QIB (UK) plc

Annual Report

For the year ended 31 December 2014

Registered number 4656003

Contents

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2014

Principal activities

QIB (UK) plc (the 'Company' or the 'Bank'), was incorporated with the intention of developing and offering Shari'a compliant financial products and services in the UK The Company received authorisation from the Financial Services Authority (FSA) on 29 January 2008 after which date it commenced operations as a Shari'a compliant bank The Bank is now authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA

Financial results

The financial statements for the year ended 31 December 2014 are shown on pages 11 to 50 The profit for the year is £1,317,432 (2013 loss of £15,751,647)

Proposed dividend

The Directors do not propose the payment of a dividend (2013 £nil)

Directors

The Directors who held office during the year were as follows

Mr Bassel Gamal (Chairman) [1,3]	
Mr Roderick Chamberlain [1,2]	
Mr Giles Cunningham [1,3]	
Mr Bert de Ruiter [3]	
Mr Gourang Hemani [2]	Appointed on 5 August 2014
Mr Azhar Khan [3]	
Mr David Thomas [1,2]	

1 Denotes member of the Remuneration Committee
2 Denotes member of the Audit and Risk Committee
3 Denotes member of the Board Executive Committee

Shari'a Supervisory Committee members

As a Shari'a compliant bank, the Company's governance structure includes a Shari'a Supervisory Committee (SSC) which is responsible for overseeing that all products and activities of the Bank are Shari'a compliant The SSC has no Executive responsibilities The SSC members throughout the year were as follows

Sheikh Walid Ben Hadi (Chairman)
Sheikh Nizam Mohammed Yacoubi
Professor Abdul Sattar Abou Ghodda

The annual report of the SSC is shown on page 8

Directors' Report (continued)

Capital Requirements Directive IV ("CRD IV") – country by country reporting

During 2014, the UK Government enacted legislation (contained in the Financial Services and Markets Act 2000 Statutory Instrument 3118) which requires CRD IV regulated institutions to publish the following information

a) The name, nature of activities and geographical location of the institution and any subsidiaries and branches,
b) Turnover,
c) The average number of employees on a full time equivalent basis,
d) Profit or loss before tax,
e) Corporation tax paid, and
f) Public subsidies received

The Company falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2014 are set out below

	UK	*Total*
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income (£)	5,249,598	5,249,598
d) Average number of employees	29	29
e) Profit before tax (£)	1,245,707	1,245,707
f) Corporation tax paid (£)	-	-
g) Public subsidies received (£)	-	-

Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company, including an assessment of capital and liquidity requirements for the foreseeable future Qatar Islamic Bank S A Q ('QIB'), the Company's parent, has confirmed its ongoing financial support to the Company whenever needed Based on this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, as far as each of them is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board

Azhar Khan
Company Secretary
21 January 2015

43 Grosvenor Street
London
W1K 3HL

Strategic Report

2014 remained a year of change for the Bank, following on from the strategic review which had been completed in mid-2013 During 2013 a substantially new Board of Directors had been appointed and a revised strategy had been developed with the objective of aligning the Bank's activities more closely with the core strengths of its parent, QIB As part of this review, it had been identified that the Bank should change its business model and move towards providing niche private banking services rather than the previous focus on investment banking

The strategy was further refined in 2014, following the appointment of the new Chief Executive Officer The main business lines were reconstructed into the following

- Middle East High Net Worth Individuals (MEHNWI) A dedicated team was established to serve the needs of this market segment, with a particular focus on providing investment property finance
- Structured Real Estate The focus of this business line is on senior and mezzanine finance for commercial and development property
- Trade Finance and Financial Institutions This business area focusses on trade finance opportunities in strong alignment with the QIB Group trade finance function

Historically the Bank had built up financing exposures to a number of SME companies as part of its previous Corporate Finance business line Following the strategic review, this area of business no longer forms a part of the Bank's business activities In addition, as part of the review of the business model, it was decided during the year that Asset Management would no longer be a direct part of the Bank's core offering The business unit was consequently transferred to QInvest, a QIB Group company, which has an existing asset management function As part of this decision, it was considered that the servicing of existing products and further product development within the asset management sphere would be optimised from a Group perspective following the transfer Therefore, whilst the Bank is no longer actively managing investment funds itself, it is envisaged that an enhanced range of products can be offered to private banking customers in the future

The Bank's Treasury function remains a core business line In addition to managing the Bank's funding and liquidity, the team maintains the Bank's portfolio of sukuk investments It is part of the Bank's strategy to hold such investments with a long-term view to provide stable recurring income

Although changes were ongoing in 2014, the results of the newly implemented strategy materialised during the year with total operating income for the year increasing to £5,249,598 (2013 £2,259,281)

Total operating expenses for the year reduced by 13% to £5,730,983 (2013 £6,570,681) Whilst there were additional costs in 2013 relating to the review and restructuring exercise, the reduction in total operating expenses in 2014 does also reflect cost reductions resulting from the changes made

In addition to the strategic changes to the business model, there remained a focus during the year on enhancing governance and control structures throughout the Bank A detailed project to review these areas, which had been initiated in 2013, was completed and revised structures and processes were implemented Further information on the Bank's approach to financial and operational risk management is set out in note 28 to the financial statements

In summary, 2014 remained a year of stabilising and transforming the business To support this, QIB further increased the Bank's total capital by providing £12 5m of additional Share Capital and £3m of Tier 2 Capital during the year The changes required to support the Bank's revised strategy have now been substantially completed and as part of this, the Bank relocated to new premises in December 2014, purpose-designed to support and enhance the private banking customer proposition

Looking ahead

The Bank will now move from the stabilising and transforming phase to one of building and enhancing the business The areas of focus will be to

- develop the product offering, especially for the MEHNWI target market
- continue to build the Real Estate financing asset portfolio
- expand the Trade Finance business in line with Group strategy
- To expand and diversify the Bank's funding base

The Bank will seek to attract deposits from high net worth individuals as part of the expanded private banking offering for MEHNWI Additionally, the Treasury department will also develop available funding lines, in order to source additional funding from wholesale markets

The Bank has now achieved a base level of profitability, the medium-term objective is to build upon this recurring income base in order to increase returns to the shareholder to a level commensurate with its target requirements In developing the business further, the Bank will focus on enhancing the customer product offering and ensuring that it offers a first class customer experience and service Finally, the Bank is committed to ensuring that growth is delivered in a controlled manner, with a strong focus on effective risk management across all areas

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement on auditors' responsibilities on page 9, is made by the Directors to explain their responsibilities in relation to the preparation of the financial statements, Strategic Report and Directors' Report

The Directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, *Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understanding information,
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company had complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company, in accordance with the Companies Act 2006

The Directors have general responsibility for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future For this reason, the financial statements are prepared on a going concern basis

Shari'a Supervisory Committee Report

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

To the shareholders of QIB (UK) plc (the 'Company')

For the year ended 31 December 2014

In compliance with the Terms of Reference of the Company's Shari'a Supervisory Committee, we submit the following report

We have reviewed the accounts relating to the transactions entered into by the Company during the year ended 31 December 2014

Based on our review, and representations received from the Company's management, all transactions during the period were on the basis of agreements approved by us

Therefore, in our opinion the transactions entered into by the Company during the year ended 31 December 2014 are in compliance with the Islamic Shari'a rules and principles and fulfil the specific directives, rulings and guidelines issued by us

We beg Allah the Almighty to grant us all success

Sheikh Walid Ben Hadi
Chairman of the Shari'a Supervisory Committee

Independent Auditors' Report to the Members of QIB (UK) plc

We have audited the financial statements of QIB (UK) plc (the 'Company') for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we will read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any material misstatements or uncertainties we consider the implications in our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of the Company's profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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

Ernst & Young LLP

Kenneth Eglinton (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London

Date 21 January 2015

Statement of Comprehensive Income
For the year ended 31 December 2014

	Note	2014	2013
		£	£
Income			
Income from financing and investing activities	4	5,786,005	5,139,758
Returns to banks and customers	5	(2,496,257)	(3,614,608)
Net income from financing and investing activities		3,289,748	1,525,150
Fees and commissions income	6	1,845,823	1,210,522
Fees and commissions expense		(450,948)	(228,882)
Net fees and commissions income		1,394,875	981,640
Net gain / (loss) on financial assets classified as AFS		232,643	(195,062)
Loss on foreign exchange		(845,914)	(52,714)
Fair value gain on forward foreign exchange	15	838,599	267
Other income		339,647	-
Total operating income		5,249,598	2,259,281
Expenses			
Personnel expenses	7	(3,098,242)	(3,347,697)
Depreciation and amortisation	17,18	(133,409)	(142,958)
Other expenses		(2,499,332)	(3,080,026)
Total operating expenses		(5,730,983)	(6,570,681)
Profit / (loss) before provisions for impairment		(481,385)	(4,311,400)
Provisions for impairment	28	1,727,092	(7,652,242)
Fair value loss related to wa'ad assets	15,16	-	(3,949,103)
Profit / (loss) before taxation		1,245,707	(15,912,745)
Taxation	9	71,725	161,098
Profit / (loss) for the year		1,317,432	(15,751,647)
Other comprehensive income			
Change in fair value of AFS financial assets net of tax	16	274,825	(413,458)
Total comprehensive profit / (loss) for the year		1,592,257	(16,165,105)

All activities are derived from continuing operations The notes on pages 15 to 50 are an integral part of these financial statements

Statement of Financial Position
As at 31 December 2014

	Note	2014	2013
		£	£
Assets			
Cash and balances with banks	10	**5,844,014**	2,829,356
Due from banks	11	**23,576,325**	78,108,642
Financing arrangements	12	**88,981,407**	36,678,167
Less impairment on financing arrangements	28	**(679,495)**	(2,406,587)
Financial assets held to maturity	14	**6,808,055**	7,344,709
Financial assets available for sale	16	**70,549,731**	22,073,787
Derivative financial instruments	15	**650,176**	(42)
Property and equipment	17	**14,724,851**	368,308
Intangible assets	18	**61,555**	38,214
Investment property	19	**9,511,839**	-
Other assets	20	**3,153,260**	2,969,495
Deferred tax asset	9	**3,194,647**	3,198,193
Total assets		**226,376,365**	151,202,242
Liabilities			
Due to banks	21	**27,358,165**	53,732,703
Due to customers	22	**153,139,947**	67,906,240
Other liabilities	23	**2,615,160**	3,392,463
Subordinated loans	27	**12,757,834**	9,757,834
Total liabilities		**195,871,106**	134,789,240
Equity			
Share capital	26	**56,500,000**	44,000,000
Fair value reserve on AFS financial assets	16	**166,916**	(107,909)
Retained deficit		**(26,161,657)**	(27,479,089)
Total equity		**30,505,259**	16,413,002
Total liabilities and equity		**226,376,365**	151,202,242

The notes on pages 15 to 50 are an integral part of these financial statements
These financial statements were approved by the Board of Directors and were signed on its behalf by

Bert de Ruiter
Chief Executive Officer

Azhar Khan
Chief Financial Officer

21 January 2015
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity
For the year ended 31 December 2014

	Share Capital	Fair Value Reserve on AFS Financial Assets	Retained Earnings	Total
	£	£	£	£
Balance at 1 January 2013	25,000,001	305,549	(11,727,442)	13,578,108
Share issuance	18,999,999	-	-	18,999,999
Net Change in fair value of AFS financial assets	-	(413,458)	-	(413,458)
Loss for the year after tax	-	-	(15,751,647)	(15,751,647)
Balance at 31 December 2013	**44,000,000**	**(107,909)**	**(27,479,089)**	**16,413,002**
Balance at 1 January 2014	44,000,000	(107,909)	(27,479,089)	16,413,002
Share issuance	12,500,000	-	-	12,500,000
Change in fair value of AFS financial assets net of tax	-	274,825	-	274,825
Profit for the year after tax	-	-	1,317,432	1,317,432
Balance at 31 December 2014	**56,500,000**	**166,916**	**(26,161,657)**	**30,505,259**

The notes on pages 15 to 50 are an integral part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014	2013
		£	£
Cash flows from operating activities			
Profit / (Loss) for the year		**1,317,432**	(15,751,647)
Adjustments for			
Depreciation	17	**105,777**	111,359
Amortisation	18	**27,632**	31,599
Taxation	9	**(71,725)**	(161,098)
Increase/(decrease) in impairments on financing arrangements	28	**(1,727,092)**	(3,869,545)
(Increase)/(decrease) in amounts due from banks		**54,532,317**	(6,695,937)
(Increase)/decrease in financing arrangements		**(52,303,240)**	16,419,443
(Increase)/decrease in other assets		**(183,765)**	1,310,012
Increase/(decrease) in amounts due to banks		**(26,374,538)**	10,204,180
Increase/(decrease) in amounts due to customers		**85,233,707**	(34,913,123)
Increase/(decrease) in other liabilities		**(777,303)**	(148,012)
(Increase)/decrease in financial assets held for trading		-	25,827,202
(Increase)/decrease in financial assets held to maturity		**536,654**	101,843
Increase/(decrease) in financial assets available for sale		**(48,125,848)**	(18,244,252)
(Increase)/decrease in derivative financial instruments		**(650,218)**	(267)
Net cash inflow / (outflow) from operating activities		**11,539,790**	(25,778,243)
Cash flows from investing activities			
Purchase of property and equipment	17,19	**(23,974,159)**	(12,483)
Purchase of intangible assets	18	**(50,973)**	(6,162)
Net cash outflow from investing activities		**(24,025,132)**	(18,645)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	26	**12,500,000**	18,999,999
Proceeds from subordinated loans	27	**3,000,000**	5,000,000
Net cash inflow from financing activities		**15,500,000**	23,999,999
Net increase / (decrease) in cash and cash equivalents		**3,014,658**	(1,796,889)
Cash and cash equivalents at start of year		**2,829,356**	4,626,245
Cash and cash equivalents at end of year	10	**5,844,014**	2,829,356

The notes on pages 15 to 50 are an integral part of these financial statements

Notes to the Financial Statements

1 Reporting entity

QIB (UK) plc (the 'Company' or the 'Bank') is incorporated and domiciled in the UK The address of the Company's registered office is 43 Grosvenor Street, London W1K 3HL The Company operates as a Shari'a compliant bank

2 Basis of preparation

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The financial statements were approved by the Board of Directors on 21 January 2014

The accounting policies set out below have, unless otherwise stated, been applied consistently to all the years presented in these financial statements

b Basis of measurement

The financial statements have been prepared under the historical cost convention, except financial assets held at fair value through profit or loss and available for sale financial assets which have been measured at fair value

c Functional and presentation currency

The financial statements are presented in Sterling, which is the Company's functional currency

d Use of estimates and judgement

The preparation of financial statements requires management to make judgement, 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

The key sources of estimation uncertainty are

(i) Provisions for impairment of financial assets
A financial asset is considered to be impaired if there is objective evidence of events since initial recognition of the asset that will adversely affect the amount or timing of future cash flows from the asset The amount of the impairment loss will be the difference between the carrying value of the financial asset and the present value of the estimated future cash flows In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral or any other means of repayment

(ii) Impairment of non-financial assets
At each reporting date the Company reviews the carrying value of its non-financial assets, specifically property and equipment and intangible assets, to determine whether there is any indication that these assets have suffered an impairment loss If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss The recoverable amount for property and equipment and intangible assets is based on an estimation of the continuing use of the assets in the business

Notes to the Financial Statements

(iii) Determining fair values
The determination of fair value for financial assets and liabilities for which there is no observable market price may require the use of valuation techniques, based on variables that may include data not directly from observable markets For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market focus, pricing assumptions and other risks affecting the specific instrument

(iv) Recognition of deferred tax asset
Deferred income tax assets are recognised for tax loss carry-forwards and timing differences to the extent that the realisation of the related tax benefit against future taxable profits is probable In making this decision, business projections are reviewed in detail and the existence of convincing evidence is considered

e Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company, including an assessment of capital and liquidity requirements for the foreseeable future Qatar Islamic Bank S A Q, the Company's parent, has confirmed its ongoing financial support to the Company whenever needed Based on this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis

3 Significant accounting policies

a Financial instruments

(i) Murabaha is a contract for the sale of goods at cost plus an agreed profit mark-up The delivery of the goods from the seller to the purchaser is immediate but payment may be deferred Such contracts may be used to provide financing Commodity Murabaha is a specific example of such a contract where the item being sold is a metal commodity Commodity Murabaha contracts are commonly used within the Islamic inter-bank short-term liquidity market

(ii) Wakala is a transaction, which represents an agreement whereby a party provides a certain sum of money to an agent, who invests it according to specific conditions in order to achieve a certain 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

(iii) Istisna is a contract for the acquisition of a product or property which is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client and delivered at the agreed date and price Istisna contracts are used within financing activities

(iv) Ijara is a contract granting the right to use an asset by one party to another which equates to the leasing of the asset in return for rental payments, and which may include a transfer of ownership title at the end of the rental period Ijara contracts are typically used for medium to long term financing of equipment, plant and machinery and vessels or aircraft

(v) Mudaraba is a partnership contract in which a provider of capital enters into an agreement with a partner to undertake a specific business or project Profits are shared on a pre-agreed basis but losses are borne by the provider of capital unless negligence of the partner, who typically provides the labour or expertise, is demonstrated

Notes to the Financial Statements

(vi) Wa'ad is a purchase undertaking by one party to the other in a transaction effectively resulting in either a right to acquire or sell for one of the parties, structured with Shari'a compliant conditions A wa'ad could be an available for sale asset where it does not meet the definition of a derivative or could be a derivative recognised at fair value

The above contracts form the basis of financial instruments shown within due from banks, financing arrangements, and due to banks and customers

These financial instruments are recognised on the trade date, that is, the date on which there is a commitment to buy or sell the financial instrument The resulting assets and liabilities are initially recorded at fair value and are subsequently measured at amortised cost

Income and costs on the above financial instruments are recognised on an effective yield basis The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the receivable or payable The effective yield is established on initial recognition of the asset or liability and is not revised subsequently Accrued income receivable and returns payable are included within other assets and other liabilities

The calculation of the effective yield rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously

b Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss comprises two sub-categories financial assets classified as held for trading, and financial assets designated by the Company as at fair value through profit or loss upon initial recognition

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

Financial instruments included in this category are recognised initially at fair value, transaction costs are taken directly to the Statement of Comprehensive Income Gains and losses arising from changes in fair value are included directly in the Statement of Comprehensive Income and are reported as 'net gains / (losses) on financial assets classified as held for trading' The investments are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition

c Held to maturity financial investments

Held to maturity investments are measured at amortised cost using the effective yield basis The Bank assesses all held to maturity investments for impairment on each reporting date If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and present value of future cash flows discounted using the original effective yield rate The carrying amount of the asset is reduced and the loss is recognised in the Statement of Comprehensive Income If the impairment loss decreases (or there is objective evidence that the loss has decreased) after the impairment was recognised, then the corresponding impairment is reversed through the Statement of Comprehensive Income

Notes to the Financial Statements

d Financial assets available for sale

Financial assets available for sale are initially recognised at fair value Subsequent to initial measurement, the fair value gain or loss on these assets is reported into the Statement of Changes in Equity On sale or impairment of the asset, the cumulative gain or loss previously recognised in the Statement of Changes in Equity is reclassified within the Statement of Comprehensive Income

e Derivative financial instruments

Derivative financial instruments include forward foreign exchange contracts based on the wa'ad principle Derivative financial instruments are initially recognised at fair value Subsequently, these instruments are measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income

f Property financing

Property finance is provided using the Musharaka (partnership) principal of Islamic financing or Murabaha contracts Under Musharaka, the Company will enter into an agreement to jointly purchase a property with another party and rental income will be received relating to that proportion of the property owned by the Company at any point in time The other party to the agreement may make separate payments to purchase additional proportions of the property from the Company, thereby reducing the Company's effective share

The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction Where initial direct costs are incurred by the Company such as commissions and legal fees that are incremental and directly attributable to negotiating and arranging the transaction, these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced Rental income is recognised at a constant periodic rate of return on the Company's net investment

g Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred Any remaining interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire

h Impairment of financial assets

At each reporting date it is assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows from the asset that can be estimated readily

All individually significant financial assets are assessed for specific impairment Objective evidence that financial assets are impaired include default or delinquency by the counterparty, extending or changing repayment terms, indications that a counterparty may go into bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payments status of counterparties, or economic conditions that correlate with defaults in the Company

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted at the assets' original

Notes to the Financial Statements

effective yield rate Losses are recognised in the Statement of Comprehensive Income and reflected against the asset carrying value When a subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through the Statement of Comprehensive Income

In the case of investments classified as available for sale, impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, which impact the estimated future cash flows of the financial assets If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss

i Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment 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 flows 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 resell 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

j Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation 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

k Fees and commissions

Fees and commissions which are not recognised on an effective yield basis over the life of the financial instrument to which they relate are recognised at the point when any specific actions or events relating to the payment of the fees or commissions have been completed and the fees and commissions are earned

l Property and equipment

Items of property and equipment excluding the building are measured at cost less accumulated depreciation and impairment losses Cost includes expenditure that is directly attributable to the acquisition of the asset

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 Company 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

QIB (UK) acquired a building on 13 March 2014 at 43 Grosvenor street, London, W1K 3HL Two floors of the building were leased out to a third party from the acquisition date and the remaining floors were brought into use by the Company from 22 December 2014

The occupied part of the building is measured using the revaluation method Under the revaluation method the value of the building is initially determined as cost less accumulated depreciation which results in the carrying amount Where there is a material difference between the carrying value and the market value the building is

Notes to the Financial Statements

revalued to reflect the market value The market value will be determined by an independent registered valuer However, as at 31 December 2014, the carrying amount is used to measure the building as this materially reflects the market value

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

The current estimated useful lives are as follows

Computer equipment	3 Years
Office equipment	5 Years
Fixtures and fittings	5 Years
Leasehold improvements	10 Years
Building	50 Years

m Investment property

The building acquired on 13 March 2014 is partially used as an investment property as two of the five floors of the building are leased to a third party The leased part of the building is initially measured at cost and subsequently at fair value As under IAS 40 the leased part of the building is not subject to depreciation

n Intangible assets

Acquired software and computer licenses are stated at cost less accumulated amortisation and accumulated impairment losses Expenditure on internally developed software is recognised as an asset when the Company is able to use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Statement of Comprehensive Income as incurred

Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use The current estimated useful lives are as follows

Software	3 Years
Computer licenses	3 Years

o Taxation

Income tax payable or receivable is calculated on the basis of the applicable tax law and is recognised as an expense or income for the period, except to the extent that current tax is related to items that are charged or credited directly to equity

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided in full using the balance sheet 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

Notes to the Financial Statements

A deferred tax asset is recognised only to the extent that there is convincing evidence 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

p 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 Bonuses are recognised to the extent that there is a present obligation to employees that can be measured reliably

q Cash and cash equivalents

Cash and cash equivalents comprise cash and demand bank deposit accounts and are stated at amortised cost

r Other receivables

Trade and other receivables are stated at their nominal amount less impairment losses

s. Lease payments made

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease

t Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates as at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate as at that date The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period and the amortised cost in foreign currency translated at the exchange rate at the end of the period Foreign currency differences arising on translation are recognised in the Statement of Comprehensive Income

u New and amended standards adopted

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that have had a material impact on the Company

v New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements None of these are expected to have an effect on the financial statements of the Company, except the following set out below

Notes to the Financial Statements

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost The determination is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company

4 Income from financing and investing activities

Income from	**2014**	2013
	£	£
Banks		
Murabaha placements	**707,047**	824,142
Wakala placements	**271,419**	77,414
Financing arrangements		
Murabaha financing	**2,087,406**	2,835,735
Wakala financing	**55,135**	-
Musharaka financing	**591,662**	435,320
Mudaraba financing	**89,289**	58,964
Ijara financing	**118,235**	56,758
Other		
Foreign exchange spot transactions	**-**	(27,743)
Returns on investments	**1,865,812**	879,168
Total income from financing and investing activities	**5,786,005**	5,139,758

5 Returns to banks and customers

	2014	2013
	£	£
Murabaha deposits	**835,736**	1,840,211
Wakala deposits	**1,439,256**	1,658,241
Subordinated loans	**221,265**	116,156
Total returns to banks and customers	**2,496,257**	3,614,608

Notes to the Financial Statements

6 Fees and commissions income

	2014	2013
	£	£
Advisory and consultancy fees	-	82,764
Asset management fees	**251,725**	965,170
Corporate finance fees	-	(216,084)
Property financing fees	**374,725**	-
Other fee income	**1,219,373**	378,672
Total fees and commissions income	**1,845,823**	1,210,522

The other fee income in 2014 includes exit fees of £1,172,919 on deals that had a contingent success fee upon closure

Corporate finance fees in 2013 include a write-off of £216,084 for fees which were receivable as at the end of 2012

7 Personnel expenses

	2014	2013
	£	£
Directors' emoluments and fees	**531,667**	593,471
Wages and salaries	**1,951,279**	2,144,992
Social security costs	**286,056**	350,545
Pension contributions	**214,379**	245,409
Other staff costs	**114,861**	13,280
Total personnel expenses	**3,098,242**	3,347,697

The aggregate of the emoluments in 2014 of the highest paid Director was £236,667 (2013 £224,867) and Company pension contributions of £21,500 (2013 £27,000) were made on his behalf

The number of employees at the end of the year was 27 (2013 32) and the average number throughout the year was 29 (2013 34)

8 Profit / (loss) before taxation

Profit / (loss) before taxation is stated after charging	2014	2013
	£	£
Auditor's remuneration		
Fees payable to Company's auditor for the audit of financial statements	**86,610**	73,000
Fees payable to Company's auditor for other services		
– other services pursuant to legislation	**22,500**	17,500
– other services	**32,122**	31,700
	141,232	122,200

Notes to the Financial Statements

9 Taxation

(i) Analysis of total tax expense / (credit)

	2014	2013
	£	£
Current tax expense / (credit) for period 21 5% (2013 23 3%)	**(75,271)**	-
Deferred tax expense / (credit) relating to		
Origination and reversal of temporary differences	**2,469**	(785,123)
Effect of tax rate change	**(171)**	488,171
Prior year adjustment	**1,248**	135,854
Total tax credit	**(71,725)**	(161,098)

(ii) Reconciliation of the total tax credit

The total tax credit for the year is lower than that resulting from applying the UK standard rate of corporation tax to the profit / loss before tax The differences are explained as follows

	2014	2013
	£	£
Profit / (loss) before tax	**1,245,707**	(15,912,745)
At standard rate of UK corporation tax of 21 5% (2013 23 3%)	**267,827**	(3,699,713)
Effects of		
Non-deductible expenses	**11,763**	12,792
Effect of tax rate change	**(171)**	488,171
Deferred tax prior year adjustment	**1,248**	135,854
Movement in unrecognized Deferred tax asset	**(352,392)**	2,901,798
Total tax expense / (credit)	**(71,725)**	(161,098)

(iii) Deferred tax

Deferred tax is calculated on temporary differences using the tax rate of 20% (2013 20%) The Finance Act 2014 reduced the UK corporation tax rate from 23% to 21% with effect from 1 April 2014, and from 21% to 20% with effect from 1 April 2015

Notes to the Financial Statements

The following are the deferred tax assets calculated by the Company and movements thereon during the current and prior reporting period

	2014 £	2013 £
Deferred tax asset as at 1 January	**(3,198,193)**	(3,037,095)
Expensed to the Statement of Comprehensive Income	**2,469**	(785,123)
Effect of rate change	**(171)**	488,171
Prior year adjustment	**1,248**	135,854
Deferred tax asset as at 31 December	**(3,194,647)**	(3,198,193)

The deferred tax asset can be analysed as follows

	2014	2013
Decelerating capital allowances	**(24,122)**	(31,156)
Pension Accrual	**(3,488)**	-
Tax losses carried forward	**(3,167,037)**	(3,167,037)
	(3,194,647)	(3,198,193)

The Company utilised tax losses of £1,639,034 in the period However, it has also recognised a portion, equivalent to the amount utilised in the period, of previously unrecognised tax losses

The recognition of a deferred tax asset of £3,194,647 (net) as at 31 December 2014 is based on future taxable profit forecasts Based on the evidence available to support the forecasts, the Directors are of the opinion that sufficient future taxable income will be available to recognise a deferred tax asset of £3,194,647

In addition to the recognised deferred tax asset, the Company has a gross unrecognised deferred tax asset of £12,102,566 (net £2,420,513) arising on tax losses This represents a portion of the overall tax losses on which a deferred tax asset cannot be recognised due to insufficient evidence of future expected taxable profits

On 3 December 2014 the Chancellor of the Exchequer announced that the UK Government will introduce legislation in the Finance Bill 2015, which will restrict the proportion of banks' annual taxable profit that can be offset by certain carried forward tax losses The restriction will take effect from 1 April 2015 and will apply to relevant tax losses arising prior to this date Tax losses arising in the first 5 years of the bank commencing a banking activity, as well as tax losses arising in an accounting period prior to the one in which the company began undertaking a banking activity are not included within the restriction

The Chancellor's announcement had not been enacted or substantively enacted at the balance sheet date and accordingly the Company has not included its impact on the tax balances at 31 December 2014 However, based on the tax losses recognised by the Company as at 31 December 2014 and the application of the draft legislation as announced on 3 December 2014, the Directors of the Company are of the opinion that the impact on the deferred tax asset at 31 December 2014 would be immaterial

10 Cash and balances with banks

	2014 £	2013 £
Cash	**1,598**	1,024
On demand bank deposits	**5,842,416**	2,828,332
Total cash and balances with banks	**5,844,014**	2,829,356

Notes to the Financial Statements

11 Due from banks

	2014 £	2013 £
Murabaha placements	**10,922,153**	68,489,414
Wakala placements	**12,654,172**	9,619,228
Total due from banks	**23,576,325**	78,108,642

12 Financing arrangements

	2014 £	2013 £
Murabaha financing	**63,229,925**	20,278,779
Musharaka financing	**18,688,769**	14,996,116
Mudaraba financing	**1,016,760**	1,037,148
Ijara financing	**3,483,083**	366,124
Other financing	**2,562,870**	-
Total financing arrangements	**88,981,407**	36,678,167

13 Finance lease receivables

Assets leased to customers using the Ijara structure, included under financing arrangements, are treated as finance leases Ijara financing receivables are recognised on the Statement of Financial Position and income is recognised over the period of the lease so as to give a constant rate of return on the net cash investment in the Ijara The following shows the gross investments in Ijara financing receivables

	2014 £	2013 £
Not later than one year	-	366,345
Later than one year but not later than five years	**3,231,979**	-
Later than five years	-	-
Gross investment in Ijara financing	**3,231,979**	366,345
Unearned future rentals	**(28,391)**	(221)
Net investment in Ijara financing	**3,203,588**	366,124
The net investment in Ijara financing comprises		
Not later than one year	-	366,124
Later than one year but not later than five years	**3,203,588**	-
Later than five years	-	-
Total	**3,203,588**	366,124

Notes to the Financial Statements

14 Financial assets held to maturity

	2014 £	2013 £
Investment in sukuk	**3,844,306**	4,383,711
Unquoted fixed-term funds	**2,963,749**	2,960,998
Total financial assets held to maturity	**6,808,055**	7,344,709

15 Derivative financial instruments

	2014 £	2013 £
Fair value of forward foreign exchange contracts	**650,176**	(42)
Total derivative financial instruments	**650,176**	(42)

The Company entered into forward foreign exchange contracts to manage its foreign currency exposures The movement in the fair value of forward foreign exchange contracts is included in the Statement of Comprehensive Income and was a gain of £838,599 (2013 gain of £267)

16 Financial assets available for sale

	2014 £	2013 £
Value of financial assets available for sale (AFS) as at 1 January	**22,073,787**	4,242,993
Decrease in fair value of equity wa'ads after initial recognition	-	(4,242,993)
Fair value of AFS excluding wa'ads upon initial recognition	-	22,181,696
Net additions / (disposals) in AFS excluding wa'ads	**48,233,757**	-
Increase / (decrease) in fair value of AFS excluding wa'ads	**242,187**	(107,909)
Value of financial assets available for sale as at 31 December	**70,549,731**	22,073,787

The balance of the fair value reserve for AFS financial assets as at 31 December 2014 is £242,187 (net of tax £166,916) The movement in the AFS reserve in the year is £350,096 (net of tax £274,825)

Notes to the Financial Statements

17 Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment	Total
	£	£	£	£	£
Cost					
Balance at 1 January 2014	-	339,961	846,843	389,639	1,576,443
Additions	14,268,702	23,927	-	169,691	14,462,320
Balance at 31 December 2014	14,268,702	363,888	846,843	559,330	16,038,763
Depreciation					
Balance at 1 January 2014	-	(334,621)	(523,671)	(349,843)	(1,208,135)
Depreciation charge for the year	-	(7,146)	(84,592)	(14,039)	(105,777)
Balance at 31 December 2014	-	(341,767)	(608,263)	(363,882)	(1,313,912)
Net book value at 31 December 2014	**14,268,702**	**22,121**	**238,580**	**195,448**	**14,724,851**

Cost					
Balance at 1 January 2013	-	339,961	846,843	377,156	1,563,960
Additions	-	-	-	12,483	12,483
Balance at 31 December 2013	-	339,961	846,843	389,639	1,576,443
Depreciation					
Balance at 1 January 2013	-	(325,207)	(439,079)	(332,490)	(1,096,776)
Depreciation charge for the year	-	(9,414)	(84,592)	(17,353)	(111,359)
Balance at 31 December 2013	-	(334,621)	(523,671)	(349,843)	(1,208,135)
	-				
Net book value at 31 December 2013	-	5,340	323,172	39,796	368,308

The Company acquired a building on 13 March 2014 at 43 Grosvenor Street, London, W1K 3HL Two floors of the building were leased out to a third party from the acquisition date and the remaining floors were brought into use by the Company from 22 December 2014 Accordingly, the building value disclosed above reflects the floors occupied by the Company For the value of the remaining floors leased, refer to note 19

Notes to the Financial Statements

18 Intangible assets

	Computer Software £	Computer Licenses £	Total £
Cost			
Balance at 1 January 2014	832,456	421,512	1,253,968
Additions	9,423	41,550	50,973
Balance at 31 December 2014	841,879	463,062	1,304,941
Amortisation			
Balance at 1 January 2014	(811,215)	(404,539)	(1,215,754)
Amortisation charge for the year	(11,958)	(15,674)	(27,632)
Balance at 31 December 2014	(823,173)	(420,213)	(1,243,386)
Net book value at 31 December 2014	**18,706**	**42,849**	**61,555**
Cost			
Balance at 1 January 2013	826,294	421,512	1,247,806
Additions	6,162	-	6,162
Balance at 31 December 2013	832,456	421,512	1,253,968
Amortisation			
Balance at 1 January 2013	(788,636)	(395,519)	(1,184,155)
Amortisation charge for the year	(22,579)	(9,020)	(31,599)
Balance at 31 December 2013	(811,215)	(404,539)	(1,215,754)
Net book value at 31 December 2013	**21,241**	**16,973**	**38,214**

19 Investment property

	£
Balance at 1 January 2014	-
Additions	9,511,839
Balance at 31 December 2014	9,511,839

The Company acquired a building on 13 March 2014 at 43 Grosvenor Street, London, W1K 3HL Two floors of the building were leased out to a third party from the acquisition date and the remaining floors were brought into use by the Company from 22 December 2014 Accordingly, the building value disclosed above reflects the floors leased to third party tenants For the carrying value of the floors in use by the Company, refer to note 17

20 Other assets

	2014 £	2013 £
Income receivable	**1,591,247**	2,189,665
Fees receivable	**48,176**	177,180
VAT recoverable	**281,222**	42,751
Prepayments	**1,232,615**	323,640
Other receivables	-	236,259
Total other assets	**3,153,260**	2,969,495

Notes to the Financial Statements

21 Due to banks

	2014 £	2013 £
Demand	**70,518**	191,690
Murabaha deposits	**2,873,635**	2,688,380
Wakala deposits	**24,414,012**	50,852,633
Total due to banks	**27,358,165**	53,732,703

22 Due to customers

	2014 £	2013 £
Demand	**4,144,948**	2,218,412
Murabaha deposits	**3,844,452**	46,968,402
Wakala deposits	**145,150,547**	18,719,426
Total due to customers	**153,139,947**	67,906,240

23 Other liabilities

	2014 £	2013 £
Returns payable	**1,048,660**	2,650,410
Accruals	**586,695**	231,464
Trade payables	**279,176**	5,342
Social security and income tax	**78,976**	82,519
Other payables	**621,653**	422,728
Total other liabilities	**2,615,160**	3,392,463

Notes to the Financial Statements

24 Commitments under operating lease

There is a commitment at the year-end under a non-cancellable lease for the Company's premises at 4th Floor, Berkeley Square House, Berkeley Square, London W1J 6BX at an annual rental of £434,340, expiring on 6 March 2022 This lease has been sub-let to tenants There is also an IT rental lease with an annual rental of £9,165 The following shows the total future minimum lease payments under these non-cancellable operating leases

	2014 £	2013 £
Not later than one year	**443,505**	453,820
Later than one year and not later than five years	**1,767,146**	1,737,360
Later than five years	**1,303,020**	1,416,741
	3,513,671	3,607,921

During the year £438,922 (2013 £483,176) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases

25 Contingent liabilities and commitments

	2014 £	2013 £
Letters of credit	**2,005,989**	3,225,377
Total	**2,005,989**	3,225,377

Letters of credit (LCs) include an unfunded risk participation with the London branch of a Middle Eastern Bank for £1,671,671 The remaining commitments represent LCs issued by QIB

26 Share capital

During the year 12,500,000 new ordinary shares were issued for £1 00 and fully paid

	2014 £	2013 £
Authorised		
100,000,000 Ordinary shares of £1 00 each	**100,000,000**	50,000,000
Allotted, called up and fully paid		
Ordinary shares of £1 00 each	**56,500,000**	44,000,000

During the year the Company issued shares totalling £12 5m to QIB that were fully paid for The purpose of the issue was to ensure that sufficient regulatory capital was in place to support asset growth

Notes to the Financial Statements

27 Related party transactions

Qatar Islamic Bank (QIB) is the immediate and ultimate controlling party by virtue of the fact that it holds 100% of the issued share capital and voting rights in the Company QIB was incorporated on 8 July 1982 as a Qatari shareholding company by the Emiri Decree Number 45 of 1982 to provide banking services, and conduct investment and financing activities in accordance with Islamic Shari'a principles, as determined by its Shari'a Committee and in accordance with the provisions of its Memorandum and Articles of Association

All other related parties are related by virtue of QIB ownership or common Non-Executive Directors, unless otherwise stated below

Sale of Asset Management Division
On 28 July 2014, QIB (UK) sold its Asset Management division to QInvest for a consideration of £149,624

Subordinated loan from related party
As at 31 December 2014 there was an outstanding subordinated loan balance payable to QIB of £12,757,834 (2013 £9,757,834) During the year, new subordinated loans of £3,000,000 (2013 £5,000,000) were issued

Due to banks
QIB held demand deposit accounts and entered into Wakala deposit transactions with the Bank on an arm's length basis As at 31 December, total deposits from QIB were £8,446,997 (2013 £11,118,103), of which £875,764 (2013 £5,450,298) relate to sub-participation agreements into Real Estate transactions Total returns due to QIB in the year were £518,345 (2013 £144,353) and returns of £6,556 (2013 £39,036) were payable as at the end of the year The highest balance of deposits from QIB during the year was £70,391,976 (2013 £11,118,103)

QInvest entered into Wakala deposit transactions with the Bank on an arm's length basis As at 31 December, total deposits from QInvest were £nil (2013 £nil) Total returns due to QInvest in the year were £nil (2013 £20,464) and returns of £nil (2013 £nil) were payable as at the end of the year The highest balance of deposits from QInvest during the year was £nil (2013 £4,936,646)

Cash and balances with banks
Demand bank accounts were held with QIB in line with QIB's normal account terms and conditions As at 31 December, the balance held with QIB was £33 (2013 £661)

Guarantee fees
To support QIB (UK)'s ability to seek external funding, QIB provide a guarantee to external lenders In return, QIB charge QIB (UK) guarantee fees During the year, the guarantee fees charged to the income statement are £444,107 (2013 £nil) The amount outstanding as at 31 December 2014 is £444,107 (2013 £nil)

Notes to the Financial Statements

Financing arrangements

As at 31 December, financing arrangements included a balance of £3,502,163 (2013 £3,377,780) relating to a property Musharaka financing transaction made with Mr Abdullah Al-Eida, a Director of QIB, on an arm's length basis The highest balance during the year for this financing was £3,502,163 (2013 £3,377,780) and returns of £2,728 (2013 £13,371) were payable at the end of the year There was a further Musharaka financing transaction of £3,611,606 (2013 £3,483,336) with Peterson Development Limited, a company related to Mr Al-Eida The highest balance during the year for this financing was £3,611,606 (2013 £3,483,336) and returns of £2,813 (2013 £13,789) were payable at the end of the year

Due to Customers

As at 31 December, Mr Abdullah Al-Eida had a demand deposit account with a balance of £nil (2013 £260)

Bank lines

As at 31 December the Company had £45,083,774 (2013 £48,976,630) of agreed inter-bank borrowing lines and £48,000,000 (2013 £45,000,000) of agreed lending lines with related parties within the QIB Group These lines are of varying tenor and duration

No fees are payable or receivable for these lines and they have been utilised during the year only as described above

Key management compensation

Key management of the Company is the Management Committee of the Bank The Management Committee was reformed during the year with an increased number of members The compensation of key management personnel is as follows

	2014	2013
	£	£
Emoluments including social security costs	**992,431**	654,530
Company contributions to pension plans	**77,563**	71,472
	1,069,994	726,002

As at 31 December 2014, advances totalling £115,500 (2013 £110,000) had been made to key management as part of a staff advance scheme No returns are payable on these advances and repayment is directly from salary

Notes to the Financial Statements

28 Financial risk management

The Bank monitors and manages exposures to the following risks arising from its use of financial instruments

- Capital adequacy
- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Profit rate risk
- Shari'a compliance risk

This note presents information about the Bank's exposure to each of these risks, and its objectives, policies and processes for identifying, mitigating, managing and reporting them

Risk management framework

QIB (UK) seeks to mitigate risk through robust systems and controls, and through effective corporate governance The Bank has an established risk management framework which has been enhanced following an in-depth review during 2014

The major components of QIB (UK)'s risk management framework include

a) committee / governance structure
b) delegated approval limits for credit exposures
c) delegated approval limits for trading and investment purposes
d) three lines of defence model
e) risk appetite statement
f) Risk and Compliance functions
g) risk register
h) risk indicator framework
i) risk policies and procedures
j) Internal Audit

Elements of the framework are detailed further below

Governance structure

QIB (UK) Board
The QIB (UK) Board ('the Board') is the statutory board of directors of QIB (UK) It has authority to act on behalf of the Bank in all matters in accordance with the Memorandum and the Articles of Association of the Company

The Board is responsible for the process of risk management, and will form its own opinion on the effectiveness of the process The Board provides oversight and takes responsibility for strategic leadership of the Bank within a framework of good corporate governance and prudent and effective controls which enable risk to be assessed and managed The Board, working with the Bank's Management Committee, sets the risk strategy policies and ensures that the necessary financial and human resources are in place for the Bank to meet its objectives

The Board decides the Bank's appetite or tolerance for risk and ensures that the Bank has implemented an effective, on-going process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed

Notes to the Financial Statements

The QIB (UK) Board has a general duty to ensure that the Bank conducts business in accordance with all relevant statutory and regulatory requirements This includes specific responsibilities for ensuring that

a) the business has an effective system of internal control and management of business risks and is conducted in accordance with the PRA/FCA principles for businesses
b) adequate records are maintained
c) a strong capital base is maintained to support the development of its business and to meet regulatory capital requirements at all times
d) the compliance department and internal and external auditors are competent and provided with appropriate resource in the discharge of their duties
e) an integrated system of planning and budgeting is established to ensure that the Company can efficiently and effectively achieve its strategic objectives in support of and in line with the strategic objectives of the shareholders
f) the composition of the QIB (UK) Board is periodically reviewed to ensure its skill-set is appropriate to current and future business requirements

Typically annually, the QIB (UK) Board will request that management review the effectiveness of the Bank's system of internal controls The review will cover all material controls, including financial, operational and compliance controls and risk management systems

The QIB (UK) Board has established a governance framework of Board Sub-Committees and Management Committees to ensure the sound management of the Bank These committees are depicted below

The QIB (UK) Board approves financing and investment proposals and corporate facilities above the Sub-Committees' and Sub-Management Committees' delegated authority in accordance with the agreed delegated credit authority limit structure

Board Sub-Committees

The QIB (UK) Board has delegated specific powers and authority to the following Board Sub-Committees as set out in their respective terms of reference

- Board Executive Committee,
- Shari'a Supervisory Committee,
- Board Audit & Risk Committee, and
- Board Remuneration Committee

Board Executive Committee ("Board ExCo")
The Board ExCo reviews, rejects, recommends or approves as appropriate new credit exposures within the authority delegated to it Its principal purpose is to preserve the independence of the members of the Board Audit and Risk Committee from the commercial activities of the Bank

Shari'a Supervisory Committee ("SSC")
The SSC reviews the proposed products and services of QIB (UK) to ensure that they are fully compliant and in accordance with the rules and principles of Shari'a The guidance of the SSC prevents the Bank from taking risks outside an important facet of its risk appetite, that of compliance with Shari'a

Board Audit & Risk Committee ("ARC")
The ARC is constituted to ensure that the executive management has established and maintains an effective system of internal controls on behalf of the QIB (UK) Board It is also responsible for providing a channel of communication between the QIB (UK) Board, executive management, the Risk and Compliance functions and Internal and External Audit

Notes to the Financial Statements

Board Remuneration Committee ("RemCo")
RemCo provides a formal, objective and transparent means of developing policy on executive remuneration and fixing the remuneration packages of individual Bank directors It also functions as a nominations committee, evaluating the performance of the QIB (UK) Board and the executive

Executive Management Committee ("ManCo")
Drawn from the executives of the Company, ManCo is responsible for the operational oversight and management of the Company
Under the leadership of the Chief Executive Officer, the ManCo is the principal forum for conducting the business of QIB (UK) plc and is responsible for the efficient and controlled operation of the business within the limits of the strategy, budgets and mandates approved by the QIB (UK) Board

The ManCo has specific delegated authority for the establishment, approval and periodic review of all policies and procedures adopted by the Bank as part of the risk management and control framework

Sub-Management Committees

The ManCo has two Sub-Management Committees
- the Risk Management Committee, and
- the Asset & Liability Committee

Their roles and responsibilities are covered below

Risk Management Committee ("RMC")
The RMC provides support and advice directly to the ManCo, and indirectly to the QIB (UK) Board

The RMC is the primary committee with regard to risk management It acts within authority delegated to it through the ManCo, as amended from time to time by the QIB (UK) Board, and has two main roles

First, to establish and oversee a robust risk management framework and advise the ManCo and ultimately the QIB (UK) Board on all areas of risk management, current risk exposures and future risk strategy, including capital and liquidity management

Secondly, to assess, decide and recommend upon proposed credit risk exposures In consultation with the QIB Group Risk function and subject to QIB (UK) Board approval the RMC sets and approves financial institution limits to avoid excessive consolidated Group exposures

The RMC is chaired by the Chief Risk Officer ("CRO")

Asset & Liability Committee ("ALCO")
The ALCO manages and monitors the capital, assets and liabilities of the Bank to ensure an appropriate risk/reward relationship between solvency, liquidity and profit rate risk

Capital management

The Bank's capital requirements are set and monitored by the PRA Regulatory capital is analysed in two tiers

- Tier 1 capital, which includes ordinary share capital and retained earnings
- Tier 2 capital, which includes qualifying subordinated loans

The level of total regulatory capital is monitored against the Individual Capital Guidance Individual Capital Guidance is comprised of Pillar 1 capital using the Standardised Approach and Pillar 2 as required by the PRA The Bank has complied with all capital requirements throughout the period

Notes to the Financial Statements

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty is unable to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements

The Bank has a thorough quantitative and qualitative vetting process in place covering all of its customers and counterparties This involves assigning internal risk ratings and maximum tenors over and above any external rating These ratings, which are subject to regular review, control the amount of credit that can be made available to any obligor

Management of credit risk

The Bank manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, countries or sectors and continually assessing the creditworthiness of all counterparties It also ensures that credit capacity is diversified across the Bank's business lines to ensure an appropriate allocation of risk capital and avoid undue concentrations of risk by customer, country, sector or internal ratings

Risk Management is responsible for the operational management of the Bank's credit risk, including

- reviewing and approving credit and underwriting proposals, within delegated limits
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and actioning, as appropriate, any non-performing credits
- monitoring ongoing adherence to country and counterparty limits

A detailed credit approval limit structure was established during 2014 Within this limit structure, potential exposures and proposals are assessed by either the RMC, the Board ExCo or the QIB (UK) Board itself

The RMC is responsible for the formal assessment of any new exposures Business lines submit credit approval requests to the CRO using the standardised QIB Group Risk Rating procedure The Risk Manager submits the request to the RMC for consideration and approval sign-off

The RMC reviews all potential exposures If the potential exposure falls within its delegated authority, the RMC will form its own decision If not, the RMC will review and if appropriate recommend the exposure to either the Board ExCo or the QIB (UK) Board Credit risk exposures as at 31 December are shown below

	2014	2013
	£	£
Balances with banks	**5,844,014**	2,828,332
Due from banks	**23,576,325**	78,108,642
Murabaha financing	**63,229,925**	20,278,779
Wakala financing	**2,562,870**	-
Musharaka financing	**18,688,769**	14,996,116
Mudaraba financing	**616,760**	1,037,148
Ijara financing	**3,203,588**	366,124
Financial assets available for sale	**70,549,731**	22,073,787
Financial assets held to maturity	**6,808,055**	7,344,709
Total	**195,080,037**	147,033,637
Off-balance sheet		
Letters of credit	**2,005,989**	3,225,377
Total credit risk	**197,086,026**	150,259,014

Notes to the Financial Statements

The credit exposures shown above are gross before taking account of any collateral held

Concentration of risks of financial assets with credit risk exposure

The following tables provide additional analysis of the credit exposure, showing concentration by geographical location and industry type of counterparties For geographical sector, allocation of exposures to regions is based on the country of incorporation or nationality of the counterparty

Geographical sectors

	Europe £	Middle East £	USA £	Other £	Total £
Balances with banks	4,801,921	33	1,042,060	-	5,844,014
Due from banks	5,922,152	17,654,173	-	-	23,576,325
Murabaha financing	50,447,749	11,702,070	-	1,080,106	63,229,925
Wakala financing	-	2,562,870	-	-	2,562,870
Musharaka financing	11,575,000	7,113,769	-	-	18,688,769
Mudaraba financing	616,760	-	-	-	616,760
Ijara financing	-	3,203,588	-	-	3,203,588
Financial assets available for sale	13,478,919	57,070,812	-	-	70,549,731
Financial assets held to maturity	2,963,749	3,844,306	-	-	6,808,055
31 December 2014	**89,806,250**	**103,151,621**	**1,042,060**	**1,080,106**	**195,080,037**
Off-balance sheet					
Letters of credit	-	2,005,989	-	-	2,005,989
31 December 2014	-	2,005,989	-	-	2,005,989
Total	**89,806,250**	**105,157,610**	**1,042,060**	**1,080,106**	**197,086,026**

	Europe £	Middle East £	USA £	Other £	Total £
Balances with banks	2,665,779	662	161,891	-	2,828,332
Due from banks	20,012,232	30,748,220	15,000,000	12,348,190	78,108,642
Other financing	-	-	-	-	-
Murabaha financing	20,278,779	-	-	-	20,278,779
Musharaka financing	1,700,000	3,377,780	-	9,918,336	14,996,116
Mudaraba financing	1,037,148	-	-	-	1,037,148
Ijara financing	366,124	-	-	-	366,124
Financial assets available for sale	10,900,136	11,173,651	-	-	22,073,787
Financial assets held to maturity	2,960,998	4,383,711	-	-	7,344,709
31 December 2013 as restated	**59,921,196**	**49,684,024**	**15,161,891**	**22,266,526**	**147,033,637**
Off-balance sheet					
Letters of credit	-	3,225,377	-	-	3,225,377
31 December 2013	-	3,225,377	-	-	3,225,377
Total	**59,921,196**	**52,909,401**	**15,161,891**	**22,266,526**	**150,259,014**

Notes to the Financial Statements

Industry sectors

	Banks	Individuals	Real Estate	Corporates	Others	Total
	£	£	£	£	£	£
Balances with banks	5,844,014	-	-	-	-	5,844,014
Due from banks	23,576,325	-	-	-	-	23,576,325
Other financing	-	-	-	-	-	-
Murabaha financing	2,883,229	75,421	53,905,103	5,286,066	1,080,106	63,229,925
Wakala financing	2,562,870	-	-	-	-	2,562,870
Musharaka financing	-	-	18,688,769	-	-	18,688,769
Mudaraba financing	-	-	-	616,760	-	616,760
Ijara financing	-	-	-	3,203,588	-	3,203,588
Financial assets available for sale	54,366,074	-	-	12,308,866	3,874,791	70,549,731
Financial assets held to maturity	2,963,749	-	-	1,922,153	1,922,153	6,808,055
31 December 2014	**92,196,261**	**75,421**	**72,593,872**	**23,337,433**	**6,877,050**	**195,080,037**
Off-balance sheet						
Letters of credit	2,005,989	-	-	-		2,005,989
31 December 2014	2,005,989	-	-	-		2,005,989
Total	**94,202,250**	**75,421**	**72,593,872**	**23,337,433**	**6,877,050**	**197,086,026**

	Banks	Individuals	Real Estate	Corporates	Others	Total
Balances with banks	2,828,332	-	-	-	-	2,828,332
Due from banks	78,108,642	-	-	-	-	78,108,642
Other financing	-	-	-	-	-	-
Murabaha financing	-	110,806	14,725,987	5,441,986	-	20,278,779
Musharaka financing	-	-	14,996,116	-	-	14,996,116
Mudaraba financing	-	-	-	1,037,148	-	1,037,148
Ijara financing	-	-	-	366,124	-	366,124
Financial assets available for sale	16,627,930	-	-	5,445,857	-	22,073,787
Financial assets held to maturity	-	-	4,774,947	2,569,762	-	7,344,709
31 December 2013	**97,564,904**	**110,806**	**34,497,050**	**14,860,877**	-	**147,033,637**
Off-balance sheet						
Letters of credit	3,225,377	-	-	-	-	3,225,377
31 December 2013	3,225,377	-	-	-	-	3,225,377
Total	**100,790,281**	**110,806**	**34,497,050**	**14,860,877**	-	**150,259,014**

Notes to the Financial Statements

Credit quality

The credit quality of the Bank's exposures is reviewed and managed by the Bank's Risk department and RMC

Credit quality is assessed using techniques which use information from the major External Credit Assessment Institutions ("ECAI"), together with specific financial data, to determine internal risk ratings The latter are mapped to the ECAI and Regulators' credit risk ratings

The Bank has policies and procedures to monitor impairment events that could lead to losses in its asset portfolio These policies and procedures cover specific loss events for individual significant exposures as well as events that relate to collective losses on groups of homogenous assets that have yet to be identified and assessed individually for impairment

The Bank writes off a balance (and any related allowances for impairment) when it is considered uncollectable This would be determined by considering information such as significant changes in the obligor's financial position and an assessment of collateral levels

During the year, the Bank incurred impairment losses of £400,000 (2013 £7,652,242) which relate to a UK corporate financed by the Bank Specifically, after a detailed portfolio review, a £400,000 provision was raised against £1,037,148 From the adjustments to the provisions brought forward, £1,067,962 relates to recoveries made in the year Following the recovery relating to a previously impaired exposure which brought the account up to date, a further adjustment of £1,059,130 was made as it is now considered that repayment will be received in full

The table below shows the movement in impairment provisions during the year

Total provisions brought forward	2,406,587
Adjustments to provisions brought forward	(2,127,092)
Additional 2014 provisions	400,000
Closing impairment provision as at 31 December 2014	**679,495**

Notes to the Financial Statements

The table below shows past due amounts and impairments

	2014		2013	
	Due from banks	**Financing arrangements**	Due from banks	Financing arrangements
	£	**£**	£	£
Neither past due nor impaired	**23,576,325**	**87,665,926**	78,108,642	34,415,861
Individually impaired	**-**	**1,309,031**	-	2,160,758
Past Due	**-**	**6,451**	-	101,548
Gross	**23,576,325**	**88,981,407**	78,108,642	36,678,167
Impairment	**-**	**(679,495)**	-	(2,460,587)
Total	**23,576,325**	**88,301,913**	78,108,642	34,217,580

The credit quality of the portfolio of financing arrangements and due from banks is further assessed by reference to the internal rating system adopted by the Bank

	Investment Grade	Standard Monitoring	Special Monitoring	Total
	£	£	£	£
Balances with banks	5,844,014	-	-	5,844,014
Due from banks	23,576,325	-	-	23,576,325
Other financing	-	-	-	-
Murabaha financing	-	61,711,025	1,518,900	63,229,925
Wakala financing	2,562,870	-	-	2,562,870
Musharaka financing	-	18,688,769	-	18,688,769
Mudaraba financing	-	-	616,760	616,760
Ijara financing	-	3,203,588	-	3,203,588
Financial assets available for sale	69,257,934	1,291,797	-	70,549,731
Financial assets held to maturity	-	6,808,055	-	6,808,055
31 December 2014	**101,241,143**	**91,703,234**	**2,135,660**	**195,080,037**
Off Balance Sheet				
Letters of credit	2,005,989	-	-	2,005,989
31 December 2014	2,005,989	-	-	2,005,989
Total	**103,247,132**	**91,703,234**	**2,135,660**	**197,086,026**

Notes to the Financial Statements

	Investment Grade £	Standard Monitoring £	Special Monitoring £	Total £
Balances with banks	2,828,332	-	-	2,828,332
Due from banks	65,708,025	12,400,617	-	78,108,642
Other financing	-	-	-	-
Murabaha financing	-	14,727,624	5,551,155	20,278,779
Musharaka financing	-	14,996,116	-	14,996,116
Mudaraba financing	-	1,037,148	-	1,037,148
Ijara financing	26,935	-	339,189	366,124
Financial assets available for sale	16,627,930	5,445,857	-	22,073,787
Financial assets held to maturity	2,569,761	4,774,948	-	7,344,709
31 December 2013	**87,760,983**	**53,382,310**	**5,890,344**	**147,033,637**
Off Balance Sheet				
Letters of credit	3,225,377	-		3,225,377
31 December 2013	**3,225,377**	**-**		**3,225,377**
Total	**90,986,360**	**53,382,310**	**5,890,344**	**150,259,014**

Investment grade refers to external rating of BBB- and above Special monitoring refers to all the assets that are under review by the CRO for regular impairment review All other assets are monitored under the Standard monitoring initiative

As at 31 December 2014, the Bank had the following impaired assets for which it is undertaking special monitoring

1) A UK corporate with a total Ijara financing of £279,495 (2013 £279,495) The total impairment provision against this asset as at 31 December is £279,495 (2013 £279,495)

2) A UK corporate with a total Mudaraba financing amount due of £1,029,536 (2013 £1,073,189) The total impairment provision against this asset as at 31 December is £400,000 (2013 £nil)

A full assessment of all other assets where a potential loss event has occurred has been completed It has been determined that no other impairment provision is required

Notes to the Financial Statements

Collateral

Risk Management assesses exposure against collateral held This is done as part of the initial credit assessment and then as part of periodic credit reviews The collateral Murabaha and Musharaka financing exposures presented in the table below represents mortgages on the real estate assets The collateral presented below also includes Mudaraba securities held on trade receivables The fair value of collateral can vary

	2014		2013	
	Exposure	**Collateral**	Exposure	Collateral
	£	**£**	£	£
Balances with banks	**5,844,014**	**-**	2,828,332	-
Due from banks	**23,576,325**	**-**	78,108,642	-
Murabaha financing	**63,229,925**	**77,863,444**	20,278,779	30,791,149
Musharaka financing	**18,688,769**	**28,143,064**	14,996,116	23,231,380
Mudaraba financing	**616,760**	**616,760**	1,037,148	2,888,689
Wakala financing	**2,562,870**	**-**	-	-
Ijara financing	**3,203,588**	**-**	366,124	-
Financial assets available for sale	**70,549,731**	**-**	22,073,787	-
Financial assets held to maturity	**6,808,055**	**-**	7,344,709	-
Letters of credit	**2,005,989**	**-**	3,225,377	-
Total credit risk	**197,086,026**	**106,623,268**	150,259,014	56,911,218

Market risk

Market risk encompasses an adverse change in the value of assets as a consequence of market movements such as rates, equity prices and commodity prices which are not matched by a corresponding movement in the value of liabilities

The market risk within the Bank is managed in accordance with the PRA Capital Requirement Directive BIPRU 7 and includes all

- trading book positions, and
- foreign exchange positions, whether or not in the trading book

The market risk definition can be further broken down into the sub-risk types shown on the following pages

Notes to the Financial Statements

Exchange rate risk

This is the sensitivity of financial positions to adverse movements in foreign exchange rates Exchange rate risk does not only arise as a result of direct foreign exchange related dealings, but can also result from foreign currency based transactions such as financing, deposits, Islamic derivative trades or through foreign currency commission payments and receipts The Company utilized forward foreign exchange contracts to manage this risk

The following table summarises the Bank's exposures across different currencies arising from its financial instruments

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Cash and balances with banks	1,113,684	61,729	4,660,133	33	8,435	5,844,014
Due from banks	14,576,325	-	9,000,000	-	-	23,576,325
Financing arrangements	20,141,601	-	68,160,311	-	-	88,301,912
Financial assets held to maturity	3,844,306	-	2,963,749	-	-	6,808,055
Financial assets available for sale	70,549,731	-	-	-	-	70,549,731
Derivative financial instruments	-	-	650,176	-	-	650,176
Other assets	-	-	30,646,152	-	-	30,646,152
31 December 2014	**110,225,647**	**61,729**	**116,080,521**	**33**	**8,435**	**226,376,365**
Liabilities						
Due to banks	2,900,206	23,344	24,434,615	-	-	27,358,165
Due to customers	147,290,118	1,408,468	4,441,361	-	-	153,139,947
Subordinated Loan	-	-	12,757,834	-	-	12,757,834
Other liabilities	469,287	-	2,145,873	-	-	2,615,160
31 December 2014	**150,659,611**	**1,431,812**	**43,779,683**	**-**	**-**	**195,871,106**
Net on balance sheet financial position	**(40,433,964)**	**(1,370,083)**	**72,300,838**	**33**	**8,435**	**30,505,259**
Forward foreign exchange contracts	41,818,773	1,416,060	(43,234,833)	-	-	-

Notes to the Financial Statements

	USD £	EUR £	GBP £	QAR £	Other £	Total £
Assets						
Cash and balances with banks	161,905	49,022	2,609,078	948	8,403	2,829,356
Due from banks	32,258,065	1,498,190	44,352,387	-	-	78,108,642
Financing arrangements	5,441,987	-	31,236,180	-	-	36,678,167
Financial assets held for trading	-	-	-	-	-	-
Financial assets held to maturity	4,383,711	-	2,960,998	-	-	7,344,709
Financial assets available for sale	22,073,787	-	-	-	-	22,073,787
Derivative financial instruments	-	-	(42)	-	-	(42)
Other assets	1,987,145	40,786	941,463	101	-	2,969,495
31 December 2013	**66,306,600**	**1,587,998**	**82,100,064**	**1,049**	**8,403**	**150,004,114**
Liabilities						
Due to banks	7,319,293	35,986	46,377,424	-	-	53,732,703
Due to customers	60,481,383	1,499,216	5,925,641	-	-	67,906,240
Subordinated Loan	-	-	9,757,834	-	-	9,757,834
Other liabilities	2,469,664	1,949	920,799	51	-	3,392,463
31 December 2013	**70,270,340**	**1,537,151**	**62,981,698**	**51**	-	**134,789,240**
Net on balance sheet financial position	**(3,963,740)**	**50,847**	**19,118,366**	**998**	**8,403**	**15,214,874**
Forward foreign exchange contracts	4,000,000	-	(4,000,000)	-	-	-

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible, and as at 31 December 2014, held a net exposure to exchange rate risk equivalent to £7,315 (2013 £96,508)

Notes to the Financial Statements

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks

The Bank's objective in managing operational risk is to implement an integrated internal control and operating infrastructure that supports process efficiency and customer needs, whilst effectively reducing the risk of error and financial loss in a cost effective manner The overall operational risk framework is set by the Board of Directors and is documented within the Bank's Operational Risk Policy under the guidance of the RMC

Operational risk management is considered to be the responsibility of all staff The following outlines the governance structure for the Bank's operational risk framework

- the Board of Directors approves the strategy and policy documents

- RMC monitors the following operational risk factors high risk areas as defined by departmental risk indicator self-assessments, organisational deficiencies, inadequate policies and procedures, key risk indicators, and loss information

- A detailed Risk Register has been compiled and is maintained based on the above reviews The register is reviewed monthly by the RMC and quarterly by the Audit and Risk Committee, and updated as appropriate

The Compliance team ensures that all aspects of regulatory risk impacting the Bank are appropriately reviewed and managed The Bank does not have a dedicated in-house legal function but uses professional legal firms for all matters requiring legal advice

Reports from Internal Audit are reviewed by the Audit and Risk Committee which is also responsible for reviewing and approving the annual internal audit plan

The Bank regularly conducts a Fire Drill so that staff are aware of the procedures to be followed in cases of emergency and has an off-site Business Continuity Planning & Disaster recovery facility which is periodically tested by Bank staff to ensure that they can perform their functional duties away from the Bank headquarters should it be required at any given point in time

Shari'a compliance risk

Shari'a compliance risk is the risk of loss arising from non-compliance of products or services offered by the Bank with Shari'a principles The Bank's Shari'a Supervisory Committee (SSC) ensures that all products and activities of the Bank are Shari'a compliant The members of the SSC are leading experts in the interpretation of Islamic law and its applications in the contemporary financial markets

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations due from its financial liabilities The Bank's Treasury department is responsible for formulating an overall market strategy for managing liquidity to ensure this does not occur, which is then approved by ALCO The liquidity profile of all financial assets and liabilities, including projected cash flows from current and future business, is monitored by Treasury department, reviewed by Risk Management and reported to members of ALCO daily

Notes to the Financial Statements

Details of the Company's net liquid assets are summarised in the table on the following page using the maturity profile of the Company's assets and liabilities based on the contractual repayment arrangements The contractual maturities of assets and liabilities reflect the remaining period between the balance sheet date and the contractual maturity date

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
31 December 2014						
Assets						
Cash and balances with banks	5,844,014	-	-	-	-	5,844,014
Due from banks	23,576,325	-	-	-	-	23,576,325
Financing arrangements	7,730,259	1,536,354	22,300,238	47,150,760	9,584,032	88,301,912
Financial assets held to maturity	-	-	-	6,808,055	-	6,808,055
Financial assets available for sale	-	3,393,881	-	64,530,873	2,624,976	70,549,731
Derivative financial instruments	-	-	650,176	-	-	650,176
Other assets	1,920,645		3,194,647	61,555	25,469,575	30,646,422
Total assets	**39,071,243**	**4,930,235**	**26,145,061**	**118,551,243**	**37,678,583**	**226,376,365**
Liabilities						
Due to banks	15,484,530	9,000,000	2,873,635	-	-	27,358,165
Due to customers	16,702,885	3,277,017	4,613,000	-	128,547,045	153,139,947
Loan from related party	-	-	-	-	-	-
Subordinated loan	-	-	-	-	12,757,834	12,757 834
Other liabilities	2,615,160	-	-	-	-	2,615,160
Total liabilities	**34,802,575**	**12,277,017**	**7,486,635**	-	**141,304,879**	**195,871,106**
Difference	**5,653,551**	**(7,346,782)**	**18,658,782**	**(118,551,243)**	**(105,011,179)**	**30,505,259**

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
31 December 2013						
Assets						
Cash and balances with banks	2 829 356	-	-	-	-	2,829,356
Due from banks	47,218,581	16,077,829	14,812,232	-	-	78,108,642
Financing arrangements	2,947	-	2,765,720	31,748,742	-	34,517,409
Financial assets held for trading	-	-	-	-	-	-
Financial assets held to maturity	-	-	755,812	6,588,897	-	7,344,709
Financial assets available for sale	4,541,640	-	307,935	17,224,212	-	22,073,787
Derivative financial instruments	3	(45)	-	-	-	(42)
Other assets	2,969,495	-	-	-	-	2,969,495
Total assets	**57,562,022**	**16,077,784**	**18,641,699**	**55,561,851**	-	**147,843,356**

Notes to the Financial Statements

Liabilities						
Due to banks	23,191,690	14,767,039	2,938,380	12,835,594	-	53,732,703
Due to customers	2,733,622	3,260,389	30,546,145	31,366,084	-	67,906,240
Loan from related party	-	-	-	-	-	-
Subordinated loan	-	-	-	4,757,834	5,000,000	9,757,834
Other liabilities	3,392,463	-	-	-	-	3,392,463
Total liabilities	**29,317,775**	**18,027,428**	**33,484,525**	**48,959,512**	**5,000,000**	**134,789,240**
Difference	**28,244,247**	**(1,949,644)**	**(14,842,826)**	**6,602,339**	**(5,000,000)**	**13,054,116**

Profit rate risk (non-trading book)

This risk arises from the effects of changes in profit rates on the re-pricing of assets and liabilities, and covers both fixed and variable profit rates

Profit rate risk is measured and monitored daily against revenue and capital in the Risk Report which is distributed to the Treasury department, ALCO and senior management The same report is distributed monthly to the Audit and Risk Committee The table below outlines the parallel risk, impact of the rate shock on capital and the impact of the rate shock on net income resulting from a 1% rate increase/decrease

	2014 £	2013 £
Net income from financing activities	**2,941,727**	3,386,777
Parallel rate shock risk		
- 1% rate shock	**393,073**	422,020
Impact of rate shock on capital		
- 1% rate increase	**0 69%**	1 83%
- 1% rate decrease	**-0 69%**	-1 83%
Impact of rate shock on net income		
- 1% rate increase	**13%**	12%
- 1% rate decrease	**-13%**	-12%

29 Fair value of financial assets and liabilities

In the opinion of the Directors, the fair value of financial assets and financial liabilities are not materially different from their carrying value

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Company's market assumptions These two types of inputs have created the following fair value hierarchy

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities This level includes listed equity securities on exchanges

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Notes to the Financial Statements

• Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This level includes equity investments with significant unobservable components

This hierarchy requires the use of observable market data when available The Company considers relevant and observable market prices in its valuations where possible

The fair value for investments in Sukuk and funds under 'financial assets available for sale' are based on quoted prices as defined in level 1 under IFRS 7 The fair value of investments in structured notes is based on observable market prices as defined in level 2 under IFRS 7

The following table presents the Bank's assets that are measured at fair value as at 31 December

31 December 2014	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit and loss				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
Derivative financial instruments	-	650,176	-	650,176
Financial assets available for sale				
- Equity instruments	-	-	-	-
- Debt instruments	63,626,137	6,923,594		70,549,731
Total Assets	**63,626,137**	**7,573,770**	**-**	**71,199,907**

31 December 2013				
Financial assets at fair value through profit and loss				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
Derivative financial instruments	-	(42)	-	(42)
Financial assets available for sale				
- Equity interests	-	-		-
- Debt Instruments	15,715,290	6,358,497	-	22,073,787
Total Assets	15,715,290	6,358,455	-	22,073,745

There were no transfers made between level 1 and level 2 instruments

Notes to the Financial Statements

The following table presents the changes in level 3 instruments

	Financial assets available for sale £	Derivative financial instruments £	Total £
Balance as at 1 January 2014	-	-	-
Transfers into level 3 instruments	-	-	-
Level 3 instruments recognised in year	-	-	-
Write-down on level 3 instruments	-	-	-
Balance as at 31 December 2014	-	-	-
Balance as at 1 January 2013	4,242,993	-	4,242,993
Transfers into level 3 instruments	-	-	-
Level 3 instruments recognised in year	-	-	-
Write-down on level 3 instruments	(4,242,993)	-	(4,242,993)
Balance as at 31 December 2013	-	-	-

30 Events after the balance sheet date

There were no events between the balance sheet date and the date when the financial statements were signed, which would have had any material impact on the financial results for the year ended 31 December 2014

31 Immediate and ultimate controlling party

Qatar Islamic Bank (QIB) is the immediate and ultimate controlling party by virtue of the fact that it holds 100% of the issued share capital and voting rights in the Company The financial statements of the immediate and controlling party can be obtain from the QIB's office in P O Box 559, Doha, Qatar

Appendix: QIB (UK) Pillar 3 Declaration

This declaration does not form part of the Annual Report and is unaudited

1 Introduction

QIB (UK) plc (the "Bank") is well capitalised, and its Corporate Governance structure and risk controls are robust and effective

The Bank considers effective risk management to be an over-riding necessity for continued successful operation and the protection of its stakeholders In accordance with the disclosure requirements of Regulation (EU) No 575/2013 and amending Regulation (EU) No 648/2012 (CRD IV) this document provides an overview of the Bank's risk management framework and describes the key risks which the Bank faces

CRD IV was approved by the European Parliament in June 2013, implementing Basel III in Europe with effect from 1 January 2014

This declaration follows BIPRU rules for capital disclosures as of 31 December 2014, the effective date of the declaration The BIPRU rules form part of the FCA Handbook and PRA Handbook which implements Basel III in this respect

The rules are designed to make the capital requirements framework more risk sensitive and representative of banks' risk management practices The framework has three 'pillars'

Pillar 1 defines the minimum capital requirements that banks are required to hold for credit, market and operational risk

Pillar 2 adds the Bank's own estimate of additional capital the Bank needs to cover specific risks that are not covered by the capital resources calculated under Pillar 1

This additional capital requirement is calculated as part of the Bank's Internal Capital Adequacy Assessment Process ("ICAAP") before being reviewed and validated by the Regulator and used to determine the total minimum capital resources the Bank must maintain, expressed as the Individual Capital Guidance ("ICG") The Bank is fully compliant with its ICG and runs a surplus

Pillar 3 improves market discipline by requiring banks to publish information on their principal risks, capital structure and risk management

2 Scope

As of 31 December 2014 the Bank had no active subsidiaries or joint ventures All banking activities are reflected in the Bank's balance sheet

The Bank does not prepare group accounts as it is a wholly owned subsidiary of Qatar Islamic Bank S A Q, a company incorporated in Qatar The Bank functions and is regulated independently of Qatar Islamic Bank SAQ which is itself regulated by the Qatar authorities

The Bank is included in the consolidated accounts of Qatar Islamic Bank S A Q

This Pillar 3 report is based on the Bank's Annual Report and Accounts for the year ended 31 December 2014, and is consistent with its accounting policies

3 Risk Management

3 1 Risk Management Objectives

Effective risk management is a core objective for QIB (UK) to ensure the Bank maintains at all times sufficient capital and liquidity, and effective controls It also seeks to act ethically and reputably, within the constraints of its status as a Shari'a-compliant institution, taking into account the interests of all its clients, counterparties, staff, regulators and shareholder

3 2 Risk Management Framework

This includes

- Control of conduct – observing appropriate conduct, systems and controls
- Control documents – core policy documents which set the framework and policy of risk management
- Risk reporting – documents enabling formal reporting and escalation of identified risk or breaches
- Stress testing – enables the Bank to understand how risk might change under market or other stress, and the implication for capital and liquidity resources
- Risk Management Committee (RMC) – the principal committee responsible for monitoring risk at executive level This is supported by the Board Audit & Risk Committee

Escalation procedures ensure that issues are reported and addressed at the right level Risks have been assessed and documented in the ICAAP report, which is approved by the Board Liquidity risk is assessed through the Individual Liquidity Adequacy Assessment ("ILAA"), also approved by the Board Operational risk is managed through the Operational Risk Policy and Risk Register

To support the risk management framework, the Bank operates a "three lines of defence" model

- The first line of defence lies with customer-facing departments, who manage risk by maintaining and observing appropriate systems and controls

- The second line of defence is comprised of governance and oversight Governance and oversight include the monitoring committees, Compliance and the Risk function

- The third line of defence is independent assurance checking and challenge, provided by Internal Audit, monitoring committees and the Risk function

The committee structure is covered in more detail in section 3 7 below

3 3 Principal Risks

The Bank faces the following principal risks

i Strategic Risk risks which affect the Bank's ability to achieve its corporate and strategic objectives

ii Credit Risk loss from a borrower or counterparty failing to meet their financial obligations to the Bank

iii Capital Risk that the Bank has insufficient capital to cover regulatory requirements and/or growth plans

iv Liquidity Risk that the Bank is unable to meet its financial obligations as they fall due, or can do so only at excessive cost

v Profit Rate Risk (similar to Interest Rate Risk for a conventional bank) financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in profit rates

vi Market Risk the financial effect of adverse changes in market prices on the value of assets and liabilities vii Operational Risk financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events

viii Conduct Risk the risk of detriment to the Bank s customers due to inappropriate execution of its business activities and processes

ix Sharia Risk the risk of products and services offered that are not in compliance with the rules and principles of Shari'a

The principal risks are covered in more detail below The Bank's risk management framework is designed to ensure each risk is managed, monitored and overseen through a dedicated risk-specific committee

3 4 Risk Appetite

The Bank has a clearly defined risk appetite for the risks it faces This appetite is designed to meet the Risk Management Objectives, and is regularly reviewed and exposure against it monitored and reported The risk appetite is set by the Board with the advice of the Audit and Risk Committee, and implemented by the Executive

As many clients and much of the Bank's business is with clients and counterparties from the members of the Gulf Cooperation Council (GCC), the Board routinely consults its parent Qatar Islamic Bank when imposing Risk limits and control structures, to ensure that they are aligned at QIB Group level, and avoid concentration risk

Strategic Risk
Performance against the Business Plan and Budget is tracked monthly by Line of Business, and reported to the Audit & Risk Committee

Credit Risk
As a small, specialist institution the Bank sets credit risk limits at portfolio level, within which it sets individual counterparty limits These appetites and limits are factored into the budget process

Capital Risk
The Bank maintains at all times sufficient capital to cover the ICG set by the regulator, which includes Pillar 1 and Pillar 2 requirements, plus additional elements that may be imposed by the regulator

Liquidity Risk
The Board requires the Bank to meet at all times the liquidity requirements set by its regulator under the Individual Liquidity Guidance (ILG) This must allow for pipeline business on both sides of the balance sheet and be sufficient to cover unexpected liquidity outflows under market or other stress In practice, the Bank maintains liquidity substantially in excess of the regulator's requirement

Market & Profit Rate Risk
The Bank aims to minimise both these risks, maintaining a hedged book so far as possible The Bank rarely takes proprietary trading, although some liquid assets which form part of the liquid asset buffer may carry a limited amount of mark to market risk which is regularly monitored

Operational Risk
Operational Risk takes many forms, so effective control is central to the Bank's Risk Management approach It maintains robust operational systems and controls and seeks to operate prudently at all times It holds additional Pillar 2 Capital for certain identified operational risks

Conduct Risk
The Bank has no appetite for conduct risk arising during product design, sales or after sales processes

Shari'a Compliance Risk
The Bank maintains a Shari'a Supervisory Committee which reviews products and services offered to ensure they are fully compliant and in accordance with the rules and principles of Shari'a **3 5. Risk Oversight,**

Monitoring and Reporting

QIB (UK) has a Chief Risk Officer ("CRO") who is responsible for ensuring each risk is adequately monitored, managed and mitigated The CRO is responsible for providing assurance to the Board and its Directors that the principal risks are adequately managed and the Bank is operating within its risk appetite

3 6 Risk Governance Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors The Bank's governance structure is outlined below

3 7 Committee Structure

The Board and its committees ensure high-level control of the Bank's activities They meet regularly, with ad hoc meetings if needed

QIB (UK) Board

- Executive Committee
- Audit & Risk Committee
- Remuneration Committee

Executive Committees

- Management Committee
- Credit & Risk Management Committee (CRM)
- Asset & Liability Committee

Board

The Board has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite and is also responsible for ensuring capital and liquidity resources are sufficient to meet the Bank's business objectives without taking undue risk The Board closely oversees all the Bank's activities through monthly board reports including financial results, operational reports, budgets and forecasts and reviews of the main risks set out in the ICAAP and ILAA reports The Board is comprised of five non-executive directors and two executive directors

Board Executive Committee

The Board Executive Committee ("ExCo") is charged with overseeing credit risk and approving new proposals that exceed the authority delegated to the Credit & Risk Management Committee

Audit & Risk Committee

The Board has delegated responsibility for reviewing the effectiveness of the Bank's internal controls to the Audit & Risk Committee This Committee monitors the internal control environment focusing on operational risks It also reviews the Bank's aggregate credit risk exposures and concentration risk

The Internal Audit function reports directly to the Audit & Risk Committee with a dotted line report to the Chief Executive Officer The Audit & Risk Committee approves the terms of appointment and receives reports from the external auditors

Board Remuneration Committee

This Committee reviews remuneration matters, employee benefits and pay structures for the Bank It is also responsible for considering and determining the Bank's remuneration policy and reviewing its adequacy and effectiveness, and that it complies with the Remuneration Code

The Remuneration Committee meets at least twice a year

Management Committee

The Committee has day-to-day responsibility for running the business It implements the strategy approved at the Board and ensures the business is run in accordance with the Board's instructions

Credit & Risk Management Committee
This Committee is responsible for reviewing and approving credit proposals, escalating them if necessary to ExCo It also monitors portfolio performance and reviews policy issues such as provisioning and lending policies, then recommending these to the Board or Audit & Risk Committee

Asset & Liability Committee ("ALCO")
The ALCO meets monthly to ensure that the firm adheres to the market risk, interest rate risk and liquidity policies and objectives set down by the Board The committee is also responsible for the effective management of the Bank's assets and liabilities and the impact on capital and liquidity of future (pipeline) business

4 Capital Resources

As at 31 December 2014, the Bank's capital base was made up of £25 9 million of Tier 1 capital and £12 8 million of Tier 2 capital Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA's regulatory document GENPRU 2 2 83 R and audited reserves Tier 2 capital consists of subordinated loan notes from the Bank's parent, Qatar Islamic Bank S A Q

The Bank has elected to use the standardised approach for credit risk Under Basel III, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements The Bank must also set aside additional 'Pillar 2' capital to provide for additional risks as directed by the PRA in its Individual Capital Guidance (ICG)

The Bank's capital base was in excess of the minimum required under the ICG

4 1 Capital Risk and Capital Adequacy

As part of the Pillar 2 approach to capital adequacy, the Board must consider all material risks which the Bank faces and determine whether additional capital is needed to provide additional protection to depositors and borrowers and ensure the Bank is sufficiently well capitalised to withstand a severe economic downturn

The Bank is required to maintain sufficient capital to meet several requirements

- To meet minimum regulatory capital requirements
- To ensure the Bank can meet its objectives, including growth objectives
- To ensure the Bank can withstand future uncertainty, such as a severe economic downturn
- To provide assurance to depositors, borrowers, shareholders and other third parties

The Board manages its capital levels to reflect both current and future activities, and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP The ICAAP represents the aggregated view of risk for the Bank and is used by the Board, management and shareholders to understand how much capital needs to be held in the near and medium term

The Bank produces regular reports on the current and forecast level of capital, including under stress, to the Board and to the Audit & Risk Committee The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported any material deviation from the forecast and risk profile of the Bank will require the ICAAP to be updated The principal risks considered in the ICAAP are detailed in Section 5 below

5 Principal Risks Credit Risk

Credit risk is the risk of financial loss arising from a Bank borrower or counterparty failing to meet their financial obligations to the Bank It arises from the Bank's lending activities and is the most significant risk incurred by the Bank

The Bank does not actively trade in financial instruments, other than for liquidity management purposes It does not sell payment protection insurance policies, nor is it an insurance intermediary

The Bank actively manages credit exposure and will act promptly if credit performance deteriorates, or is expected to deteriorate, due to economic or sector-specific weaknesses

The Bank uses the standardised approach in determining the appropriate level of capital to be held for regulatory purposes The disclosure below shows total exposures net of provisions at 31 December 2014

	2014 £	2013 £
Balances with banks	**5,844,014**	2,828,332
Due from banks	**23,576,325**	78,108,642
Murabaha financing	**63,229,925**	20,278,779
Wakala financing	**2,562,870**	-
Musharaka financing	**18,688,769**	14,996,116
Mudaraba financing	**616,760**	1,037,148
Ijara financing	**3,203,588**	366,124
Financial assets available for sale	**70,549,731**	22,073,787
Financial assets held to maturity	**6,808,055**	7,344,709
Total	**195,080,037**	147,033,637
Off-balance sheet		
Letters of credit	**2,005,989**	3,225,377
Total credit risk	**197,086,026**	150,259,014

5 1 Credit Risk Property

The Bank specialises in property lending It seeks to mitigate credit risk by focusing on finance for prime London investment property and high-quality property development, a business sector where it has specific expertise and experience It also specialises in finance for High Net Worth clients from, or with family connections in the Middle East, which have strong repayment records

The Bank has conservative policies on security cover, typically extending finance of no more than 60% of the property value It undertakes a full valuation of all properties which act as security Valuation reports are produced by an experienced panel of qualified external valuers

Each proposal is reviewed by a team of lenders with long experience of this market, before being submitted to the RMC for challenge and approval

5 2 Credit Risk – Treasury

Credit risk arises from treasury assets where the Bank has acquired securities such as sukuk, or placed cash deposits with other financial institutions The credit risk of these assets is low, as the Bank limits its investments to high-quality counterparties/issuers

No assets are held for speculative purposes, nor are any actively traded for profit Certain liquid assets are held as part of the Bank's liquidity buffer

Cash placements with other banks have a 20% risk-weighting using the standardised approach to risk weighting assets Cash-related credit risk is controlled through a policy which limits the maximum exposure to any one entity These limits are reviewed and approved by the Board after consultation with the Bank's parent, Qatar Islamic Bank S A Q, to ensure credit risk to financial institutions is conservatively spread

As part of its liquidity buffer the Bank holds a portfolio of high-quality Sukuk These are highly liquid, AAA-rated and accepted by the regulator as a component of the Bank's statutory core liquidity The amount held in these securities at 31 December 2014 was £25 6 million These instruments have a 0% risk-weighting

5 3 Non-performing Loans and Provisioning

QIB (UK) maintains a policy of raising specific provisions against agreements which are non-performing or in default When specific provisions are made for defaulted agreements a loan-by-loan analysis is undertaken to understand the probability of recovery, whether the agreement can be restored to order or, if not, what the recovery is likely to be The majority of loans have good security, such as property, and this would lead in most cases to a full or high level of recovery Any potential shortfall is calculated and this value forms the basis of the specific provision, taking into account the costs of recovery There is regular monitoring of the performance of loan assets, especially where there is any sign of potential or actual impairment Late payments and arrears cases are reported in detail and reviewed on a regular basis and detailed credit reports are submitted for review to the monthly Risk Management Committee and to the Board Audit & Risk Committee

The opening and closing position for provisions at the year-end is outlined below

	£
Total provisions brought forward	2,406,587
Adjustments to provisions brought forward	(2,127,092)
Additional 2014 provisions	400,000
Closing impairment provision as at 31 December 2014	**679,495**

6 Principal Risks Liquidity Risk

Liquidity risk is the risk that QIB (UK) is not able to meet its financial obligations as they fall due, or can do so only at excessive cost To protect the Bank and its depositors against liquidity risks the Bank maintains a liquidity buffer, which reflects the Bank's liquidity needs under stressed conditions The liquidity buffer is monitored daily to ensure there are sufficient liquid assets at all times to cover cash flow movements and fluctuations in funding and enable the Bank to meet all financial obligations and support expected asset growth

Through the Individual Liquidity Adequacy Assessment ("ILAA") process, the Bank has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks

The ILAA requires the Bank to consider all material liquidity risks in detail and the ILAA has documented the Bank's analysis of each key liquidity risk driver and set a liquidity risk appetite against each key liquidity risk Liquidity risks are specifically considered by the ALCO each month Based on the business model of funding primarily from the Bank's parent and Qatari government entities, the liquidity risk appetite set by the Bank is considered appropriate and provides assurance to the Board that the Bank is able to meet liabilities beyond the mandated survival period

6 1 Liquidity Risk Drivers

This section provides an overview of the Bank's key liquidity risk drivers

Deposit Funding Risk
The risk would arise if depositors elected to withdraw their funds more rapidly than the Bank could liquidate assets The Bank maintains very conservative liquidity reserves against this possibility, and a proportion of deposits are protected by the government Financial Services Compensation Scheme ("FSCS") The insured amount currently provided by the FSCS is £85,000 for each depositor

Wholesale Funding
The Bank benefits from substantial stable funding lines from its parent and from Qatar government-owned bodies These are unlikely to be withdrawn

Payments Systems
The Bank is not a direct part of the UK payments system, but uses its relationships with large UK Clearing banks

Pipeline Loan Commitments
The Bank maintains liquidity to cover the outstanding pipeline of loan offers

7 Principal Risks Profit Rate Risk

Profit rate risk is the risk of loss through un-hedged or mismatched asset and liability positions sensitive to changes in profit rates Where possible the Bank seeks to match the profit rate structure of assets with liabilities, or deposits, creating a natural hedge Profit rate risk is monitored by the Treasury and Finance Departments and reported to ALCO and the Regulator on a quarterly basis

8 Principal Risks Market Risk

The Bank does not carry out proprietary trading or hold positions in assets or equity which are actively traded The Bank does however hold a small portfolio of liquid assets (mainly sukuk) which are used for liquidity buffer purposes These securities are exposed to market price movements should any of the securities be sold Daily prices are obtained to ensure the Bank is aware of any material diminution in value

9 Principal Risks Operational Risk

Operational risk is the risk of financial loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events Operational risk management includes the impact of IT, data security, project, outsourcing, tax, legal, internal and third party fraud and compliance risks QIB (UK) has a defined risk appetite for operational risk which considers profitability, balance sheet and reputational aspects of operational risk Through the establishment and investment in sound systems, controls and audit functions, the Bank seeks to minimise operational failures and as part of the operational risk management process, QIB (UK) maintains a key risks register and has business continuity plans in place The Management Committee meets monthly to ensure that a quality and robust IT, operations and compliance service are delivered at all times and is capable of supporting the changing business requirements of the Bank

The operational risk charge for QIB (UK) under Pillar 1 is calculated using the basic indicator approach, whereby a 15% multiplier is applied to the 3 year historical average of net income The amount calculated under this approach was £0 9 million for 2014

Risk Register
The Bank risk register is maintained by the CRO and owned by the Audit & Risk Committee Key operational risks from the risk register are considered as part of the ICAAP

Business Continuity Plans ("BCP") and Disaster Recovery ("DR") Plans
The Bank uses external continuity and disaster recovery sites as back up locations for both IT servers and staff BCP and DR plans are in place and are regularly updated The plans are tested to ensure that they are robust and fit for purpose

10 Principal Risks Conduct risk

Conduct risk is defined as the risk of detriment caused to the Bank s customers due to the inappropriate execution of its business activities and processes The Bank extends the definition of "customer" to include retail and business customers (excluding intermediaries/third parties) across all business lines, including both regulated and non-regulated activities

The Bank has no appetite for systemic unfair outcomes arising from any element of the conduct risk cycle, which includes product design, sales or after sales processes and culture However, if the Bank identifies potential conduct risks to customers it will promptly agree appropriate actions and where necessary communicate clearly with its customers to ensure a fair outcome is achieved Conduct risk metrics include the number of complaints, satisfactory actions and replies, referrals to Ombudsman, etc

11 Other Risks

11 1 Concentration Risk

Concentration risk consists of high or excessive exposure to certain counterparties, regions or sectors which can lead to a concentration of loss in the event of an adverse event The Bank assesses and monitors its exposure to concentration risk from lending activities Although there is diversification within the Bank's portfolios and operations, certain features of the Bank's activity contain an element of concentration

- Geography the Bank primarily finances London property However, it heavily favours prime locations, and protects itself against any downturn in this market through conservative security margins
- Asset class QIB (UK) has a sector focus on unregulated investment property products
- Funding the Bank currently utilises funding from a limited number of wholesale depositors

11 2 Pension Risk

The Bank only has a defined contribution scheme, which is expensed through the profit and loss account The Bank has no exposure to defined benefit pension schemes

11 3 Residual Value Risk

At the 2014 year-end the Bank does not have any residual value risk exposure

12 Remuneration

The Bank is subject to the provisions of FCA/PRA Handbook SYSC 19A 3 Remuneration principles for banks, building societies and investment firms

This requires QIB (UK) to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities Firms must maintain a record of remuneration code staff (staff whose activities may have a material impact on the firm's risk profile) and take reasonable steps to ensure they understand the implications of the code The disclosure requirements of Pillar 3 are defined by the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11 as at December 31 2014

12 1 Overview of approach to remuneration

The principles behind QIB (UK)'s remuneration policy are those we believe are critical to the business and reflect our values

- It is fair and equitable, reflecting QIB (UK)'s commitment to diversity and equality of opportunity
- It makes good commercial sense for our business, being affordable and proportionate, and sustainable over the long term
- It represents an attractive reward proposition for our people and potential recruits, and is benchmarked against appropriate external markets

12 2 Governance and decision making

In line with regulatory guidance, remuneration is overseen by the Board's Remuneration Committee This Committee has four members, all of whom are independent non-executive directors The Remuneration Committee meets at least twice a year and otherwise as required

This Committee determines, on behalf of the Board, overall remuneration policy for all staff The Committee also reviews and provides feedback on executive directors Within its terms of reference the Committee is obliged to review its own performance, constitution and terms of reference at least annually to ensure it is operating at maximum effectiveness and in line with regulatory requirements, and recommend any changes it considers necessary to the Board for approval The Committee takes independent external professional advice as appropriate, and monitors comparative remuneration packages within the financial sector

12 3 Code Staff Criteria

As a firm in proportionality level three, QIB (UK) currently defines none of its employees as Coded staff All employees, including senior management and Executive Directors, receive a fixed remuneration package There is no provision for formal performance-related pay or bonuses, although the Board reserves the right to pay bonuses to any employee on a case-by-case basis

The Bank's remuneration policy focuses on ensuring sound and effective risk management through

- a stringent governance structure for setting goals and communicating these to employees
- making all variable remuneration awards at the discretion of the Committee and subject to individual, business unit, overall bank performance, stated risk appetite and ICAAP measures

12 4 Service contracts

All the current executive directors have entered into contracts which stipulate a three month notice period Service contracts for other senior staff have notice periods which vary depending on the particular role

12 6 Aggregate remuneration data

The Prudential Sourcebook for Banks, Building Societies and Investment Firms (Remuneration Disclosures) Instrument 2010 requires the publication of aggregate remuneration data for senior managers and members of staff whose actions have a material impact on the risk profile of the firm

Total remuneration paid to members of the Management Committee for the year ending 31 December 2014 is £0 9 million