following the recommendation from the Audit Committee we were appointed by the Bank at its annual general meeting on 30 May 2023 to audit the financial statements for the year ending 31 December 2023 and subsequent financial periods.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

Kenneth Eglinton (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
Date

*23 April 2024*



## Statement of comprehensive income

For the year ended 31 December

	Note	2023 £'000s	2022 £'000s
Income from Islamic financing transactions	6	143,577	84,762
Returns to banks and customers	6, 21	(71,869)	(29,308)
<b>Net income from Islamic financing transactions</b>		<b>71,708</b>	<b>55,454</b>
Fees and commission income	7	996	1,107
Fees and commission expense	7	(394)	(745)
<b>Net fees and commission income</b>		<b>602</b>	<b>362</b>
(Loss) / gain on disposal of investment securities		(3,766)	51
Foreign exchange loss		(266)	(10)
Other non-fee income / (loss)		119	(50)
<b>Other income loss</b>		<b>(3,913)</b>	<b>(9)</b>
<b>Total income</b>		<b>68,397</b>	<b>55,807</b>
Impairment charge	26, 27	(1,428)	(183)
Staff costs	8	(20,423)	(18,153)
General and administrative expenses		(13,370)	(12,840)
Depreciation	14	(1,338)	(1,843)
Amortisation	15	(1,230)	(1,991)
<b>Total operating expenses</b>		<b>(37,789)</b>	<b>(35,010)</b>
<b>Profit before tax</b>		<b>30,608</b>	<b>20,797</b>
Tax charge	11	(7,580)	(4,297)
<b>Profit for the financial year</b>		<b>23,028</b>	<b>16,500</b>
<b>Other comprehensive income:</b>			
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of investment securities at FVOCI	11	1,310	(5,602)
Amounts transferred to the income statement		3,766	(51)
<b>Total other comprehensive income / (loss)*</b>		<b>5,076</b>	<b>(5,653)</b>
<b>Total comprehensive income for the financial year</b>		<b>28,104</b>	<b>10,847</b>

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

The notes on pages 44 to 78 are an integral part of these financial statements.

## Statement of financial position

As at 31 December

	Note	2023 £'000s	2022 £'000s
<b>Assets</b>			
Cash		953	1,234
Treasury placements and cash balances with banks	12	401,615	353,062
Home Purchase Plans	26, 27	993,121	1,099,728
Commercial Property Finance	26, 27	899,686	789,370
Investment securities	25	148,713	108,821
Property and equipment	14	33,561	33,072
Intangible assets	15	3,166	3,075
Deferred tax asset	11	4,838	8,354
Sharia compliant derivative financial instruments	24	3,344	-
Other assets	13	4,221	3,578
<b>Total assets</b>		<b>2,493,218</b>	<b>2,400,294</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits from banks and financial institutions	16	111,237	145,703
Deposits from customers	17	2,149,200	2,044,149
Subordinated funding	18, 21	25,000	25,000
Other liabilities	19	12,621	17,261
Sharia compliant derivative financial instruments	24	22	866
<b>Total liabilities</b>		<b>2,298,080</b>	<b>2,232,979</b>
<b>Equity</b>			
Share capital	21	121,219	121,219
Contingent convertible investment	21, 22	3,000	3,000
Reserve on investment securities		(1,572)	(6,648)
Retained earnings		72,392	49,647
Profit stabilisation reserve	4	99	97
<b>Total equity</b>		<b>195,138</b>	<b>167,315</b>
<b>Total liabilities &amp; equity</b>		<b>2,493,218</b>	<b>2,400,294</b>

The notes on pages 44 to 78 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 18 April 2024 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

<i>Note</i>	Share capital 21	Contingent convertible investment 21	Reserve on investment securities 25	Retained earnings/ (deficit) 21	Profit stabilisation reserve 4	Total
£'000s						
Balance at 1 January 2023	121,219	3,000	(6,648)	49,647	97	167,315
Profit for the year	-	-	-	23,028	-	23,028
Other comprehensive gain	-	-	5,076	-	-	5,076
Total comprehensive income	-	-	5,076	23,028	-	28,104
Profit payment to additional Tier 1 capital holders	-	-	-	(281)	-	(281)
Transfer to profit stabilisation reserve	-	-	-	(2)	2	-
<b>Balance at 31 December 2023</b>	<b>121,219</b>	<b>3,000</b>	<b>(1,572)</b>	<b>72,392</b>	<b>99</b>	<b>195,138</b>
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/(loss)	-	-	(5,653)	16,500	-	10,847
Profit payment to additional Tier 1 capital holders	-	-	-	(843)	-	(843)
Transfer to profit stabilisation reserve	-	-	-	1	(1)	-
<b>Balance at 31 December 2022</b>	<b>121,219</b>	<b>3,000</b>	<b>(6,648)</b>	<b>49,647</b>	<b>97</b>	<b>167,315</b>

\* The movement in the fair value of investment securities at FVOCI in the year totalled £5,076k, of which £3,766k related to the disposal of an investment security, (as shown in the statement of comprehensive income), with the remainder £1,310k being the change in fair value of the investment securities held at the balance sheet date.

The notes on pages 44 to 78 are an integral part of these financial statements.

## Statement of cash flows

For the year ended 31 December

	Note	2023 £'000s	2022 £'000s
<b>Cash flows from operating activities</b>			
Profit before tax		30,608	20,797
Adjustments for:			
Depreciation	14	1,338	1,843
Amortisation	15	1,230	1,991
(Gain) / loss on disposal of investment securities		3,766	(51)
Profit on subordinated funding		2,000	2,000
Impairment charges on financial assets	26	1,428	183
Other non-cash items included in profit before tax		340	292
		<b>40,710</b>	<b>27,055</b>
Movement in:			
Treasury Placements	12	(350)	120
Home Purchase Plans	26	106,281	92,488
Commercial Property Finance	26	(111,420)	(120,113)
Other assets	13	(138)	2,191
Sharia compliant derivative financial instruments	24	(4,188)	275
Deposits from banks and financial institutions	16	(34,466)	46,741
Deposits from customers	17	105,052	84,485
Other liabilities	20	(3,379)	2,767
Taxation paid		(6,300)	(3,140)
<b>Net cash inflow from operating activities</b>		<b>91,802</b>	<b>132,869</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(226,418)	(114,881)
Receipts sales of investment securities		189,530	122,134
Purchase of property and equipment	14	(1,828)	(29,430)
Investment in intangible assets	15	(1,321)	(966)
<b>Net cash outflow from investing activities</b>		<b>(40,037)</b>	<b>(23,143)</b>
<b>Cash flows from financing activities</b>			
Payment of principal in respect of leases		(1,260)	(1,019)
Payment of financing in respect of leases		(33)	(116)
Payment of Additional Tier 1 Financing profit	21	(281)	(843)
Payment of profit on subordinated funding		(2,000)	(2,000)
<b>Net cash outflow from financing activities</b>		<b>(3,574)</b>	<b>(3,978)</b>
<b>Net change in cash and cash equivalents</b>		<b>48,191</b>	<b>105,748</b>
Foreign exchange loss		(266)	(10)
Cash and cash equivalents at 1 January		349,828	244,090
<b>Cash and cash equivalents at 31 December</b>		<b>397,753</b>	<b>349,828</b>

The notes on pages 44 to 78 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 4 Stratford Place, London W1C 1AT. 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 2023. 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 Changes in accounting policies and disclosures

#### New and amended standards and interpretations

- *International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12*

The amendments to IAS 12 have been introduced in response to the OECD's BEPS (Base Erosion and Profit Shifting Project) Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The Bank has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the jurisdictions it operates within. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank financial statements at 31 December 2023 (please see note 11).

- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2*

The amendments to "IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements" provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The Bank has adopted the amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose only their 'material' accounting policies within the Financial Statements.

#### New standards issued but not yet effective

New and amended standards and interpretations that are issued but not yet effective will not have a material impact on the Bank's financial statements.

## 4 Material 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 macroeconomic 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. The assessment performed covers 12 month period to 30 April 2025 and 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 at trade date 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.

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

#### 4 Material accounting policies (continued)

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, but the terms have been significantly modified, 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.

## 4 Material accounting policies (continued)

### 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 on trade date at fair value including direct and incremental transaction costs, and subsequently measured at FVOCI. The cash flows received by the Bank are solely payments of principal and profit on the outstanding balance or sale proceeds in the event of a sale.

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

### 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.

### 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.

These are both treated as derivative financial instruments under IFRS 9 and recognised initially and subsequently measured at fair value through profit or loss (FVTPL), amortised over the term of the contract.

Where derivatives are held with the same counterparty and have a right of offset through the relevant agreement for net settlement, 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. Foreign exchange movements are shown as part of the foreign exchange line and amortisation of foreign exchange arising from Sharia Compliant forward foreign exchange rate contracts can result in a FX gain or loss as reflected in the statement of comprehensive income.

### 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.



#### 4 Material accounting policies (continued)

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%. However Profit income is calculated by applying the EPR to the net amortised cost of the financial assets (that is, net of credit allowance).

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
<b>Probability of Default (PD)</b>	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.
<b>Loss Given Default (LGD)</b>	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 27.
<b>Exposure at Default (EAD)</b>	The EAD is based on the expected balance sheet exposure at the time of default, incorporating changes in the exposure over the lifetime of the customer, such as payments of principal and profit, prepayments and drawdowns of committed facilities, including off-balance sheet commitments.

Where the ECL model does not capture specific risk elements relating to financing assets, a post model adjustment may be incorporated into the overall ECL figure. These typically relate to specific assets or asset classes, or scenarios where additional factors above the standard economic modelling are expected to impact either the PD, LGD or EAD. These post model adjustments are calculated using similar inputs and methodologies to the core ECL calculation, but may have adjustments applied which are reviewed by management and subject to oversight. See note 27 for further details of the post model adjustments.

## 4 Material accounting policies (continued)

### 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.

## 4 Material accounting policies (continued)

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	5-10	Years
Leasehold improvements	Up to 15	Years or over the life of the lease whichever is shorter
Long leasehold 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.

### 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 or the duration of the license, whichever is shorter. Internally developed software is amortised over three to seven years.

### 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 Bank has opted to apply the short term lease low-value asset recognition exemption and accounts for the lease payments on a straight line basis over the duration of the term on the lease.

## 4 Material accounting policies (continued)

### 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 Board 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 27
Deferred Tax	Judgements and estimates included in Note 11

## 6 Net income from Islamic financing transactions

	2023	2022
£'000s		
Treasury placements	12,462	2,537
Home Purchase Plan	63,229	46,191
Commercial Property Finance	64,511	34,894
Investment securities	3,375	1,226
Loss on Sharia compliant profit rate swaps held at fair value	-	(86)
<b>Income from Islamic financing transactions</b>	<b>143,577</b>	<b>84,762</b>
Deposits from banks and financial institutions	(8,572)	(4,086)
Deposits from customers	(63,297)	(25,222)
<b>Returns to banks and customers</b>	<b>(71,869)</b>	<b>(29,308)</b>
<b>Net income from Islamic financing transactions</b>	<b>71,708</b>	<b>55,454</b>

## 7 Net fees and commission income

£'000s	2023	2022
<b>Fees and commission income</b>		
Retail customer banking fees	<b>848</b>	962
ATM commission	<b>63</b>	60
Other	<b>85</b>	85
Total fees and commission income	<u><b>996</b></u>	<u>1,107</u>
Transaction fees	<u><b>(394)</b></u>	<u>(745)</u>
Total fees and commission expense	<u><b>(394)</b></u>	<u>(745)</u>
Net fees and commission income	<u><b>602</b></u>	<u>362</u>

## 8 Staff costs

£'000s	2023	2022
Wages and salaries	<b>17,483</b>	15,678
Social security costs	<b>1,803</b>	1,664
Contributions to defined contribution pension plans	<b>965</b>	781
Other staff costs	<b>172</b>	30
Total	<u><b>20,423</b></u>	<u>18,153</u>

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

	2023	2022
Average for the period	<u>206</u>	<u>210</u>

## 9 Directors' emoluments

The emoluments of the Directors who served during the year were as follows:

	2023			2022		
	Fees/Salary	Pension	Total	Fees/Salary	Pension	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Directors' Salaries and Fees	<b>1,480</b>	-	<b>1,480</b>	1,193	3	1,196
Of which: Highest paid Directors' Salaries and Fees	<b>1,047</b>	-	<b>1,047</b>	819	-	819

The total amount paid to non-executive directors during the year ended 31 December 2023 was £433,828 (2022: £377,000).

## 10 Auditor's remuneration

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

£'000s	2023	2022
Audit of these financial statements	<b>653</b>	592
Audit-related assurance services	<b>-</b>	109
Total	<u><b>653</b></u>	<u>701</u>

## 11 Tax

£'000s	2023	2022
<i>Current tax expense:</i>		
Current tax charge on profits for the year	(5,757)	(3,231)
Adjustment in respect of prior years credit / (charge)	-	71
Current Year tax charge	<u>(5,757)</u>	<u>(3,160)</u>
<i>Deferred Tax through income statement:</i>		
Current year (charge) / credit	(1,899)	(940)
Adjustment in respect of previous periods charge	76	(47)
Effect of changes in tax rates	-	(150)
Deferred tax (charge) / credit through income statement	<u>(1,823)</u>	<u>(1,137)</u>
Charged to income statement:	<u>(7,580)</u>	<u>(4,297)</u>
Other Comprehensive Income items: Deferred tax (charge) / credit	<u>(1,693)</u>	1,884
Total tax (charge)	<u>(9,273)</u>	<u>(2,413)</u>
<i>Reconciliation of effective tax rate:</i>		
Profit before tax	30,608	20,797
Tax on profit at standard UK tax rate of 23.5% (2022: 19%)	(7,193)	(3,951)
Effects of:		
Adjustments in respect of prior years through profit and loss	76	24
Expenses not deductible	(407)	(232)
Effects of tax rate changes	(122)	(150)
Exempt amounts	-	-
Income not taxable	66	12
Income tax expense reported in the income statement	<u>(7,580)</u>	<u>(4,297)</u>

The movement on the deferred tax account is as follows:

£'000s		
Asset at start of period	8,354	7,607
Adjustment in respect of prior years	76	(47)
Deferred tax (charge) / credit to comprehensive income for the period	<u>(3,592)</u>	794
Deferred tax asset as at 31 December	<u>4,838</u>	<u>8,354</u>

Within the deferred tax balance is a £523,000 asset (2022: £2,216,000 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 2022 and 2023.

**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 estimated forecasts to generate sufficient profits to utilise the carried forward losses represent a subjective areas of judgment in management's projections of future taxable profits.

## 11 Tax (continued)

The Bank had accumulated tax losses prior to 2014 of £66.8m, of which £49.8m (2022: £43.2m) have been utilised against carried forward taxable profits to date. 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 £68.2m 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 value 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.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Bank has performed an assessment of the Group's potential exposure to Pillar Two income taxes. This evaluation has been based on the most recent information available pertaining to the financial performance of the constituent entities within the Group. Based on the assessment performed, the Bank does not expect a potential exposure to Pillar Two top-up taxes.

The Bank has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 Income Taxes issued in May 2023.

## 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.

	2023	2022
£'000s		
Balances with banks available on demand	75,714	66,425
Balances subject to encumbrance *	5,851	5,562
Treasury placements with original maturity less than 3 months	320,050	281,075
Total placements and balances with banks	401,615	353,062
Of which: cash and cash equivalents	396,800	348,594

### \* Balances with banks subject to encumbrance

This balance comprises a 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. A Bank of England deposit ratio scheme is a levy imposed by the regulator and is returnable if eligible liabilities fall below predefined threshold. Similarly, collateral held with *MasterCard*, covering a 3 day settlement default pipeline if the Bank can not pay due funds to the merchants. These are both classified 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.

## 13 Other assets

	2023	2022
£'000s		
Prepayments and other receivables	3,170	2,167
VAT recoverable	204	1,366
Corporation tax recoverable	847	45
Total other assets	4,221	3,578

There are no receivable balances which are expected to be recovered in more than 12 months in 2023 (2022: Nil).

14 Property and equipment	Computer Equipment	Office Equipment	Leasehold Improvement	Right of Use assets	Fixtures & Fittings	Long leasehold Land & Buildings	Freehold Land & Buildings	Total
£'000s								
<b>Cost</b>								
Balance at 1 January 2023	626	359	3,192	5,949	2,506	3,736	27,160	43,528
Additions	325	462	-	-	1,122	-	-	1,909
Disposals	(578)	(18)	(2,041)	(3,979)	(55)	-	-	(6,671)
Adjustments	-	-	-	-	-	-	(81)	(81)
Right of Use asset adjustments	-	-	-	-	-	-	-	-
Balance at 31 December 2023	373	803	1,151	1,970	3,573	3,736	27,079	38,655
<b>Depreciation and impairment</b>								
Balance at 1 January 2023	582	314	2,942	4,936	783	899	-	10,456
Depreciation charge for the year	100	81	116	532	209	137	163	1,338
Impairment charges	-	-	-	-	-	-	-	-
Impairment reversal	-	-	-	-	-	-	-	-
Disposals	(578)	(18)	(2,041)	(3,979)	(54)	-	-	(6,670)
Balance at 31 December 2023	104	377	1,017	1,489	938	1,036	163	5,124
<b>Net book value</b>								
As at 31 December 2023	269	426	134	481	2,635	2,700	26,916	33,561
<b>Cost</b>								
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
<b>Depreciation and impairment</b>								
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
<b>Net book value</b>								
As at 31 December 2022	44	45	250	1,013	1,723	2,837	27,160	33,072



## 14 Property and equipment (continued)

During 2023 the Bank undertook additional works to the purchase of the freehold property in London for use as its new Head Office. The property commenced use in May 2023 and fit out cost are capitalised at the enacted VAT recoverable rates at time of the refurbishment work being undertaken.

### Maturity of lease liabilities

£'000s	2023	2022
<b>Maturity Analysis – Contractual undiscounted cash flows</b>		
Less than one year	289	977
One to five years	457	1,066
<b>Total undiscounted lease liabilities at 31 December</b>	<b>746</b>	<b>2,043</b>
<b>Lease liabilities included in the statement of financial position at 31 December (see note 19)</b>	<b>691</b>	<b>1,952</b>
<b>Of which: Current</b>	<b>224</b>	<b>969</b>
<b>Non-current</b>	<b>467</b>	<b>983</b>

The total expense included as part of “general and administrative expenses” fully paid 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 £174,000 for the year (2022: £237,000).

## 15 Intangible assets

	Computer licences	Purchased & developed software	Work in progress	Total
£'000s				
<b>Cost</b>				
Balance at 1 January 2023	1,263	11,385	588	13,236
Additions	-	-	1,323	1,323
Write-downs and disposals	-	-	(2)	(2)
Transfers	-	775	(775)	-
Balance at 31 December 2023	<b>1,263</b>	<b>12,160</b>	<b>1,134</b>	<b>14,557</b>
<b>Amortisation</b>				
Balance at 1 January 2023	1,263	8,898	-	10,161
Amortisation charge for the year	-	1,230	-	1,230
Impairment charges	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2023	<b>1,263</b>	<b>10,128</b>	<b>-</b>	<b>11,391</b>
<b>Net book value as at 31 December 2023</b>	<b>-</b>	<b>2,032</b>	<b>1,134</b>	<b>3,166</b>
<b>Cost</b>				
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	<b>1,263</b>	<b>11,385</b>	<b>588</b>	<b>13,236</b>
<b>Amortisation</b>				
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	<b>1,263</b>	<b>8,898</b>	<b>-</b>	<b>10,161</b>
<b>Net book value as at 31 December 2022</b>	<b>-</b>	<b>2,487</b>	<b>588</b>	<b>3,075</b>

## 15 Intangible assets (continued)

Work in progress includes the development of software projects, which will be transferred to 'purchased & developed software' when the software is capable of operating as intended. Additions relating to existing work in progress projects are included in work in progress during the year and shown as transfers upon completion of the asset.

## 16 Deposits from banks and financial institutions

	2023	2022
£'000s		
Repayable on demand	3,006	3,783
1 months or less but not repayable on demand	9,916	35,201
1-3 months	44,233	35,000
3 months to 1 year	51,002	61,929
1 year to 2 years	3,080	6,738
Between 2 year and 5 years	-	3,052
<b>Total deposits from banks and financial institutions</b>	<b>111,237</b>	<b>145,703</b>
Non-profit paying accounts	3,006	3,783
Profit sharing / paying accounts	108,231	141,920
<b>Total deposits from banks and financial institutions</b>	<b>111,237</b>	<b>145,703</b>

## 17 Deposits from customers

£'000s		
Repayable on demand	634,295	955,797
1 months or less but not repayable on demand	63,074	26,657
1-3 months	235,235	268,510
3 months to 1 year	979,893	606,440
1 year to 2 years	140,395	147,504
Between 2 year and 5 years	96,308	39,241
<b>Total deposits from customers</b>	<b>2,149,200</b>	<b>2,044,149</b>
Comprising:		
Non-profit paying	163,042	224,960
Profit sharing / paying accounts	1,986,158	1,819,189
<b>Total deposits from customers</b>	<b>2,149,200</b>	<b>2,044,149</b>

## 18 Subordinated funding

£'000s		
Subordinated funding	25,000	25,000
<b>Total</b>	<b>25,000</b>	<b>25,000</b>

Total returns paid on this funding for the year ended 31 December 2023 were £2m (2022: £2m). All returns were fully paid during the year and there was no outstanding payables as at 31 December 2023 (2022: £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 2023, and there were no further drawdowns in 2023.

At 31 December 2023, nominal amount of £25m had less than five years to maturity (2022: £15m), 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 2023 the Tier 2 capital value of the subordinated funding was £18.7m (2022: £22.7m). This does not impact the carrying amount of these amounts under IFRS 9.

**19 Other liabilities**

	2023	2022
£'000s		
Social security and income tax	637	339
Accruals	6,981	5,597
Provisions	300	4,024
Other creditors	4,012	5,349
Lease liabilities	691	1,952
<b>Total</b>	<b>12,621</b>	<b>17,261</b>

Provisions figure for 2023 relates to customer claims referred to Financial Ombudsman (FOS) which are expected to settle in 2024 based on a probable expected cash outflow requirements on Banks to increase on their award limits for cases being referred to FOS.

2022 provision was fully settled in January 2023.

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.

**20 Reconciliation of movement in liabilities to cash flows arising from financing activities**

	Other liabilities	Subordinated funding
£'000s		
Balance as at 1 January 2023	17,261	25,000
<b>Changes from financing activities</b>		
Payment of principal in respect of leases	(1,260)	-
Profit payment on subordinated funding	-	(2,000)
Payment of financing in respect of leases	(33)	-
	<b>(1,293)</b>	<b>(2,000)</b>
<b>Other changes Liability related</b>		
Cash based	(3,379)	-
Profit payable on subordinated funding	-	2,000
Non-cash based	32	-
	<b>(3,347)</b>	<b>2,000</b>
<b>Balance as at 31 December 2023</b>	<b>12,261</b>	<b>25,000</b>
£'000s		
Balance as at 1 January 2022	17,363	25,000
<b>Changes from financing activities</b>		
Payment of principal in respect of leases	(1,019)	-
Profit payment on subordinated funding	-	(2,000)
Payment of principal in respect of leases	(116)	-
	<b>(1,135)</b>	<b>(2,000)</b>
<b>Other changes Liability related</b>		
Cash based	2,767	-
Profit payable on subordinated funding	-	2,000
Non-cash based	(1,734)	-
	<b>1,033</b>	<b>2,000</b>
<b>Balance as at 31 December 2022</b>	<b>17,261</b>	<b>25,000</b>

## 21 Capital

### Share Capital

	2023	2022
<b>Allotted, called up and fully paid (£'000s)</b>		
Issued ordinary share capital (12,121,870,000 ordinary shares of £0.01 each)	121,219	121,219
	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 expired 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 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 2023 £141,630 (2022: £141,630) of profit was payable in respect of the AT1 capital, based on the contractual profit rate. During 2023 a profit payment from reserves of £280,950 (2022: £842,850 this related to the profit for the period from 1 July 2019 to 1 July 2022) was paid to MAR, as distributable reserves were available to make payment. This amount related to the profit for the period from 1 July 2022 to 1 July 2023 and reflected full settlement of the outstanding amounts at that time.

## 22 Related parties

### (a) Transactions with key management personnel

At 31 December 2023, Directors of the Bank and their immediate relatives have no shareholding in the Bank (2022: £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:

	2023	2022
£'000s		
Key management emoluments including social security costs	3,696	2,847
Long term emoluments payable to key management	389	271
Bank contributions to defined contribution pension plans	38	86
Total	4,123	3,204

Deposit balances, operated under standard customer terms and conditions, held by key management personnel, including Directors and immediate relatives, totalled £203,446 as at 31 December 2023 (2022: £121,984). Total returns paid on these accounts during the year were £4,283 (2022: £1,773).

Home Purchase Plan balances relating to key management personnel and immediate relatives as at 31 December 2023 was £1,650,000 (2022: £nil).

## 22 Related parties (Continued)

### (b) Transactions with ultimate parent company

Masraf Al Rayan Q.P.S.C (MAR) owns 75% (2022: 75%) and Qatar Holding LLC incorporated in Doha, Qatar owns 25% (2022: 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	2023			2022		
	Cash	Less than 3 months	3-6 months	Cash	Less than 3 months	3-6 Months
Placements with MAR	-	20,056	-	-	30,059	-
Deposits from MAR	3,007	-	-	3,783	-	15,072

As at 31 December 2023 there was an outstanding subordinated financing balance payable to MAR of £25m (2022: £25m). See note 18 for further details of this facility. A Contingent Convertible Investment of £3m was made during 2019 and profit of £280,950 was paid during 2023 in respect of this investment relating to the period from 2022 to 2023. See note 21 for further details.

Profit paid to MAR on deposits received, included in returns to banks and other financial institutions in note 6, was £846,000 (2022: £423,000), excluding amounts paid on subordinated funding (see note 18). Profit received from MAR on placements was £941,000 (2022: £309,000) included in Treasury placements income in note 6.

## 23 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
<b>31 December 2023</b>			
Assets	179,845	2,205	-
Deposits	(63,440)	(2,210)	-
Net on balance sheet exposure	<u>116,405</u>	<u>(5)</u>	-
Sharia compliant forward foreign exchange contracts (revalued nominal)	119,382	-	-
<b>31 December 2022</b>			
Assets	113,820	1,455	75
Deposits	(103,160)	(1,460)	-
Net exposure	<u>10,660</u>	<u>(5)</u>	<u>75</u>
Sharia compliant forward foreign exchange contracts (revalued nominal)	9,930	-	-

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 24.

## 24 Sharia compliant derivative financial instruments

There are no balances which include a right of offset between instruments. For individual Sharia compliant 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				Notional balance	
	Assets	Liabilities	Total		
<b>2023</b>					
Forward exchange rate contracts	3,344	(22)	3,322		116,060
Sharia compliant profit rate swaps	-	-	-		-
<b>Total</b>	<b>3,344</b>	<b>(22)</b>	<b>3,322</b>		
<b>2022</b>					
Forward exchange rate contracts	-	(866)	(866)		10,796
Sharia compliant profit rate swaps	-	-	-		-
<b>Total</b>	<b>-</b>	<b>(866)</b>	<b>(866)</b>		
	Up to 1 month	1-3 months	3-12 months	1-5 years	Notional balance
<b>Maturity £'000s</b>					
<b>2023</b>					
Forward exchange rate contracts	33,720	43,130	39,210	-	116,060
Sharia compliant profit rate swaps	-	-	-	-	-
<b>2022</b>					
Forward exchange rate contracts	10,796	-	-	-	10,796
Sharia compliant profit rate swaps	-	-	-	-	-

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. 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.

## 25 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
<b>At 31 December 2023</b>				
Cash	953	-	-	953
Treasury placements and balances with banks	401,615	-	-	401,615
Consumer finance	-	-	-	-
Home Purchase Plans	993,121	-	-	993,121
Commercial Property Finance	899,686	-	-	899,686
Investment securities	-	148,713	-	148,713
Sharia compliant derivatives held for risk management	-	-	3,344	3,344
	<b>2,295,375</b>	<b>148,713</b>	<b>3,344</b>	<b>2,447,432</b>
Deposits from banks	111,237	-	-	111,237
Deposits from customers	2,149,200	-	-	2,149,200
Sharia compliant derivatives held for risk management	-	-	22	22
	<b>2,260,437</b>	<b>-</b>	<b>22</b>	<b>2,260,459</b>

## 25 Financial Instruments (Continued)

£'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
	<u>2,243,394</u>	<u>108,821</u>	<u>-</u>	<u>2,352,215</u>
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
	<u>2,189,852</u>	<u>-</u>	<u>866</u>	<u>2,190,718</u>

The carrying value of all financial instruments approximate their fair value. 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:** These Sharia compliant derivatives held are forward foreign exchange rate contracts (2022: forward foreign exchange rate contracts and profit rate swaps), see note 24. These are valued at Level 2 and priced using comparable market rates prevailing at year end.

## 25 Financial Instruments (Continued)

The table below analyses financial instruments measured at fair value into a fair value hierarchy:

£'000s	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Investment securities	148,713	-	-	148,713
Sharia compliant derivatives held for risk management	-	3,344	-	3,344
<b>As at 31 December 2023</b>	<b>148,713</b>	<b>3,344</b>	<b>-</b>	<b>152,057</b>
<b>Financial Liabilities</b>				
Sharia compliant derivatives held for risk management	-	22	-	22
<b>As at 31 December 2023</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>22</b>

£'000s	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Investment securities	108,821	-	-	108,821
<b>As at 31 December 2022</b>	<b>108,821</b>	<b>-</b>	<b>-</b>	<b>108,821</b>
<b>Financial Liabilities</b>				
Sharia compliant derivatives held for risk management	-	866	-	866
<b>As at 31 December 2022</b>	<b>-</b>	<b>866</b>	<b>-</b>	<b>866</b>

## 26 Financing assets

£'000s	2023			2022		
	Gross amount	Impairment Allowance	Carrying Amount	Gross amount	Impairment Allowance	Carrying Amount
Consumer finance	62	(62)	-	64	(64)	-
Home Purchase Plans	994,318	(1,197)	993,121	1,100,598	(870)	1,099,728
Commercial Property Finance	903,501	(3,815)	899,686	792,082	(2,712)	789,370

Total impairment allowance on financing assets:

£'000s	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January 2023	2,519	106	1,021	3,646
Charge / (Release) for the year	(2,192)	36	3,584	1,428
Amounts written off during the year	-	-	-	-
<b>Balance as at 31 December 2023</b>	<b>327</b>	<b>142</b>	<b>4,605</b>	<b>5,074</b>
Balance at 1 January 2022	1,279	1,806	378	3,463
Charge / (Release) for the year	1,240	(1,700)	643	183
Amounts written off during the year	-	-	-	-
<b>Balance as at 31 December 2022</b>	<b>2,519</b>	<b>106</b>	<b>1,021</b>	<b>3,646</b>



## 27 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 Committee (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.

## 27 Financial risk management (continued)

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.

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.

## 27 Financial risk management (continued)

### 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

<b>Staging/ Significant increase in credit risk (SICR)</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• a customer is in arrears of greater than 30 days for stage 2, or 90 days for stage 3;</li> <li>• 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;</li> </ul>
<b>Judgement</b>	<p>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.</p>
<b>Post-model adjustments</b>	<p>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.</p>
<b>Judgement</b>	<p>The post model adjustments are detailed later in this note.</p>
<b>Loss Given Default (LGD)</b>	<p>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.</p>
<b>Estimate</b>	<p>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.</p>
<b>Multiple economic scenarios (MES)</b>	<p>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.</p>
<b>Estimate</b>	<p>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.</p>
	<p>The Bank has used four economic scenarios for the current year's ECL (2022: four) and these scenarios, sensitivities and weightings are set out later in this note.</p>

## 27 Financial risk management (continued)

### (a) Credit risk (continued)

#### (ii) Exposure to credit risk (continued)

#### Total financing assets and ECL at 31 December 2023

	Investment grade £'000s	Below investment grade £'000s	Unrated financial assets £'000s	Gross Total £'000s	ECL £'000s	Net Total £'000s	Coverage %
<b>Treasury placements and deposits with banks</b>							
- Stage 1	401,615	-	-	401,615	-	401,615	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
<b>Total</b>	<b>401,615</b>	<b>-</b>	<b>-</b>	<b>401,615</b>	<b>-</b>	<b>401,615</b>	<b>0.00%</b>
<b>Investment securities</b>							
- Stage 1	148,731	-	-	148,731	(18)	148,713	0.01%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
<b>Total</b>	<b>148,731</b>	<b>-</b>	<b>-</b>	<b>148,731</b>	<b>(18)</b>	<b>148,713</b>	<b>0.01%</b>
<b>Home Purchase Plans</b>							
- Stage 1	-	-	915,181	915,181	(76)	915,105	0.01%
- Stage 2	-	-	60,058	60,058	(76)	59,982	0.13%
- Stage 3	-	-	19,079	19,079	(1,045)	18,034	5.79%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>994,318</b>	<b>994,318</b>	<b>(1,197)</b>	<b>993,121</b>	<b>0.120%</b>
<b>Commercial Property Finance</b>							
- Stage 1	-	-	832,827	832,827	(252)	832,575	0.03%
- Stage 2	-	-	28,456	28,456	(65)	28,391	0.23%
- Stage 3	-	-	42,218	42,218	(3,498)	38,720	9.03%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>903,501</b>	<b>903,501</b>	<b>(3,815)</b>	<b>899,686</b>	<b>0.42%</b>
<b>Consumer Finance</b>							
- Stage 1	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	62	62	(62)	-	100%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>62</b>	<b>62</b>	<b>(62)</b>	<b>-</b>	<b>100%</b>
<b>Total Financial Assets</b>							
- Stage 1	550,347	-	1,748,008	2,298,354	(346)	2,298,008	0.02%
- Stage 2	-	-	88,514	88,514	(141)	88,373	0.16%
- Stage 3	-	-	61,359	61,359	(4,605)	56,754	8.11%
<b>Total</b>	<b>550,347</b>	<b>-</b>	<b>1,897,881</b>	<b>2,448,227</b>	<b>(5,092)</b>	<b>2,443,135</b>	<b>0.21%</b>

Of the £88.5m (2022: £70.4m) of total gross financial assets in stage 2 that have experienced a significant increase in credit risk, £18.4m (2022: £4.8m) are included in stage 2 due to arrears of 30 days or more past due, of which 100% of balances relate to HPPs (2022: 100%), and the remaining £69.8m (2022: £65.6m) 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.

## 27 Financial risk management (continued)

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

### 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 %
<b>Treasury placements and deposits with banks</b>							
- Stage 1	353,062	-	-	353,062	-	353,062	0.00%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
<b>Total</b>	<b>353,062</b>	<b>-</b>	<b>-</b>	<b>353,062</b>	<b>-</b>	<b>353,062</b>	<b>0.00%</b>
<b>Investment securities</b>							
- Stage 1	108,839	-	-	108,839	(18)	108,821	0.02%
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
<b>Total</b>	<b>108,839</b>	<b>-</b>	<b>-</b>	<b>108,839</b>	<b>(18)</b>	<b>108,821</b>	<b>0.02%</b>
<b>Home Purchase Plans</b>							
- 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%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,100,598</b>	<b>1,100,598</b>	<b>(870)</b>	<b>1,099,728</b>	<b>0.08%</b>
<b>Commercial Property Finance</b>							
- 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%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>792,082</b>	<b>792,082</b>	<b>(2,712)</b>	<b>789,370</b>	<b>0.34%</b>
<b>Consumer Finance</b>							
- Stage 1	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	64	64	(64)	-	100%
<b>Total</b>	<b>-</b>	<b>-</b>	<b>64</b>	<b>64</b>	<b>(64)</b>	<b>-</b>	<b>100%</b>
<b>Total Financial Assets</b>							
- 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%
<b>Total</b>	<b>461,901</b>	<b>-</b>	<b>1,892,744</b>	<b>2,354,645</b>	<b>(3,664)</b>	<b>2,350,981</b>	<b>0.16%</b>

## 27 Financial risk management (continued)

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

2023	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
Customer financing - HPP and CPF £'000s								
At 1 Jan 2023	1,802,774	2,519	70,443	106	19,527	1,021	1,892,744	3,646
ECL on customer financing matured/settled during the period	(130,265)	(191)	(8,619)	(13)	(918)	(19)	(139,802)	(223)
Transfers of financial instruments:								
Transfers from Stage 1 to Stage 2	(70,737)	(133)	70,737	133	-	-	-	-
Transfers from Stage 2 to Stage 1	41,547	61	(41,547)	(61)	-	-	-	-
Transfers to Stage 3	(41,726)	(232)	(1,509)	(2)	43,235	234	-	-
Transfers from Stage 3	112	7	872	18	(984)	(25)	-	-
Net transfers	(70,804)	(297)	28,553	88	42,251	209	-	-
Net remeasurement of ECL on deals which have transferred stage *		(69)		(24)		3,836		3,743
Net new financing/payments and remeasurement of continuing customer ECL	146,303	(1,635)	(1,861)	(15)	497	(442)	144,939	(2,092)
At 31 Dec 2023	1,748,008	327	88,516	142	61,357	4,605	1,897,881	5,074
ECL income statement (charge)/release for the period on customer financing	-	2,191	-	(36)	-	(3,586)	-	(1,430)
ECL movements on other assets	-	-	-	-	-	2	-	2
Total income statement (charge)/release in ECL provision for the period on assets								(1,428)
2022	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
Customer financing - HPP and CPF £'000s								
At 1 Jan 2022	1,713,570	1,279	143,576	1,807	7,971	395	1,865,117	3,481
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	19,527	1,021	1,892,744	3,646
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)

\* '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.

## 27 Financial risk management (continued)

### (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.

Overall stage 1 ECL amount has reduced from last year due to relatively better economic scenario as compared to the previous year, increase in base case scenario weightages, and application of updated ECL parameters.

However, it is noted that bespoke assessment of the non-performing CPF facilities has resulted in an overall increase in the total ECL. The combination of these macro-economic factors continues to 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, which has increased both the likelihood and impact of defaults in the CPF portfolio.

#### **Sensitivity analysis:**

The key assumptions in the ECL models are unemployment expectations, forecast house price growth and changes in market rates. The ECL is calculated on a per customer basis, incorporating local indexation, with adjustments made to incorporate additional risk factors in geographical locations which are expected to have a greater reaction to changes in economic circumstances.

The Bank's ECL position as at 31 December 2023 has been calculated using the available Bank of England base rate forecast as at that date.

## 27 Financial risk management (continued)

### (a) Credit risk (continued)

#### (ii) Exposure to credit risk (continued)

The ECL calculation incorporates multiple economic scenarios which have been weighted according to considered likelihood. The tables below show the weightings and values of the key variables used within the scenarios, based on a 5-year forecast:

2023	Base case	Downturn	Moderate downturn	Slight upturn
Scenario weighting	55%	5%	25%	15%

2022	Base case	Downturn	Moderate downturn	Slight upturn
Scenario weighting	60%	5%	20%	15%

#### 2023 Key economic variables:

		Model scenario inputs					2023 Average	2022 Average
		2024	2025	2026	2027	2028		
Base case	BOE Rate	4.75%	4.00%	3.75%	3.50%	3.50%	3.90%	3.30%
	Unemployment	4.62%	4.56%	4.29%	4.17%	4.14%	4.36%	4.44%
	Annual HPI growth	-2.00%	-3.50%	3.50%	3.50%	4.00%	1.10%	0.21%
Downturn	BOE Rate	5.75%	5.00%	4.75%	4.50%	4.50%	4.90%	4.91%
	Unemployment	8.50%	8.00%	7.40%	6.80%	6.50%	7.44%	7.56%
	Annual HPI growth	-3.50%	-14.11%	-10.50%	4.34%	6.79%	-3.40%	-2.90%
Moderate downturn	BOE Rate	5.25%	4.50%	4.25%	4.00%	4.00%	4.40%	4.11%
	Unemployment	6.56%	6.28%	5.85%	5.49%	5.32%	5.90%	6.00%
	Annual HPI growth	-2.75%	-8.81%	-3.50%	3.92%	5.40%	-1.15%	-1.84%
Slight upturn	BOE Rate	4.50%	3.50%	3.25%	3.00%	3.00%	3.45%	2.80%
	Unemployment	4.30%	4.25%	4.00%	4.00%	4.00%	4.11%	3.70%
	Annual HPI growth	-1.00%	-2.00%	4.00%	3.75%	4.25%	1.80%	4.11%

#### 2022 Key economic variables:

		Model scenario inputs					2022 Average	2021 Average
		2023	2024	2025	2026	2027		
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%



## 27 Financial risk management (continued)

The base case scenario 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. Scenario weightings are revised periodically throughout the year to reflect management's view on the probability of each outcome.

For year-end 2023, 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, Bank of England data, etc.

### (a) Credit risk (continued)

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. The movement in the downturn scenario sensitivity is a result of favourable MES in the year 2023 compared to 2022.

2023	Weighted scenario ECL, no PMA £'000	Base case, no adjustment £'000	Slight upturn scenario £'000	Moderate downturn scenario £'000	Downturn scenario £'000
HPP	1,197	1,151	1,020	1,323	1,606
CPF	3,815	3,724	3,546	4,029	4,547
<b>Total</b>	<b>5,012</b>	<b>4,875</b>	<b>4,566</b>	<b>5,352</b>	<b>6,153</b>
2022	Weighted scenario ECL, no PMA £'000	Base case, no adjustment £'000	Slight upturn scenario £'000	Moderate downturn scenario £'000	Downturn scenario £'000
HPP	870	646	573	1,272	2,827
CPF	2,489	1,223	967	5,009	12,171
<b>Total</b>	<b>3,359</b>	<b>1,869</b>	<b>1,540</b>	<b>6,281</b>	<b>14,998</b>

#### Post Model Adjustments:

	2023			2022		
	ECL model output	PMA	Total ECL	ECL model output	PMA	Total ECL
HPP	1,197	-	1,197	870	-	870
CPF	3,815	-	3,815	2,489	223	2,712
<b>Total</b>	<b>5,012</b>	<b>-</b>	<b>5,012</b>	<b>3,359</b>	<b>223</b>	<b>3,582</b>

For 2023, the Bank has not applied any post model adjustments to the ECL output as all considerations captured have been derived from the underlying modelled output.

Specific property collateral valuation have been used within key Stage 3 CPF impaired accounts.

### (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 customers 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.

## 27 Financial risk management (continued)

In 2023, £nil (2022: £nil) of financing profit were written off.

### (iv) Collateral

The Bank holds collateral against secured financing made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. 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
2023	903,501	3,815	899,686	0.42%	1,547,680
2022	792,082	2,712	789,370	0.34%	1,414,366

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

2023					
FTV band	Gross exposure	ECL Total	Net balance	ECL coverage	Collateral
	£'000	£'000	£'000		£'000
<=60%	702,310	1,046	701,264	0.149%	1,841,603
60%-70%	173,990	23	173,967	0.013%	268,458
70%-80%	95,829	93	95,736	0.097%	129,926
>80%+	22,189	35	22,154	0.156%	30,847
<b>Total</b>	<b>994,318</b>	<b>1,197</b>	<b>993,121</b>	<b>0.120%</b>	<b>2,270,834</b>
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
<b>Total</b>	<b>1,100,598</b>	<b>870</b>	<b>1,099,729</b>	<b>0.079%</b>	<b>2,541,641</b>

### (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.

## 27 Financial risk management (continued)

### Concentration by sector:

£'000s	Central Banks	Government/ MDB*	Individuals	Corporate/ SME	Bank	Total
<b>2023</b>						
Treasury placements and balances with banks	104,013	-	-	-	297,602	401,615
Investment securities	-	147,999	-	714	-	148,713
Home Purchase Plans	-	-	985,964	7,157	-	993,121
Commercial Property Finance	-	-	26,037	873,649	-	899,686
<b>Total</b>	<b>104,013</b>	<b>147,999</b>	<b>1,012,001</b>	<b>881,520</b>	<b>297,602</b>	<b>2,443,135</b>

	Central Banks	Government/ MDB*	Individuals	Corporate/ SME	Bank	Total
<b>2022</b>						
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
<b>Total</b>	<b>85,325</b>	<b>101,630</b>	<b>1,118,028</b>	<b>772,409</b>	<b>273,589</b>	<b>2,350,981</b>

\* Multilateral development banks (MDB)

### Concentration by geographical location of assets:

£'000s	UK	Europe	Asia	Middle East	Total
<b>2023</b>					
Treasury placements and balances with banks	338,710	-	-	62,905	401,615
Investment securities	-	-	-	148,713	148,713
Home Purchase Plans	992,934	187	-	-	993,121
Commercial Property Finance	899,686	-	-	-	899,686
<b>2022</b>					
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

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 2023, 43 of the facilities within the secured finance portfolios were in arrears of 30 days or more (31 December 2022, 24).

## 27 Financial risk management (continued)

### (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 fundings, 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, monitored 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. When calculating mismatch, the Bank applies behavioural adjustments, based on observed behaviours. This results in demand deposits from customers spread further out over a longer time period.

£'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
2023										
Deposits from banks	16	111,237	116,303	12,945	44,633	55,611	3,114	-	-	-
Deposits from customers	17	2,149,200	2,228,460	700,863	241,172	1,023,551	153,001	109,531	342	-
		<u>2,260,437</u>	<u>2,344,763</u>	<u>713,808</u>	<u>285,805</u>	<u>1,079,162</u>	<u>156,115</u>	<u>109,531</u>	<u>342</u>	<u>-</u>
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	-
		<u>2,189,852</u>	<u>2,222,009</u>	<u>1,024,288</u>	<u>306,594</u>	<u>683,507</u>	<u>161,463</u>	<u>46,152</u>	<u>5</u>	<u>-</u>

## 27 Financial risk management (continued)

### (c) Market risk

Market risk is the risk of changes in the value of, or loss of income arising from adverse market movements, including foreign exchange rates, profit rates and basis risk. The objective of market risk management is to manage and control exposures within acceptable parameters, whilst optimising returns. The Bank does not have residual exposure to any material foreign currency risk, as any exposure is actively managed through Sharia compliant 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 2023, a shift of 1.00% to base rates (both GBP and USD) would result in a £1.3m movement in the market value (2022: £2.1m). At 31 December 2023 the mark to market loss net of deferred tax was £1.5m (2022: £6.7m loss)

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), who's authority is delegated to by 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 2023	(2,471)	3,029
31 December 2022	(6,980)	7,990

## 27 Financial risk management (continued)

### (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 pages 73 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 UK implemented Capital Requirements Directive (CRD) V and the required parameters set out in the UK's Capital Requirements Regulation (CRR) part of the PRA rulebook, 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.

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

£'000s – figures Unaudited	2023	2022
<b>Tier 1 capital</b>		
Total equity excluding profit stabilisation reserve	195,039	167,218
Less intangible assets	(3,166)	(3,075)
Less deferred tax	(4,838)	(8,354)
Less additional value adjustments	(152)	(110)
	<b>186,883</b>	<b>155,679</b>
<b>Tier 2 capital</b>		
Subordinated funding	18,667*	22,690*
	<b>205,550</b>	<b>178,369</b>

\* All three Tier 2 tranche (£10m, £5m and £10m) are being amortised by the Bank, in line with regulatory requirements, as they are due to mature within 5 years. The amortisation of Tier 2 funding has been incorporated in the Bank's capital forecasts.

## 28 Events after the reporting period

There were no events after the reporting period.

## 29 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 2023 was £24,674,249 (2022: £16,000,000).

The Bank inceptioned the lease of its new Birmingham premise in November 2023. Commencement date of the lease is 28<sup>th</sup> May 2024 with a contractual commitment to pay £630k over a 5 year term.

## 30 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 £148,612,341 (2022: £131,602,789) and total zakat due would be £3,830,483 (2022: £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.

## 31 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)	£140,660
Number of employees on a full-time equivalent basis	206
Profit or loss before tax (£'000s)	£30,608
Tax charge on profit (£'000s)	£7,580
Public subsidies received	Nil

## 32 Ultimate parent company

The Bank's immediate parent company is Al Rayan (UK) Limited, 4 Stratford Place, London W1C 1AT, 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.