QIB (UK) plc

Annual Report
For the year ended 31 December 2019

Registered number 4656003

WEDNESDAY
A94ZD00G
A06 13/05/2020 #111
COMPANIES HOUSE

Contents

Strategic Report

I am pleased to be able to report that our Bank continued to make good progress during 2019, and posted a net profit after provisions and tax of £4.43m. This represented an increase of 19% year-on-year.

As anticipated, the year opened with the real estate market struggling in the face of political and economic uncertainty, and the Brexit process seemingly paralysed. Activity levels improved after the summer and the market fortunately ended the year with a more positive outlook due to the election, which has at least given the opportunity for the political process to move forward. It is clear that the uncertainty is not over, and nor is it likely to be until a trade deal between the UK and Europe is finalised. However it does at least feel like "the end of the beginning" for this long and difficult transition.

Below are the highlights of the financial performance during 2019:

Key Performance Indicators (KPIs)	*2019*	*2018*	*2017*
Financing Portfolio (£m)	*531*	*482*	*398*
Cost-to-Income Ratio (%)	*56%*	*62%*	*73%*
Net Profit after Tax (£m)	*4.4*	*3.7*	*1.8*
Net Income Margin (%)	*2.1%*	*2.2%*	*1.9%*
Pre Tax Return on Capital (%)	*8.5%*	*7.6%*	*3.6%*

During 2019, we have seen the growth in our financing portfolio slow to 10% as the rate of financing redemptions increases. In part this reflects the maturity of our portfolio, nevertheless during the year we did transact over £144m of new business and enter 2020 with a very healthy business pipeline.

QIB (UK) remains focussed on accessing reasonably priced liquidity from diversified sources. After the rate challenges of 2018, we were pleased to see rate expectations fall from mid-year, as the US Federal Reserve reduced their benchmark rate three times. This positively impacted our cost of funding and in all likelihood will continue to do so in 2020. The ongoing diversification process continued as we set up credit lines with additional Treasury counterparties and our Retail Savings Product was rolled out more aggressively. During the first half of the year, our name regularly appeared towards the top of the rate charts on Raisin UK, for terms of 12, 18 and 24 months. This has provided valuable experience and data on the retail savings market, as well as assisting our efforts to diversify and lengthen our depositor profile.

A highlight of the year came in June when QIB (UK) was recognised by The Banker with the award for the UK Islamic Bank of the Year 2019. Established in 1926, The Banker Magazine is the world's longest running international banking title and the leading monthly title of the Financial Times Group, read by senior decision makers at the world's foremost financial institutions. Each year The Banker produces a definitive ranking of the industry's best Islamic financial institutions, in order to promote and reward excellence in the global Islamic banking community. At the time of the announcement, Mr Bassel Gamal, Chairman of QIB (UK) and Group CEO of Qatar Islamic Bank, commented:

"We are humbled to win three prestigious awards from The Banker Magazine as part of their Islamic Bank of Year 2019 Awards. The awards have been granted based on QIB's outstanding financial performance during the fiscal year 2018.

I need to highlight the importance of these awards, especially the Best Islamic Bank in the Middle East, as it reflects QIB's leading regional position in the financial sector, despite the current challenging situation and the fierce competition regionally and locally. In addition, The Best Islamic Bank in Qatar award is another testament of our position in the local market, and ***for the first time QIB-UK has received the Best Islamic Bank in UK award which shows that our presence in London is paying off and achieving its objectives****".*

Future Developments

The continuing Bank strategy, approved by the Board, is to support our clients by providing Islamic funding secured against real estate. To implement this approach, our business model continues to operate with two divisions; Private Banking and Structured Real Estate. Private Banking finances residential property for predominantly high net worth Qatari clients and Structured Real Estate finances real estate investment assets for UK investors, asset managers and developers.

Although the mobile banking project, initiated in 2018, faced further delays, I am pleased to report that it went live in Q4. This customer service development, which will allow our clients to access banking services though either mobile or on-line channels, will be fully rolled out in Q1 2020. Other initiatives to improve the customer experience saw the introduction of a new debit card and the start of a major upgrade of the QIB (UK) website, which will take effect next year.

To conclude, I would report that our continued progress during 2019 has been based upon an 8.5% increase in net operating revenues year-on-year accompanied by rigorous cost control. Unusually our overall cost figure reduced year-on-year, primarily due to the deferral of some significant project costs and some major savings on premises management; As a result our cost-to-income ratio fell further from 62% to 56%. With our increased profits and no further capital required, our return on capital also improved from 7.6% to 8.5%.

During the course of the year, our Chief Risk Officer (CRO) Gareth Howells left the Bank after 4 years and also stood down as an Executive Director. He was replaced as CRO by David Law and as Executive Director by our Chief Financial Officer, Ludwig Krause. I would like to thank Gareth for his contribution to the recent success of QIB (UK) and welcome David and Ludwig in their new roles.

Looking to the future, we are hopeful that the more stable political environment will instil some additional confidence in the real estate market during 2020. We retain an experienced management team and once again expect to deliver measured growth. With the guidance and support of our Board, we will continue to focus on developing our core business to further improve profitability and the return on capital for our shareholder.

By the order of the Board

Duncan Steele-Bodger
Director
14th January 2020

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

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 Bank 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. Please refer to note 27 for a detailed disclosure of the Bank's risk management.

Principal Risks

Principal risks that the Bank will face in 2020 remain credit risk, regulatory risk and operating risk. At the time of writing, the Prudential Regulatory Authority has particularly highlighted the need for all banks to consider climate change risk and operational resilience, and we expect that these two regulatory risks will feature prominently during the coming months. At QIB (UK) we continue to maintain a robust risk management framework and governance structure, of which further details are available in the note 27 to this report.

Financial results

The financial statements for the year ended 31 December 2019 are shown on pages 18 to 56. The profit for the year is £4,426,547 (2018: £3,712,860).

Proposed dividend

The Directors do not propose the payment of a dividend (2018: £nil).

Directors

The Directors who held office during the year were as follows:

Mr. Bassel Gamal (Chairman) [1,3]
Mr. Gourang Hemani [2]
Mr. David Thomas OBE [1,2]
Mr. Rakesh Sanghvi [1,3]
Mrs. Marianne Ismail [1,2]
Mr. Duncan Steele-Bodger [3]
Mr. Gareth Howells — Resigned - 18th April 2019
Mr. Ludwig Krause — Appointed - 18th April 2019

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 Board

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

Sheikh Walid Ben Hadi (Chairman)
Sheikh Nizam Mohammed Yaquby
Sheikh Abdussatar Abu Ghuddah

The annual report of the SSB is shown on page 8.

Directors' Report (continued)

Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Bank, including an assessment of capital and liquidity requirements for the foreseeable future. Based on this review, the Directors have a reasonable expectation that the Bank 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 Bank's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

By order of the Board

L J Anderton

Lesley Anderton
Secretary
14th January 2020

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 (IFRS) 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 understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS 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 IFRS, 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.

Shariah Supervisory Board

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 2019

In compliance with the Terms of Reference of the Company's Shariah Supervisory Board, 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 2019.

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 2019 are in compliance with the Islamic Shariah 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 QIB (UK) SSB

Sheikh Nizam Yaquby

Member of the QIB (UK) SSB

Sheikh Abdussatar Abu Ghuddah

Member of the QIB (UK) SSB

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

Opinion

We have audited the financial statements of QIB (UK) PLC ("the Bank") for the year ended 31 December 2019 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, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2019 and of its 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Improper recognition of income from financing and investing activities and fees and commission income • Credit impairments and disclosures • Recognition and valuation of the deferred tax asset • Valuation of investment property
Materiality	• Overall materiality of £0.8 million (2018: £0.8m) which represents 1% (2018: 1%) of the Bank's regulatory capital ((which includes equity and subordinated debt)) (as per the capital management section of note 25).

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Improper recognition of Income Income from financing activities is £20.6 million (2018 £17.7 million). Income from fees and commissions is £1.8 million (2018 £1.8 million). Refer to the accounting policies (note 4), note 5, and note 8 of the financial statements. The key risks of improper recognition of income arise from: (i) Income recorded from financing activities might not be recorded in the correct accounting period, recognised using EYR	Our approach focused on: ➢ Assessing the design effectiveness and testing the operating effectiveness of key controls over income with the assistance, where required, of EY IT audit professionals; ➢ Recalculating a sample of income from financing activities and verifying inputs to the underlying contracts; ➢ Checking a sample of fees and commissions with the underlying contracts, ascertaining the service provided for the fee or commission and determining whether it has been recognised or deferred appropriately; ➢ Performing year-end cut-off testing to ensure income is recognised in the correct period;	As a result of the procedures performed we did not identify any evidence of material misstatement in the recording of income from financing activities or from fees and commissions.

(effective interest rate) calculation or in accordance with how the underlying structure should be treated under IFRS 9, and (ii) Fees and commissions can require judgment as to the amount and timing of recognition. There is a risk that fees and commission income is not recorded in the correct accounting period or in accordance with how the underlying structure should be treated under IFRS 15. There is no change in this risk in 2019.	➢ Checking to supporting evidence any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments; ➢ Reviewing aged and significant debtors at year-end to identify potential fictitious or non-recoverable income; and ➢ Assessing compliance of the disclosures made in financial statements with IFRS 15 and IFRS 9 requirements.	
Credit impairments and disclosures Financing arrangements amount to £531 million (2018 £482 million) net of credit impairment provisions of £7 million (2018 £6.6 million). An impairment charge of £563 thousand (2018 £2 thousand) was taken to the Statement of Comprehensive Income. Refer to the strategic report (pages 3 to 4), accounting policies (note 4), and note 27 of the financial statements. There is a risk that the calculated expected credit loss (ECL) or staging assessments are inaccurate due to inappropriate or incorrect data, assumptions and calculations in the IFRS 9 model. This includes the historical default data (both internal and external) and risk attributes used to build and run the models which may be incomplete, inaccurate or non-	Our approach focused on: ➢ Obtaining and assessing management's classification and measurement policy, and impairment policy under IFRS 9 ➢ Walking through and understanding any changes to the modelling process since the prior year. ➢ Assessing the design effectiveness of key controls around identifying credit events. ➢ Validating the definition of significant deterioration in credit risk is in line with the accounting standard, and determine if it has been appropriately applied. ➢ Assessment of the appropriateness and adequacy of any impairment provisions; focusing on areas where significant estimation is involved, including the estimates of future recovery. ➢ Engaging EY risk and quantitative specialists to review the methodology and model applied for ECL calculation including staging of the loan portfolio. ➢ Assessing whether forward-looking macroeconomic	Using the support of our risk modelling and technical accounting specialists, we reviewed the Bank's ECL model and key assumptions supporting the calculation, and concluded that these were appropriate based on the size and complexity of the business, and that the Directors have applied the policy in line with IFRS 9. We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices, and the macroeconomic environment. This also included benchmakring to peers. We challenged the Directors on the application of the policy to certain overdue loans, and concur with the

representative of the portfolio. Further, forward looking elements might not be incorporated in the ECL appropriately. This could have a material impact on the financial statements. There is no change in this risk in 2019.	indicators are taken into account once probability of default and loss given default are calculated ➢ Reviewing evidence supporting any collateral and assessing the valuation of underlying collateral ➢ Challenging management on assumptions which materially impact the expected credit loss record ➢ Testing the allocations of exposures between stages 1,2 and 3. ➢ Testing the credit files, arrears statistics, management's watch list and related documentation and, where appropriate, collateral arrangements and valuation, as well as publicly available information that we judge to be relevant, in order to assess the appropriateness and adequacy of impairment provisions, focusing on areas where significant estimation is involved; ➢ Performing procedures on disclosures in line with disclosure requirements and best practice.	Directors conclusions regarding stage allocation. As a result of the procedures performed we are satisfied that management's judgements are reasonable and that the credit impairment provisions and related disclosures are appropriate and in line with IFRS 9.
Recognition and valuation of deferred tax asset The recognised deferred tax asset is £1.0 million, (2018 £1.5 million) with a charge of £0.9 million being taken to the Statement of Comprehensive Income (2018 £1 million). Unrecognised deferred tax asset booked is £1.6 million (2018 £1.8 million). Refer to the accounting policies (note 4) and note 12 of the financial statements. Under IFRS, recognition of deferred tax assets is only	Our approach focused on: ➢ Analysing the evidence supporting key assumptions made by management, sensitivity analysis of those assumptions, and management's history of success at projecting profits, in order to assess the reasonableness of the current profit projections; and ➢ Utilising EY tax professionals to validate the calculations used in determining the amount of deferred tax asset to be recognised, based on the management profit projections.	We have assessed and challenged the main assumptions supporting management's forecast. While we noted that certain assumptions are conservative and others are more optimistic compared to historic performance, as a result of the procedures that we performed we are satisfied that the amount of the recognised deferred tax asset is free from material mistatement.

permitted where there is convincing evidence that there will be sufficient future taxable profit against which this asset can be realised. The accounting standards require recognition of assets in certain circumstances.		
Valuation of investment property The Bank leases a portion of its property. The accounting treatment of the building differs depending on the classification. The part of the building which is owner-occupied and classified as Property, plant and equipment is measured at amortized cost less any impairment. The part of the building leased out and classified as Investment property is measured at its fair value. The value of the investment property recorded in the financial statements remained at the same level as in prior year of £10.24 million, with no credit / charge, (2018: nil) being taken to the Statement of Comprehensive Income. Refer to the strategic report (pages 3 to 4), accounting policies (note 4), and note 19 of the financial statements. There is a risk that the split in classification between office building and investment property is incorrect. The valuation of such property is also subject to judgement. There is no change in this risk in 2019.	Our approach focused on: ➢ Obtaining the third party valuation and any update estimates that supports fair value of the office building and the investment property. ➢ Obtaining and assessing evidence that corroborates the classification split between investment property and property held for own use. ➢ Assessing the assumptions and judgements made by management in reclassifications from/to office building and investment property. ➢ With support from the EY property valuation specialists, we confirmed that the external valuation and assumptions made are appropriate and consistent with valuation practice given the characteristics of the investment property.	Using the support of our real estate valuation specialists, we challenged the assumptions supporting management's valuation. We compared management's valuation to our reasonable range, which was informed by external market data, market practice, and calculations performed by our valuation specialist. As a result of the procedures that we performed we concluded that the value of the investment property is reasonable and in line with the accounting standards.

An overview of the scope of our audit

Tailoring the scope

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

Our application of materiality

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

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

We determined materiality for the purposes of our audit of the financial statements to be £0.8 million (2018: £0.8m), which is 1% (2018: 1%) of the Bank's regulatory capital (as per the capital management section of note 25). We determined our materiality based on regulatory capital because the Bank is still in the early stages of being profitable. Also, our expectation is that the main users of the financial statements, such as the Prudential Regulatory Authority and the immediate and ultimate controlling party, view capital preservation as a key consideration.

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

On the basis of our risk assessments and past experience with the Bank, together with our assessment of the Bank's overall control environment, our judgement was that an appropriate performance materiality was 75% (2018: 75%) of our planning materiality, namely £0.6 million (2018: 0.6 million).

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

We have agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £41k (2018: £39k) which is set at 5% (2018: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material

misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.
We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

Our approach in respect of irregularities, including fraud, was as follows

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012 and relevant Prudential Regulation Authority and Financial Conduct Authority regulations.
- We understood how the Bank complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies, reviewed minutes of the Board, the Board Executive Committee, and the Board Audit & Risk Committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the governance framework and risk management framework and internal controls processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures included inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.
- As the audit of banks requires specialized audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditors by the Bank from 7 November 2013 when our engagement letter was signed.

  The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 December 2013 to 31 December 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remained independent of the Bank in conducting the audit.

- The audit opinion is consistent with our additional report to the audit committee.

Use of our report

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

Ernst & Young LLP

Helen Joseph (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
London
15 January 2020

Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019	2018
		£	£
Income			
Income from financing activities	5	**20,567,967**	17,726,668
Income from investing activities	6	**1,756,532**	1,143,463
Returns to banks and customers	7	**(10,922,693)**	(8,503,736)
Net income from financing and investing activities		**11,401,806**	10,366,395
Fees and commissions income	8	**1,816,439**	1,798,526
Fees and commissions expense		**(132,005)**	(57,746)
Net fees and commissions income		**1,684,434**	1,740,780
Net (loss)/gain on financial assets at amortised cost		**27,132**	(2,190)
Gain/(loss) on foreign exchange	27	**96,171**	29,050
Other income		**257,577**	283,557
Total operating income		**13,467,120**	12,417,592
Expenses			
Personnel expenses	9	**(4,875,912)**	(4,631,460)
Depreciation and amortisation	17,18	**(637,414)**	(762,582)
Other expenses	10	**(2,043,621)**	(2,262,508)
		(7,556,947)	(7,656,550)
Profit / (loss) before provisions for impairment		**5,910,173**	4,761,042
Credit loss expense on financial assets	27	**(563,480)**	(1,940)
Profit / (loss) before taxation		**5,346,693**	4,759,102
Taxation	12	**(920,146)**	(1,046,242)
Profit / (loss) for the year		**4,426,547**	3,712,860
Other comprehensive income (that will be recycled to Profit & Loss)			
Change in fair value of cash flow hedge net of tax	16	**(3,236)**	52,600
Other comprehensive income		**-**	52,600
Total comprehensive profit / (loss) for the year		**4,423,311**	3,765,460

All activities are derived from continuing operations. The notes on pages 22 to 56 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2019

	Note	2019 £	2018 £
Assets			
Cash and balances with banks	13	**40,776,701**	37,016,753
Financing arrangements	14	**530,994,682**	482,374,737
Financial assets at amortised cost	15	**74,814,453**	66,832,272
Derivative financial instruments	16	**93,764**	5,728,697
Property and equipment	17	**14,434,772**	14,836,478
Intangible assets	18	**-**	11,389
Investment property	19	**10,240,000**	10,240,000
Other assets	20	**3,780,006**	3,651,433
Deferred tax asset	12	**1,031,743**	1,478,710
Total assets		**676,166,121**	622,170,469
Liabilities			
Due to banks	21	**85,169,482**	91,504,145
Due to customers	22	**480,142,212**	434,542,830
Other liabilities	23	**24,281,037**	17,022,415
Derivative financial instruments	16	**3,406,473**	357,473
Subordinated Wakala	26	**15,950,000**	15,950,000
Total liabilities		**608,949,204**	559,376,863
Equity			
Share capital	25	**60,864,221**	60,864,221
Cash flow hedge reserve		**(256,373)**	(253,137)
Retained earnings		**6,609,069**	2,182,522
Total equity		**67,216,917**	62,793,606
Total liabilities and equity		**676,166,121**	622,170,469

The notes on pages 22 to 56 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

Ludwig Krause
Chief Financial Officer
14th January 2020
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity
For the year ended 31 December 2019

	Share Capital	Cash Flow Hedge	Retained Earnings	Total
	£	£	£	£
2018 restated opening balance under IFRS9	85,807,834	(305,737)	(26,473,951)	59,028,146
Capital restructuring	(24,943,613)	-	24,943,613	-
Changes in fair value of cash flow hedge foreign exchange	-	52,600	-	52,600
Profit for the year after tax	-	-	3,712,860	3,712,860
Balance at 31 December 2018	**60,864,221**	**(253,137)**	**2,182,522**	**62,793,606**
Balance at 1 January 2019	60,864,221	(253,137)	2,182,522	62,793,606
Changes in fair value of cash flow hedge foreign exchange	-	(3,236)	-	(3,236)
Profit for the year after tax	-	-	4,426,547	4,426,547
Balance at 31 December 2019	**60,864,221**	**(256,373)**	**6,609,069**	**67,216,917**

The notes on pages 22 to 56 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2019

	Note	**2019** **£**	2018 £
Cash flows from operating activities			
Profit / (Loss) for the year		**4,426,546**	3,712,860
Adjustments for:			
Depreciation	*17*	**626,025**	688,272
Amortisation	*18*	**11,389**	74,311
Taxation	*12*	**920,146**	1,046,242
ECL Loss allowance and write-offs		**620,430**	(37,271)
(Increase)/decrease in financing arrangements		**(49,113,784)**	(85,674,969)
(Increase)/decrease in Impairment on financing arrangements		**(56,950)**	(87,867)
(Increase)/decrease in other assets		**(128,572)**	77,700
Increase/(decrease) in amounts due to banks		**(6,334,662)**	18,938,002
Increase/(decrease) in amounts due to customers		**45,599,382**	67,938,230
Increase/(decrease) in other liabilities		**6,658,681**	4,059,147
(Increase)/decrease in financial assets at amortised cost		**(7,998,849)**	2,771,857
(Increase)/decrease in derivative financial instruments		**8,683,933**	(7,065,464)
Net cash inflow / (outflow) from operating activities		**3,913,714**	6,441,050
Cash flows from investing activities			
Purchase of property and equipment	*17*	**(153,801)**	(170,791)
Purchase of intangible assets	*18*	**-**	(4,729)
Net cash outflow from investing activities		**(153,801)**	(175,520)
Net increase / (decrease) in cash and cash equivalents		**3,759,913**	6,265, 530
Cash and cash equivalents at start of year		**37,017,161**	30,751,631
Cash and cash equivalents at end of year	*13*	**40,777,075**	37,017,161

The notes on pages 22 to 56 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 and registered in England. It is a public company limited by shares. The address of the Bank's registered office is 43 Grosvenor Street, London W1K 3HL. The Bank 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 (IFRS) 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 on the 14th January 2020.

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 for the investment property and derivative financial instruments which are held at fair value through profit and loss.

c. Functional and presentation currency

The financial statements are presented in Pound Sterling (GBP), which is the Bank's functional and presentational 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 and judgement uncertainty are:

(i) Provisions for impairment of financial assets

The measurement of impairment losses under IFRS 9 requires judgement, in particular when estimating the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of significant increase in credit risk.

IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

The Bank's ECL calculations are driven by a model with a number of underlying assumptions, which include:

- The Bank's internal grading system which assigns probability of defaults (PD) to individual grades
- Days past due (DPD)
- Development of the ECL model, including the formulas and choice of inputs
- Determining covenant breaches, adverse market movements and external ratings
- Selection of forward-looking macroeconomic scenarios and their probability weightings

(ii) 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.

(iii) 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.

(iv) Lease liability discount rate

The calculation of the discount rate for the lease liability under IFRS 16 requires judgement, as the Bank must determine the most appropriate rate to use when the discount rate is not implicit in the lease. The lease liability is discounted on intial recognition using the Bank's annual average cost of funding to reflect the present value of the payments.

e. Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Bank, including an assessment of capital and liquidity requirements for the foreseeable future. Based on this review, the Directors have a reasonable expectation that the Bank 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. Changes in accounting policies

IFRS 16 'Leases' requires lessees to recognise assets and liabilities under an on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 also requires additional disclosures. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The impact of IFRS 16 has been considered and the impact of transition has been immaterial.

The adoption of IFRS 16 has resulted in the Bank recognising a right-to-use asset and related lease liability in connection with an operating lease signed in November 2019. Right of use assets under lease is subject to periodic measurement and impairment testing to reflect any material movement from the initial recognition.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

New standards and interpretations not yet adopted

Interest Rate Benchmark Reform

The Bank is preparing for the phasing out of LIBOR at the end of 2021 with oversight by the Asset and Liability Committee. 3 Month LIBOR is used as a reference rate in the Bank's financing agreements and the bank's Tier 2 Capital is priced referencing 6 Month LIBOR. This represents the full extent of the impact. The bank has no LIBOR based derivatives. As a result there will be no financial impact or accounting policy implications in the short term. The Bank will re-price Tier 2 Capital. Financing agreements have a clause that provide the Bank to use an alternative to LIBOR.

4. 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) 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.

(iv) Musharaka is a contract under which the Bank 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 Bank at any point in time. The other party to the agreement may make separate payments to purchase additional proportions of the property from the Bank, thereby reducing the Bank'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 Bank 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 Bank's net investment.

(v) 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's compliant conditions.

(vi) **Qard Hasan** is a contract whereby the repayment is for the same amount as the amount financed.

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

Income and costs on the above financial instruments are recognised on an effective yield basis. The effective yield rate (EYR) 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, unless a financial asset is credit impaired. Accrued income receivable and returns payable are included within other assets and other liabilities.

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

For credit impaired financial assets a credit-adjusted effective yield rate is calculated using estimated cash flows including expected credit losses.

b. Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets contractual terms, measured at either:

- Amortised Cost
- Fair value through other comprehensive income (FVTOCI)
- Fair value through profit and loss (FVTPL)

The Bank has undergone a Solely Payments of Principal and Interest (SPPI) test on portfolio level to classify financial assets. The SPPI test assesses whether the contractual cash flows of an asset gives rise to payments on specified dates that are solely payment of principal and profit on the principal amount outstanding.

Financial liabilities are measured at amortised cost.

All 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 all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value, on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Bank makes an assessment of the objective of a business model in which an asset is held at an individual transaction level rather than at a portfolio level.

Amortised Cost: Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding, are subsequently measured at amortised cost.

FVTOCI: Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and profit, are subsequently measured at FVTOCI.

FVTPL - All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

Financing Arrangements

The Bank has assessed that its financial assets are held within a 'Hold to Collect' business model whose objective is to hold the financial asset in order to collect contractual cash flows. The contractual terms of these financial assets give rise to cash flows that are solely payments of principal and profit on the principal amount outstanding on a specified date. They are therefore classified as Amortised Cost.

Financial assets at amortised cost

The Bank has assessed that its Sukuk investments are held within a 'Hold to Collect' business model whose objective is to hold the financial assets in order to collect contractual cash flows. The contractual terms of the Sukuk give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding. They are therefore classified as Amortised Cost.

Derivative financial instruments

Derivative financial instruments include forward foreign exchange contracts based on the wa'ad principle. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Bank applies IFRS 9 'Financial Instruments: Recognition and Measurement'.

For the purpose of hedge accounting, hedges are classified as:

Fair value hedges, when they hedge exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Cash flow hedges, when they hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or a foreign currency risk of a firm commitment and could affect profit or loss.

The Bank uses FX forwards to hedge the FX exposure and satisfy the criteria for classification as cash flow hedges, this applies IAS 39.

Under cash flow hedge of the forward foreign currency risk, the cumulative gain or loss on re-measuring the forward contract is recognised in the cash flow hedge reserve (no sources of ineffectiveness) and reclassified from the cash flow hedge reserve to profit or loss when the payable or receivable affects profit or loss. As the payable or receivable is re-measured continuously in respect of changes in foreign exchange rates per IAS 21, the gain or loss on the forward contract is reclassified from the cash flow hedge reserve to profit or loss as the payable or receivable is re-measured, not when the payment occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, amounts previously recognised in OCI remain separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

c. Reclassification of financial assets

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

d. Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or the Bank 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 profit in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

e. Forborne and modified financial assets

The Bank considers a facility forborne when a modification is provided as a result of a client's financial difficulty and the Bank would not have agreed to these terms if the client was financially healthy. The revised terms could include extending the maturity, changing the timing of profit payments or amending the financing covenants.

For financial assets that have been modified, the PD reflects whether the modification has improved or restored the Bank's ability to collect the principal and profit. To do this, the Bank evaluates the client's payment performance against the modified contractual terms and considers qualitative indicators.

Forbearance is generally considered a qualitative indicator of a significant increase in credit risk and may indicate that an exposure is credit-impaired/ in default. Any impairment is measured using the original EYR.

If the cash flows of a modified financing are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this circumstance, the original financial asset is derecognised and a new financial asset is recognised.

If the cash flows of the modified asset carried at amortised cost is not substantially different, the financial asset is not derecognised. Instead the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement, together with the impairment losses.

f. Impairment of financial assets

The ECL allowance is based on the 12 month expected credit loss unless there has been a significant increase in credit risk since origination, in which case it is over the life of the financial asset.

The Bank assesses whether there has been a significant increase in credit risk based on key indicators such as:

- Credit risk at initial recognition to credit risk at reporting date – relative increase in credit risk e.g. internal rating moved 2 notched down
- Changes in risk of default e.g. days past due transactions for 60 days overdue
- Adverse market changes in collateral value
- Covenant breach – covenant monitoring for profit cover in addition to collateral
- Financing-to-value breach – monitoring the ratio of a financing to the value of the property purchased
- Drop in external ratings
- Annual review of Bank's assets

The lifetime expected credit losses and 12 month expected credit losses are calculated on an individual basis.

Staging

The Bank has established a policy to assess whether a financial instrument's credit risk has increase significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial asset. The Bank then groups its financial assets into the following stages:

Stage 1 – Where credit risk has not increased significantly since initial recognition, the Bank recognises 12 month ECL and yield is calculated on the gross carrying amount of the financial asset before adjusting for ECL.

Stage 2 – Where there has been a significant increase in credit risk since origination, the Bank reports an allowance based on lifetime expected credit losses, but yield continues to be recognised on a gross basis.

Stage 3 – Where the financial asset is credit impaired, the Bank reports an allowance based on lifetime expected credit losses and yield is calculated on a net basis (gross carrying amount of the financial asset less ECL).

A financial asset is considered credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit impairment includes observable data such as significant financial difficulty of the counterparty or issuer, a breach of contract such as a default or past due event and the disappearance of an active market for a security because of financial difficulties. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the credit ratings and the ability of the counterparty to raise funding.

Calculation of ECL

Expected Credit Loss (ECL) is the probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive, discounted at the original effective yield rate.

ECL= PD x EAD x LGD

PD – The *Probability of Default is* an estimate of the likelihood of default over a particular time horizon.

EAD – The *Exposure at Default* is the current drawn facility amount, plus any accrued profit, assuming that a default occurred today.

LGD – The *Loss Given Default* is the ratio of the loss on an exposure due to the default of counterparty, to the amount outstanding at default, after realising any collateral.

The Bank measures ECL on an individual asset basis.

IFRS 9 does not define what constitutes a default. However, the definition of default is used in measuring the amount of ECL and in determining whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk. The Bank considers the following as constituting an event of default:

(a) the counterparty is past due more than 90 days on any material credit obligation to the Bank; or
(b) the counterparty is unlikely to pay its credit obligations to the Bank in full.

In assessing if the counterparty is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators.

The Bank monitors all financial assets and financing commitments that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date, based on the remaining maturity of the instrument, with the risk of a default at origination.

In making this assessment the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A weighted average probability of default is then calculated and used to determine whether credit risk has significantly increased.

g. Impairment of undrawn commitments

Undrawn financing commitments are initially recognised for the application of impairment requirements on the date that the Bank becomes party to the irrevocable commitment.

The ECLs allowance is based on the expected life up to the maximum contractual period over which the Bank has a contractual obligation to provide financing. The Bank assesses whether there has been a significant increase in credit risk by considering changes in the risk of a default occurring on the financing to which the undrawn commitment relates (see point f).

ECLs on loan commitments are presented as a liability in the statement of financial position.

h. 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 exceeds its recoverable amount. 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 value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Write-off's

Financial assets are written off only when the Bank has stopped pursuing the recovery and determined that no future funds will be recoverable. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount.

j. 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.

k. Property and equipment

Items of property and equipment excluding the building are measured at cost less accumulated depreciation and impairment losses. The 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 that part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the Statement of Comprehensive Income as incurred.

The occupied part of the building purchased by the Bank in March 2014 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 value. Where there is a material difference between the carrying value and the market value the building is revalued to reflect the market value. The market value will be determined by an independent registered valuer on alternate years with indexation or a desk top valuation in the years where no valuation is performed. As at 31 December 2019, the carrying value 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 (or the remaining lease term if shorter)
Building	50	Years

l. Investment property

The building acquired on 13 March 2014 is partially used as an investment property as three of the seven 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.

m. 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 Bank 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

n. 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.

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.

o. 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.

p. Cash and cash equivalents

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

q. Other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

r. Leased assets

IFRS 16 defines a lease as 'a contract, or part of a contract, that conveys a right to use the asset for a period of time in exchange for consideration'.

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is a lease or contains one. It has also reviewed existing contracts as at 1 January 2019. In determining whether a contract is a lease, the Bank assesses whether the contract meets the following evaluations:

- The contract contains an identified asset which is either explicitly identified in the contract or implicitly specified at the point it is made available for use by the Bank
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use
- the Bank has the right to direct how and for what purpose the identified asset is used throughout the period of use

Lease Term

The lease term begins on the commencement date and includes any rent free or reduced rent periods. It comprises:

- the non-cancellable period of the lease
- periods covered by an option to extend the lease if the Bank is reasonable certain to exercise that option; and
- periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option

Measurement and recognition of leases as lessee

The Bank recognises a right-of-use asset and a lease liability on the Balance Sheet on the lease commencement date.

The right-of-use asset is measured at cost, which is the sum of the initial measurement of the lessee liability, any initial direct costs incurred, an estimate of the costs of removal at the end of the lease and any lease payments made in advance of the commencement date, less any incentives received.

Under IFRS 16, the right-of-use asset will be subject to the impairment requirements of IAS 36. A right-of-use-asset will only be tested for impairment when impairment indicators exist.

The bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the useful life of the right-to-use asset or the end of the lease term, whichever is earliest.

The lease liability is the sum of the fixed payments from commencement date, any certain variable payments, amounts expected to be payable under a residual value guarantee, termination penalties and any payments arising from options reasonably certain to be exercised.

All the components of the lease liability are discounted on initial recognition to reflect the present value of the payments. The discount rate used is the Bank's incremental funding rate if this is cannot be readily determined. The Bank's incremental funding rate is that which represents what the Bank would have to pay to fund the obtainment of an asset of similar value to the right-of-use asset in a similar economic environment over a similar term with similar security.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for profit. It is re-measured to reflect any reassessment or modification. The corresponding adjustment is made to the right-to-use asset, or income statement if the right-to-use asset is already reduced to zero.

The right-to-use asset has been reported within fixed assets in the statement of financial position, whereas the lease liabilities have been included in other liabilities.

s. 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. Foreign currency differences arising on translation are recognised in the Statement of Comprehensive Income.

5. Income from financing activities

Income from	**2019**	2018
	£	£
Banks		
Murabaha placements	**-**	-
Wakala placements	**59,287**	36,119
Financing arrangements		
Murabaha financing	**20,472,182**	17,633,741
Musharaka financing	**36,498**	56,808
Total income from financing activities	**20,567,967**	17,726,668

6. Income from investing activities

	2019 £	2018 £
Returns on investments	**1,756,532**	1,143,463
Fair Value adjustment on investment property	-	-
Total income from investing activities	**1,756,532**	1,143,463

7. Returns to banks and customers

	2019 £	2018 £
Murabaha deposits	**241,259**	96,878
Wakala deposits	**7,608,123**	5,517,786
Notice accounts	**2,075,548**	1,972,447
Instant access savings accounts	**53,624**	54,758
Subordinated Wakala & Others returns	**944,139**	861,867
Total returns to banks and customers	**10,922,693**	8,503,736

8. Fees and commissions income

	2019 £	2018 £
Property financing fees	**1,572,873**	1,492,235
Other fee income	**243,566**	306,292
Total fees and commissions income	**1,816,439**	1,798,526

The property financing fee income relates to administration and exit fees on financing arrangements. The other fee income relates to monitoring fees, agency fees and banking service charges.

9. Personnel expenses

	2019 £	2018 £
Directors' emoluments and fees	**795,830**	674,750
Wages and salaries	**3,148,376**	3,074,248
Social security costs	**477,073**	453,061
Pension contributions	**292,892**	274,786
Other staff costs	**161,741**	154,615
Total personnel expenses	**4,875,912**	4,631,460

The aggregate of the emoluments in 2019 of the highest paid Director was £418,875 (2018: £367,000 and Company pension contributions of £nil (2018: £nil) were made on their behalf.

The value of services performed by three Doha directors was estimated by the Board as £75,000 (2018: £75,000). This amount was not recharged to the Bank.

The number of employees at the end of the year was 36 (2018: 38) and the average number throughout the year was 37 (2018: 37).

10. Other expenses

	2019 £	2018 £
Other Staff Related Costs	**107,447**	158,837
IT Expenses	**783,854**	542,029
General and Administrative costs	**1,152,320**	1,561,642
Total Other expenses	**2,043,621**	2,262,508

11. Profit / (loss) before taxation

Profit / (loss) before taxation is stated after charging:	2019 £	2018 £
Auditor's remuneration		
Fees payable to Bank's auditor for the audit of financial statements	**146,838**	142,000
Fees payable to Bank's auditor for other services:		
– other services pursuant to legislation	**6,120**	6,000
– other services	**25,915**	20,750
	178,873	168,750

12. Taxation

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

	2019 £	2018 £
Current tax expense / (credit) for period	**456,975**	38,368
Prior year adjustment	**4,845**	-
Deferred tax expense / (credit) relating to:		
Origination and reversal of temporary differences	**475,660**	990,059
Effect of tax rate change	**(1,033)**	(3,732)
Prior year adjustment	**(16,301)**	(21,547)
Total tax expense	**920,146**	1,046,242

(ii) Reconciliation of the total tax charge

The total tax charge 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:

	2019 £	2018 £
(Loss) / profit before tax	**5,346,693**	4,759,101
At standard rate of UK corporation tax of 19% (2018: 19%)	**1,015,872**	904,229
Effects of:		
Non-deductible expenses	**106,014**	110,153
Effect of tax rate change	**(1,033)**	(3,732)
Deferred tax prior year adjustment	**(11,456)**	21,547
Movement in unrecognised Deferred tax asset	**(189,250)**	14,045
Total tax expense	**920,146**	1,046,242

(iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 17.1% (2018: 17.7%). This rate is a hybrid rate based the unwinding of the deferred tax asset recognised taking into account the enacted rate that will reduce to 17% on 1 April 2020. The following are the deferred tax assets calculated by the Bank and movements thereon during the current and prior reporting period.

	2019 £	2018 £
Deferred tax asset as at 1 January	**(1,478,711)**	(2,274,425)
Expensed to the Statement of Comprehensive Income	**475,660**	990,059
Credit to Other Comprehensive Income/ Reserves	**(11,359)**	(212,159)
Effect of rate change	**(1,033)**	(3,732)
Prior year adjustment	**(16,301)**	21,547
Deferred tax asset as at 31 December	**(1,031,744)**	(1,478,711)

The deferred tax asset can be analysed as follows:

	2019 £	2018 £
Decelerating capital allowances	**78,595**	72,508
Other timing differences	**(132,980)**	(147,320)
Tax losses carried forward	**(977,359)**	(1,403,899)
	(1,031,744)	(1,478,711)

The Bank utilised tax losses of £3,282,831 in the period.

The recognition of a deferred tax asset of £1,031,744 (net) as at 31 December 2019 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 realise this deferred tax asset.

In addition to the recognised deferred tax asset, the Bank has a gross unrecognised deferred tax asset of £9,233,388, net £1,569,675 (2018: £10,406,059, net £1,769,030) 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.

13. Cash and balances with banks

	2019 £	2018 £
Cash	**490,561**	470,485
On demand bank deposits	**40,286,513**	36,546,676
Less: Allowance for impairment losses	**(373)**	(408)
Total cash and balances with banks	**40,776,701**	37,016,753

14. Financing arrangements

	2019 £	2018 £
Murabaha financing	**537,142,684**	486,587,450
Musharaka financing	**-**	1,375,000
Mudaraba financing	**879,798**	932,298
Other financing	**36,549**	50,499
Less: Allowance for impairment losses	**(7,064,349)**	(6,570,510)
Total financing arrangements	**530,994,682**	482,374,737

15. Financial assets held at amortised cost

	2019 £	2018 £
Investment in Sukuk	**74,848,611**	66,851,765
Less: Allowance for impairment losses	**(34,158)**	(19,493)
Total financial assets held at amortised cost	**74,814,453**	66,832,272

16. Derivative financial instruments

	2019 £	2018 £
Gain on fair value of forward foreign exchange contracts	**93,764**	5,728,697
Loss on fair value of forward foreign exchange contracts	**(3,406,473)**	(357,473)
Total derivative financial instruments	**(3,312,709)**	5,371,224

The Bank entered into forward foreign exchange contracts to manage its foreign currency exposures and all the foreign exchange contracts are used just for hedging purposes. The Bank uses foreign currency-denominated deposits and foreign exchange forward contracts to manage its transaction exposures. The foreign exchange forward contracts are entered into for periods consistent with the foreign currency exposure of the underlying transactions, generally from 1 to 12 months. The fair value of £(3,312,709) represents an aggregate net position of £3,406,473 losses netted against £93,764 gains. The movement in the fair value of forward foreign exchange contracts is included in the Statement of Comprehensive Income. The cumulative loss to date is £256,373 (2018: loss of £253,137).

The Bank's book is effectively hedged for foreign currencies and the positions are closely monitored on a daily basis. Due to the unhedged FX open position during the year, there was a net gain of £96,171 (2018: £29,050 net gain). This is the outcome of the ineffective hedging portion and this net position is arising out of a FX total gain of £8,188,163 (2018: £6,410,031) of the hedging instruments and total loss of £8,091,992 (2018: £6,380,981) of hedged items. The total nominal value of the derivatives as at year-end was £163m (2018: £141m). The instruments are there to hedge the liabilities that are in foreign currencies (mainly in Dollars) as the Bank's asset book is largely in GBP. All the derivatives have a maturity of less than a year, which is in line with the Bank's foreign currency deposit profile.

The table below shows the maturity of the derivative instruments as at the end of the year:

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
2019	13,772,229	78,154,682	70,610,120	-	-	162,537,030
2018	81,077,684	6,344,949	53,179,735	-	-	140,602,368

17. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment/ Fixed Assets in Progress	Total
	£	£	£	£	£
Cost:					
Balance at 1 January 2019	14,269,334	445,264	3,090,056	1,136,085	18,940,739
Additions	-	3,801	-	226,596	230,397
Write offs	-	(355,549)	(846,843)	(482,218)	(1,684,610)
Balance at 31 December 2019	14,269,334	93,516	2,243,213	880,463	17,486,527
Depreciation:					
Balance at 1 January 2019	(1,135,192)	(417,486)	(1,739,732)	(811,852)	(4,104,262)
Depreciation charge for the year	(285,525)	(22,256)	(240,727)	(77,517)	(626,025)
Write offs	-	355,549	846,843	476,141	1,678,533
Balance at 31 December 2019	(1,420,717)	(84,193)	(1,133,616)	(413,228)	(3,051,754)
Net book value at 31 December 2019	**12,848,617**	**9,323**	**1,109,597**	**467,235**	**14,434,772**
Cost:					
Balance at 1 January 2018	14,269,334	432,884	3,090,056	977,675	18,769,948
Additions	-	12,381	-	158,410	170,791
Balance at 31 December 2018	14,269,334	445,264	3,090,056	1,136,085	18,940,739
Depreciation:					
Balance at 1 January 2018	(856,966)	(405,025)	(1,515,596)	(638,402)	(3,415,989)
Depreciation charge for the year	(278,226)	(12,461)	(224,136)	(173,450)	(688,272)
Balance at 31 December 2018	(1,135,192)	(417,486)	(1,739,732)	(811,852)	(4,104,262)
Net book value at 31 December 2018	**13,134,141**	**27,778**	**1,350,325**	**324,233**	**14,836,478**

The Bank acquired 43 Grosvenor Street, London, W1K 3HL on the 13th March 2014. The floors from the lower ground up to and including the second floor are designated as own use. Floors 3, 4, and 5 are designated as an investment property. These three floors were leased to a third party from the acquisition date up to January 2016. During 2016 these floors were refurbished and marketed to prospective tenants. Floors 3 and 4 were leased out to third parties in June 2017. Floor 5 was leased out to one of these third parties in October 2018. The building value disclosed above reflects the floors occupied by the Bank. For the value of the remaining floors leased and the fair value, refer to note 19.

During 2019, the Bank wrote off assets that had been subject to disposal and held no future economic benefit from its use.

Right-of-use assets under IFRS 16 'Leases' for £76,596 are included within the additions for computer equipment. There was no cash flow relating to these during the year as the initial payment is outstanding within other liabilities.

18. Intangible assets

	Computer Software	Computer Licenses	Total
	£	£	£
Cost:			
Balance at 1 January 2019	1,165,727	477,407	1,643,134
Additions	-	-	-
Write offs	(942,661)	(94,145)	(1,036,806)
Balance at 31 December 2019	223,066	383,262	606,328
Amortisation:			
Balance at 1 January 2019	(1,161,429)	(470,316)	(1,631,745)
Amortisation charge for the year	(4,298)	(7,091)	(11,389)
Write offs	942,661	94,145	1,036,806
Balance at 31 December 2019	(223,066)	(383,262)	(606,328)
Net book value at 31 December 2019	-	-	-
Cost:			
Balance at 1 January 2018	1,162,077	476,327	1,638,404
Additions	3,649	1,080	4,729
Balance at 31 December 2018	1,165,727	477,407	1,643,134
Amortisation:			
Balance at 1 January 2018	(1,091,237)	(466,197)	(1,557,434)
Amortisation charge for the year	(70,192)	(4,119)	(74,311)
Balance at 31 December 2018	(1,161,429)	(470,316)	(1,631,746)
Net book value at 31 December 2018	**4,298**	**7,091**	**11,389**

During 2019, the Bank wrote off assets that had been subject to disposal and held no future economic benefit from its use.

19. Investment property

	£
Balance at 1 January 2019	10,240,000
Fair Value adjustment	-
Balance at 31 December 2019	10,240,000

CBRE Limited valued the building during October 2019 at £25,600,000, reflecting a value of £10,240,000 for the investment portion. Formal valuations will be conducted in alternate years with an index adjustment for years in between. This valuation represents level 2 in the fair value hierarchy. CBRE Limited's valuation was based on the following assumptions:

The property is currently let under the terms of the lease as described in note 24. Most weight was attached to the capital value per square foot and the underlying vacant possession value for the property.

In arriving at the opinion of market value, CBRE had less regard for investment yields but focussed on sales of assets within the core Mayfair market and considered both let investments and vacant possession opportunities.

They have assumed an estimated rental value (ERV) of £771,842 per annum which is based on a headline ERV of £105 per sq ft on the best office accommodation.

Having regard to the above, and the general tone of capital values in Mayfair, in their opinion the market value is £25,600,000 which equates to circa £2,900 per sq ft.

20. Other assets

	2019 £	2018 £
Income receivable	**3,166,199**	2,960,973
Fees receivable	**210,598**	242,954
VAT recoverable	**41,853**	47,402
Prepayments	**206,106**	185,599
Other receivables	**155,250**	214,505
Total other assets	**3,780,006**	3,651,433

21. Due to banks

	2019 £	2018 £
Demand	**208,151**	105,564
Murabaha deposits	**38,711,285**	10,151,921
Wakala deposits	**46,250,046**	81,246,660
Total due to banks	**85,169,482**	91,504,145

22. Due to customers

	2019 £	2018 £
Demand	**45,833,789**	44,946,398
Notice	**112,171,237**	112,844,276
Murabaha Deposits	**-**	85,189
Wakala Deposits	**322,137,186**	276,666,967
Total due to customers	**480,142,212**	434,542,830

23. Other liabilities

	2019 £	2018 £
Returns payable	**19,144,896**	12,600,030
Accruals	**1,373,700**	1,389,000
Trade payables	**58,008**	84,178
Social security and income tax	**121,701**	128,756
Deferred Income	**2,821,704**	2,681,064
Allowance for impairment losses on undrawn commitments	**145,422**	90,411
Corporation Tax payable	**468,335**	21,038
Lease liability	**76,596**	-
Other payables	**70,675**	27,938
Total other liabilities	**24,281,037**	17,022,415

24. Leases

Bank as lessee

A 33 month lease was signed in November 2019 in relation to an IT rental lease with an annual rental of £28,568. The lease contract is for fixed payments only, with no variable payments, termination penalties or exercisable options.

A right-of-use asset and a lease liability were recognised on the Balance Sheet on the lease commencement date. The bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the end of the lease term.The lease liability was discounted on intial recognition using the Bank's 2019 annual average cost of funding of 1.71% to reflect the present value of the payments.

A right-to-use asset of £76,596 has been reported within fixed assets in the statement of financial position, whereas the lease liability for the same value has been included in other liabilities.

There were no cash flows relating to this contract reported during the year, as the initial payment was shown as a liability within trade payables.

Future discounted rental payments on the right-to-use asset as at 31 December are as follows:

	2019	2018
	£	£
Within 1 year	**28,267**	23,620
After 1 year but not more than 5 Years	**48,329**	53,145
	76,596	76,765

During the year £26,198 (2018: £23,817) was recognised as an expense in the Statement of Comprehensive Income in respect of leases.

Bank as a lessor

The Bank has entered into operating leases for its investment property (see note 19). These leases have terms of between 6 months to 2.5 years. All lease include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties.

During the year £255,407 (2018: £200,533) rental income was recognised in the Statement of Comprehensive Income relating to this operating lease. Bank receive the rent as net basis and there are no additional expenses associated with the lease.

Future minimum rentals receivable under operating leases as at 31 December are as follows:

	2019	2018
	£	£
Within 1 year	**155,363**	265,352
After 1 year but not more than 5 Years	**68,063**	223,426
	223,426	488,777

25. Share capital

	2019	2018
	£	£
Authorised		
100,000,000 Ordinary shares of £1.00 each	**100,000,000**	100,000,000
Allotted, called up and fully paid		
Ordinary shares of £1.00 each	**60,864,221**	60,864,221

26. Related party transactions

Qatar Islamic Bank (QIB Doha) 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 Bank. QIB Doha 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 Doha ownership or common non-executive directors, unless otherwise stated below.

Subordinated Wakala from related party
As at 31 December 2019 there was an outstanding subordinated Wakala balance payable to QIB Doha of £15,950,000 (2018: £15,950,000).

Total subordinated Wakala returns due to QIB Doha in the year were £944,139 (2018: £861,867) and returns of £306,483 (2018: £308,388) were payable as at the end of the year.

Bank lines
As at 31 December 2019, the Bank had £204,000,000 (2018: £58,600,000) of agreed inter-bank funding lines and £60,000,000 (2018: £60,000,000) 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.

Due to banks
QIB Doha held demand deposit accounts with the Bank on an arm's length basis. As at 31 December 2019, total demand deposits due to QIB Doha were £208,151 (2018: £105,564).
Cash and balances with banks
Demand bank accounts were held with QIB Doha in line with their normal account terms and conditions. As at 31 December 2019, the Bank had a balance of £39,324 with QIB Doha (2018: £40,642)

Guarantee fees
To support the Bank's ability to seek external funding, QIB Doha occasionally provide a guarantee to external financiers. In return, QIB Doha charge the Bank guarantee fees. During the year, there was no guarantee fees payable to Doha (2018: £Nil). The amount outstanding as at 31 December 2019 is £2,566,927 (2018: £2,650,151).

Financing arrangements
As at 31 December 2019, financing arrangements included a balance of £6,000,000 (2018: £6,000,000) and other assets of £36,377 (2018: £35,869) relating to a real estate secured financing transaction made with Mr Abdullah Al-Eida, a Director of QIB Doha, on an arm's length basis. Total returns due to the Bank in the year were £241,744 (2018: £221,007).

Key management compensation
Key management of the Bank is the Management Committee of the Bank. The compensation of key management personnel is as follows:

	2019	2018
	£	£
Emoluments including social security costs	**1,814,546**	1,646,487
Company contributions to pension plans	**89,019**	90,058
	1,903,565	1,736,545

27. Financial risk management

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

- Business risk (including financial performance and capital adequacy)
- Credit risk
- Market risk (including profit rate risk)
- Operational risk (including reputational and shari'a compliance risk)
- Liquidity risk
- Group 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

The Bank has an established risk management framework. The Bank seeks to mitigate risk through robust systems and controls, and through effective corporate governance.

The key components of the Bank's risk management framework include:

Risk identification
Risk measurement and assessment
Risk mitigation
Risk reporting and monitoring
Risk governance

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 the Bank. 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 Bank.

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.
The 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 and Risk function, 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 Bank 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 Board is periodically reviewed to ensure that its skill set is appropriate to current and future business requirements
g) maintain oversight of the robust implementation of the risk management framework
h) review and approve a suitable Risk Appetite Statement on at least an annual basis.
i) promote a risk aware and risk responsible culture

The Board delegates part of its authority to various sub-committees and members of senior management in order to ensure effective operationalisation of the risk framework. These committees are depicted below.

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

Board sub-committees
The 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 Board;
- Board Audit & Risk Committee;
- Board Remuneration Committee; and
- Executive Management Committee.

Board Executive Committee ("ExCo")
The Board ExCo has a specific role in relation to the review (and subsequent rejection, recommendation or approval as appropriate) of new credit exposures that are within its delegated authority, in accordance with the agreed delegated credit authority limit structure. 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 Board ("SSB")
The SSB is an independent body whose expenses are defrayed by the Bank. The SSB's primary function is to review the proposed products and services of the Bank, to ensure that they are fully compliant and in accordance with the rules and principles of 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 Board. It is also responsible for providing a channel of communication between the Board, Executive Management, the Risk and Compliance functions and Internal and External Audit. The ARC 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.

Board Nominations & Remuneration Committee ("RemCo")
The RemCo provides a formal and transparent procedure for developing policy on Executive Management remuneration and fixing the remuneration packages of individual Bank Directors. The RemCo will also function as a nominations committee, evaluating the performance of the Board and the Executive Management ensuring compliance with regulatory requirements.

Executive Management Committee ("ManCo")
In addition to the above Board Sub-Committees, the Board has established the Executive Management Committee ("ManCo") from the Executives of the Bank as a Management Committee with responsibility for the day to day oversight and management of the Bank.

The ManCo is the principal forum for conducting the business of the Bank and is responsible for the efficient and controlled operation of the business. It is authorised to take all steps necessary to conduct the business of the Bank within the confines of the Board approved strategy, budgets and mandates. Under the leadership of the Chief Executive Officer, the ManCo oversees and controls the business and makes all decisions of strategic or general significance in line with the Board's approved strategy.

The ManCo is accountable to the Board for designing, implementing and monitoring the process of risk management, and implementing it into the day-to-day business activities of the Bank. ManCo is responsible for effectively communicating the Bank's approach and commitment to establishing and maintaining an effective risk management framework and approach.

Sub-management committees
The ManCo has established Management sub-committees to assist and enable it to facilitate and embed the governance framework into the daily operations of the Bank. These Sub-Management Committees are the:

- Risk Management Committee;
- Asset & Liability Committee; and
- Product and Pricing Committee.

Their roles and responsibilities of each of these committees in regards to the Risk Management Framework are covered below.

Risk Management Committee ("RMC")
RMC provides support and advice directly to ManCo and indirectly to the Board.

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

First, to establish and oversee a robust risk management framework and advise ManCo, and ultimately the 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 Board approval, RMC sets and approves financial institution limits to avoid excessive consolidated Group exposures. RMC is chaired by the Chief Risk Officer ("CRO").

Asset & Liability Committee ("ALCo")
The ALCo is responsible for managing and monitoring the capital, assets and liabilities of the Bank. It also manages the risk/reward relationship between solvency, liquidity and profit rate risk. ALCo has responsibility for ensuring that the Bank's capital is effectively managed to maximise returns whilst protecting the interests of the Bank, its employees, shareholders and clients, and ensuring regulatory limits are observed.
The ALCo supports the Board and CEO in managing liquidity by recommending policies, setting limits and monitoring the risk and liquidity profile of the Bank on a regular basis. The ALCo provides guidance upon the day to day management of liquidity and oversees the effective establishment of effective controls & methodologies to ensure that the Bank has sufficient liquidity at all times. ALCO is chaired by the CEO.

Product and Pricing Committee ("P&PC")
The Product and Pricing Committee is responsible to approve changes to existing and new products ensuring associated documentation including policies, procedures and customer communications is fully compliant with prevailing regulation and the Bank's Conduct Risk Policy. The committee also considers current and forward looking economic and market conditions and potential impact to the product portfolio and P&L impact. This committee is chaired by the CEO.

Material Risks

The Bank frequently assesses the material risks impacting the Bank which is also set out in Management Information presented to the RMC and ARC. The following outlines the material risks inherent in the Bank.

Business Risk

Business Risk can be defined as any risk to the Bank arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. Financial performance and capital adequacy are key areas the Bank will monitor as well as risks arising from a deviation to the proposed business plan.
There are controls throughout the Bank in regard to business risk. The strategy of the Bank is set by the QIB (UK) Board and is closely monitored by the ManCo and the Sub-Management Committees. The Board Committees also maintain close oversight over business risks, within their specific remits, and there is detailed reporting across a range of limits by both the Finance and the Risk functions to management and through the committee / governance structure.

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 Wakala Deposits

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.

Credit risk

Credit risk is considered a material risk for the Bank and can be defined as a loss arising from a counterparty failing to fulfil contractual arrangements. This risk would occur if a counterparty fails to meet financing owed to the Bank due to inability to repay, or refusal to repay. The Bank manages credit risk through a clearly defined credit approval process and metrics have been set to guide and monitor this process. Key responsibility for credit risk management is shared between the business teams and the risk management function, both at the point of initial review and approval, and during the ongoing monitoring of a connection.

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.

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

- reviewing credit and underwriting proposals, providing clear recommendation to the appropriate committee.
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and taking action as appropriate, any non-performing credit facilities
- monitoring ongoing adherence to country and counterparty limits

The credit limit structure forms part of the Credit & Investment Policy and associated Risk Appetite Statement, which is monitored on a monthly basis through Risk Reporting to RMC. Within this limit structure, potential exposures and proposals are assessed by either RMC, ExCo, ARC or the Board if required.

RMC is responsible for the formal assessment of any new exposures. The relationship teams are required to submit credit approval requests to Risk Management for assessment and consideration by the RMC. The Credit Risk Manager will ensure that the credit application is assessed and presented in line with the Bank's Credit and Investment Policy and Procedures and that the appropriate credit application template is used and completed accurately. Existing exposures are reviewed by the business area on a regular basis and submitted to the RMC for further review and approval. RMC reviews all potential exposures. If the potential exposure falls within its delegated authority, RMC will form its own decision. If not, RMC will review and if appropriate recommend the exposure to either ExCo or the Board. An active 'watch list' process is in place, and exposures on the watch list are subject to more detailed ongoing review.

Credit risk exposures as at 31 December are shown below.

	2019	2018
	£	£
Balances with Banks	**40,286,140**	36,546,268
Other financing	**12,667**	22,167
Murabaha financing	**533,451,245**	483,546,216
Musharaka financing	**-**	1,384,806
Financial assets at amortised cost	**74,814,453**	66,832,272
Total	**648,564,505**	588,331,729
Off Balance sheet:		
Undrawn Commitments	**13,634,308**	10,354,126
Total	**13,634,308**	10,354,126
Total Credit Risk	**662,198,812**	598,685,855

The credit exposures shown above are the maximum credit exposure and net after taking into account the impact of any collateral held and include accrued profit.

Concentration of risks of financial assets with credit risk exposure

The following tables provide additional analysis of the Bank's credit exposures, detailing concentration by geographical location and industry type of counterparties. For geographical sector, allocation of exposures to regions is based on the Bank's policy definition of country risk based on credit risk principles.

Geographical sectors:

	Europe	Middle East	USA	Other	Total
	£	£	£	£	£
Balances with Banks	34,545,533	39,324	5,701,284	-	40,286,140
Other financing	12,667	-	-	-	12,667
Murabaha financing	533,451,245	-	-	-	533,451,245
Musharaka financing	-	-	-	-	-
Financial assets at amortised cost	-	59,509,962	-	15,304,490	74,814,453
31 December 2019	**568,009,445**	**59,549,286**	**5,701,284**	**15,304,490**	**648,564,505**
Off Balance sheet:					
Undrawn Commitments	13,634,308	-	-	-	13,634,308
31 December 2019	**13,634,308**	-	-	-	**13,634,308**
Total	**581,643,753**	**59,549,286**	**5,701,284**	**15,304,490**	**662,198,812**
Balances with Banks	25,934,008	40,641	10,571,619	-	36,546,268
Other financing	22,167	-	-	-	22,167
Murabaha financing	483,546,216	-	-	-	483,546,216
Musharaka financing	1,384,806	-	-	-	1,384,806
Financial assets at amortised cost	-	64,503,811	-	2,328,461	66,832,272
31 December 2018	**510,887,196**	**64,544,453**	**10,571,619**	**2,328,461**	**588,331,729**
Off Balance sheet:					
Undrawn Commitments	10,354,126	-	-	-	10,354,126
31 December 2018	**10,354,126**	-	-	-	**10,354,126**
Total	**521,241,323**	**64,544,452**	**10,571,619**	**2,328,461**	**598,685,855**

Industry sectors:

	Banks	Individuals	Real Estate	Corporates	Other	Total
	£	£	£	£	£	£
Balances with Banks	40,286,140	-	-	-	-	40,286,140
Other financing	-	12,667	-	-	-	12,667
Murabaha financing	-	-	533,451,245	-	-	533,451,245
Financial assets at amortised cost	44,210,853	-	-	3,891,008	26,712,591	74,814,453
31 December 2019	84,496,994	12,667	533,451,245	3,891,008	26,712,590	648,564,505
Off Balance sheet						
Undrawn Commitments	-	623,152	13,011,156	-	-	13,634,308
31 December 2019	-	623,152	13,011,156	-	-	13,634,308
Total	84,496,994	635,819	546,462,401	3,891,008	26,712,590	662,198,812
Balances with Banks	36,546,268	-	-	-	-	36,546,268
Other financing	-	22,167	-	-	-	22,167
Murabaha financing	-	-	481,881,320	-	1,664,896	483,546,216
Musharaka financing	-	-	1,384,806	-	-	1,384,806
Financial assets at amortised cost	60,443,914	-	-	4,059,897	2,328,461	66,832,272
31 December 2018	96,990,182	22,167	483,266,126	4,059,897	3,993,358	588,331,729
Off Balance sheet						
Undrawn Commitments	-	570,500	9,783,626	-	-	10,354,126
31 December 2018	-	570,500	9,783,626	-	-	10,354,126
Total	96,990,182	592,667	493,049,753	4,059,897	3,993,357	598,685,855

Credit quality

The credit quality of the Bank's exposures is reviewed and managed by the Bank's Risk Management Department, RMC, ExCo for larger exposures and ARC.

All individual credit exposures are risk rated and clearly recorded in the credit application for the customer. In determining the risk rating, certain specified types of tangible security combined with high levels of coverage can produce a risk rating entirely independent of the credit quality of the obligor. However, the individual structure and obligors to a transaction are fundamental considerations when determining the overall risk rating. When determining an appropriate risk rating the Bank considers key elements of the underlying credit assessment, including the customer's track record and expertise in the sector, repayment history, security, key risks and mitigants. The Bank regularly reviews and updates risk ratings whenever any relevant new information is received. The Bank assesses this based on key indicators such as:

- Adverse movement in internal risk rating
- Contractual payments days past due
- Adverse market changes in collateral value
- Covenant breaches
- FTV breach monitoring
- Drop in external ratings
- Annual review

Credit quality for institutions is assessed using techniques which use information from the major External Credit Assessment Institutions ("ECAI") such as S&P, Fitch etc., together with specific financial data. Risk ratings are on a rating scale of 1-10 (with 1 being the highest) and are in line with QIB Group methodology. The latter are mapped to the ECAI and Regulators' credit risk ratings.

During the year, the Bank incurred a credit loss expense on financial assets of £563,480 (2018: £1,940).

The table below shows the movement in ECL loss allowance during the year:

Total ECL loss allowance brought forward	**6,680,822**
Additional ECL loss allowances	620,430
Stage 3 recoveries	(56,950)
Stage 3 write-offs	0
Total 2019 ECL loss allowance	**7,244,302**

Three collateralised Murabaha financings, with a gross carrying amount totaling £4,874,883 remained in Stage 2 during the year. One collateralised Murabaha financing with a gross carrying amount of £6,843,479 transferred from Stage 1 to Stage 2 in the year. As a consequence, the ECL loss allowance increased by a total of £975,860 for this financing. During the year there was credit of £1,173,776 on ECL within Stage 1, mainly due to the early maturity of one collateralised Murabaha financing.

There were no financial assets written off during 2020, therefore the contractual amount outstanding on financial assets that are still subject to enforcement activity is £nil during the year (2018: £nil).

Credit Quality	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	£	£	£	£	£
Balances with banks					
Gross carrying amount	40,286,513	-	-	40,286,513	36,546,676
ECL allowance	(373)	-	-	(373)	(408)
Total balances with banks	40,286,140	-	-	40,286,140	36,546,268
Financing Arrangements					
Gross carrying amount	524,063,374	11,718,362	4,746,525	540,528,261	488,945,247
ECL allowance	(552,018)	(1,765,807)	(4,746,525)	(7,064,349)	(6,570,510)
Total financing arrangements	523,511,357	9,952,555	-	533,463,912	482,374,737
Financial assets at amortised cost					
Gross carrying amount	74,848,611	-	-	74,848,611	66,851,765
ECL allowance	(34,158)	-	-	(34,158)	(19,493)
Total financial assets at amortised cost	74,814,453	-	-	74,814,453	66,832,272
Undrawn Commitments					
Gross carrying amount	13,779,730	-	-	13,779,730	10,354,126
ECL allowance	(145,423)	-	-	(145,423)	-
Total undrawn commitments	13,634,308	-	-	13,634,308	10,354,126

	Investment Grade	Standard Monitoring	Special Monitoring	Total
	£	£	£	£
Balances with Banks	40,286,140	-	-	40,286,140
Other financing	-	-	12,667	12,667
Murabaha financing	497,928,326	26,797,193	8,725,726	533,451,245
Financial assets at amortised cost	74,814,453	-	-	74,814,453
31 December 2019	**613,028,919**	**26,797,193**	**8,738,393**	**648,564,505**
Off Balance sheet:				
Undrawn Commitments	3,199,339	9,974,940	460,030	13,634,308
31 December 2019	**3,199,339**	**9,974,940**	**460,030**	**13,634,308**
Total	**616,228,257**	**36,772,133**	**9,198,422**	**662,198,812**
Balances with Banks	36,546,268	-	-	36,546,268
Due from Banks	-	-	-	-
Other financing	-	-	22,167	22,167
Murabaha financing	448,486,796	35,059,420	-	483,546,216
Musharaka financing	1,384,806	-	-	1,384,806
Financial assets at amortised cost	66,832,272	1,484,451	-	66,832,272
31 December 2018	**553,250,142**	**36,543,871**	**22,167**	**588,331,729**
Off Balance sheet:				
Undrawn Commitments	2,280,500	8,073,626	-	10,354,126
31 December 2018	**2,280,500**	**8,073,626**	-	**10,354,126**
Total	**555,530,641**	**43,133,046**	**22,167**	**598,685,855**

Investment grade (R1 – R4) refers to external rating of BBB- and above. Special monitoring refers to all the assets that are under review by the CRO and are rated at R7 or higher for regular impairment review. All other assets are monitored under the Standard monitoring (R5 –R6) initiative.

As at 31 December 2019, the Bank had the following Stage 3, non-performing, impaired assets for which it is also undertaking special monitoring:

1) A UK corporate with a total Mudaraba financing amount due of £879,798 (2018: £932,298).The total impairment provision against this asset as at 31 December is £879,798 (2018: £932,298).

2) A UK corporate with a total Murabaha financing amount due of £3,842,843 (2018: £3,842,843). The total impairment provision against this asset as at 31 December is £3,842,843 (2018: £3,842,843).

3) A UK individual with a total Qard Hasan financing amount due of £18,155 (2018: £21,405). The total impairment provision against this asset as at 31 December is £18,155 (2018: £21,405).

4) A UK individual with a total Qard Hasan financing amount due of £5,727 (2018: £6,927). The total impairment provision against this asset as at 31 December is £5,727 (2018: £6,927).

Collateral

Risk management assesses the exposures against the collateral held. This is done as part of the initial credit assessment and then periodically as part of the annual credit reviews.

The Murabaha and Musharaka transactions are collateralised against residential and commercial properties, mainly in prime central London. A property valuation is performed at origination and in the event of a change in risk, which is monitored monthly. The Bank has not identified any significant adverse movement in the value of the collateral.

The collateralised Murabaha and Musharaka financing exposures presented in the table below represents mortgages on the real estate assets. The fair value of collateral can vary.

	2019		2018	
	Exposure	Collateral	Exposure	Collateral
	£	£	£	£
Balances with Banks	40,286,140	-	36,546,268	-
Due from Banks	-	-	-	-
Other financing	12,667	-	22,167	-
Murabaha financing	533,451,245	929,332,266	483,546,216	878,457,324
Musharaka financing	-	-	1,384,806	2,125,000
Financial assets at amortised cost	74,814,453	-	66,832,272	-
Total Credit Risk	**648,564,505**	**929,332,266**	**588,331,729**	**880,582,324**

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 Rule Book 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 below.

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 Bank utilizes a combination of foreign exchange spot, outright and forward contracts to manage this risk.

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

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Balances with Banks	5,737,039	834,696	34,192,314	3,573	9,452	40,777,074
Financing arrangements	-	-	538,059,031	-	-	538,059,031
Financial assets at amortised cost	74,848,611	-	-	-	-	74,848,611
Other Assets	545,458	-	28,864,468	-	-	29,409,925
31 December 2019	81,131,107	834,696	601,115,812	3,573	9,452	683,094,641
Liabilities						
Due to Banks	20,818,488	34,019,385	30,331,609	-	-	85,169,482
Due to other financial institutions	4,894,477	-	37,547,023	-	-	42,441,500
Due to customers	164,971,494	793,334	271,935,884	-	-	437,700,712
Subordinated Loan	-	-	15,950,000	-	-	15,950,000
Other Liabilities	3,941,393	528	20,193,694	-	-	24,135,615
Reserves	-	-	22,238	-	-	22,238
31 December 2019	194,625,852	34,813,246	375,980,448	-	-	605,419,546
Net on balance sheet financial position	(113,494,745)	(33,978,550)	225,135,365	3,573	9,452	77,675,095
Forward foreign exchange contracts	113,432,296	33,964,400	-	-	-	147,396,696
Assets						
Cash and balance with Banks	10,610,682	782,746	25,611,979	1,579	9,767	37,016,753
Financing arrangements	-	-	482,374,737	-	-	482,374,737
Financial assets at amortised cost	66,832,272	-	-	-	-	66,832,272
Other assets	354,714	-	29,863,296	-	-	30,218,009
31 December 2018	77,797,668	782,746	537,850,012	1,579	9,767	616,441,771
Liabilities						
Due to Banks	47,482,687	4,939,849	39,081,609	-	-	91,504,145
Due to other financial institutions	10,843,378	-	38,600,582	-	-	49,443,960
Due to customers	156,708,033	774,446	227,616,391	-	-	385,098,870
Subordinated Loan	-	-	15,950,000	-	-	15,950,000
Other Liabilities	4,488,495	1,529	12,511,353	-	-	17,001,377
Reserves	-	-	46,511	-	-	46,511
31 December 2018	219,522,593	5,715,823	333,806,446	-	-	559,044,863
Net on balance sheet financial position	(141,724,925)	(4,933,077)	204,043,565	1,579	9,767	57,396,908
Forward foreign exchange contracts	141,597,754	4,913,260	-	-	-	146,511,014

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible, and as at 31 December 2019, held a £96,171 net gain from FX hedges (2018: £29,050 net gain). Every foreign currency exposure is hedged by FX forwards with similar maturity profile to eliminate any foreign currency risk. For this reason the Bank has not provided a separate foreign exchange sensitivity risk analysis.

Profit rate risk (non-trading book)

This is the risk that the Bank's balance sheet and profitability is exposed to unexpected movements in profit rates. The Bank's exposure to profit rate risk is relatively small as the majority of the Bank's assets are on variable rate financing and are repriced every quarter based on the current LIBOR rate. The Bank monitors profit rate risk movement at monthly ALCO meetings and is controlled by Treasury as part of the Bank's asset and liability management. The Bank also has a profit rate EWI to monitor a 25bp movement in any rolling 5 day period in the 6 month Overnight Indexed Swap curve.

With regard to the investment portfolio (fixed rate, non-trading book Sukuk), whilst these are valued daily on a mark to market basis, the following analysis sets the notional impact of an increase in LIBOR rates on the Sukuk book. The impact of a 2% shift rate shock has been based on an effective duration methodology.

Parallel rate shock risk	**2019**	2018
• ±2% rate shock	**£4,714,656**	£1,903,332
• Impact on regulatory capital	**(5.9%)**	(2.4%)

Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to finance its assets and/or meet its liabilities as they fall due, or will only be able to meet them at an uneconomic price. The Bank manages its liquidity profile to ensure it maintains adequate levels of liquidity resources, a prudent funding profile and that it comprehensively manages and controls liquidity and funding risks, in order to support the daily and budgeted business requirements as they fall due and to meet all regulatory requirements. To achieve this, the Bank:

- Maintains a portfolio of approved "Islamic liquid assets buffer" that can be liquidated at short notice
- Secures an appropriate future matching profile of maturing asset / liability cash flows
- maintains a-diversified deposit / funding base that is within the Bank's risk appetite; and
- Borrows funds if required to meet short term obligations

Liquidity risk is primarily the responsibility of Treasury and the ALCo. It arises due to maturity mismatch between assets and liabilities and can be compounded by the Bank's inability to hold non-Shari'a compliant instruments.

The Bank has a Liquidity Risk Management Framework (LRMF) that is used to communicate the strategy for managing and monitoring liquidity risk within the Bank and enable it to identify, measure, manage and monitor liquidity and funding risk over appropriate set of time horizons including intraday, so as to ensure it maintains adequate levels of liquidity buffers and an appropriate funding profile. The Bank seeks to mitigate risk by implementing sound systems and controls, and through robust corporate governance arrangements. The LRMF and stress testing programme have required involvement of the executive and senior management representatives in formulating and implementing the strategy, and have been subject to challenge and review at all relevant levels, including the Board. The Bank has also taken into consideration the Principles for Sound Liquidity Management and Supervision dated September 2008 issued by the Basel Committee on Banking Supervision when constructing the Bank's LRMF.

The on-line Retail savings product was launched in 2018. The Bank has now had access to the mainstream UK Retail market for more than a year. The infrastructure supporting the product, both in the outsourced supplier and internally within QIB (UK) have been tested and proven through the cycle including the maturity of the first 1-year products. The Bank will continue to expand the product range in 2020 to meet our funding requirements. This includes the launch of notice accounts to sit alongside the fixed term products.

Details of the Bank's net liquid assets are summarised in the table below using the maturity profile of the Bank'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
	£	£	£	£	£	£
Assets						
Cash and balance with Banks	40,777,074	-	-	-	-	40,777,074
Financing arrangements	2,871,282	24,260,658	88,259,005	346,441,268	76,226,818	538,059,031
Financial assets at amortised cost	74,848,611	-	-	-	-	74,848,611
Other Assets	2,342,519	-	-	27,067,406	-	29,409,925
31 December 2019	120,839,486	24,260,658	88,259,005	373,508,674	76,226,818	683,094,641
Liabilities						
Due to Banks	19,808,151	55,553,160	9,808,171	-	-	85,169,482
Due to other financial institutions	589,948	1,379,466	40,093,728	378,358	-	42,441,500
Due to customers	73,386,981	92,109,760	257,942,028	14,261,943	-	437,700,712
Subordinated Loan	-	-	-	-	15,950,000	15,950,000
Other Liabilities	6,635,025	3,116,585	8,062,110	5,541,795	780,100	24,135,614
Reserves	22,238	-	-	-	-	22,238
31 December 2019	100,442,343	152,158,970	315,906,038	20,182,095	16,730,100	605,419,546
Undrawn commitments	13,634,308					13,634,308
Difference	6,762,836	(127,898,313)	(227,647,033)	353,326,578	59,496,718	64,040,787
Assets						
Cash and balance with Banks	37,016,753	-	-	-	-	37,016,753
Financing arrangements	-	19,519,009	38,667,886	349,736,654	77,029,639	484,953,189
Financial assets at amortised cost	66,832,272	-	-	-	-	66,832,272
Financial assets available for sale	-	-	-	-	-	-
Other Assets	2,551,692	-	-	25,087,866	-	27,639,558
31 December 2018	106,400,717	19,519,009	38,667,886	374,824,520	77,029,639	616,441,771
Liabilities						
Due to Banks	39,331,993	44,070,606	7,005,785	1,844,801	-	92,253,185
Due to other financial institutions	7,722,181	1,045,442	41,486,508	-	-	50,254,131
Due to customers	112,590,477	38,177,975	239,192,551	356,881	-	390,317,884
Subordinated Loan	79,828	151,931	708,152	3,762,218	20,966,379	25,668,508
Other Liabilities	240,152	-	7,987,221	5,340,376	705,838	14,273,586
Reserves	46,511	-	-	-	-	46,511
31 December 2018	160,011,142	83,445,954	296,380,217	11,304,276	21,672,217	572,813,804
Undrawn commitments	10,354,126					10,354,126
Difference	(63,964,551)	(63,926,945)	(257,712,331)	363,520,244	55,357,422	33,273,841

Liabilities arising from financing activities

	Balances as at 1 January 2019	Cashflows	Balances as at 31 December 2019
	£	£	£
Subordinated Loan	15,950,000	-	15,950,000
Total liabilities arising from financing activities	**15,950,000**	**-**	**15,950,000**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed within the Bank through a number of processes based on the 3 Lines of Defence Model. These include RCSAs (Risk and Control Self-Assessments), Risk Event Monitoring, Internal Audits and Controls Testing. All of these processes help the Bank to identify, assess, measure and mitigate risks whilst ensuring the correct control landscapes are in place and are effective.

To help control and mitigate potential operational risks the Bank ensures its control environment, including a Risk and Control Self-Assessment process, Risk Incident Report log and Operational Risk appetite monitoring, is maintained at all times and remains appropriate to support business objectives.

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 and is documented within the Bank's Operational Risk Policy under the guidance of RMC. Operational risk management is considered to be the responsibility of all staff.

The Board retains ultimate responsibility for oversight of risk management and control in the Bank. This includes setting a clear risk appetite statement, and whilst the Board approves the strategy and policy documents, it delegates part of this responsibility to the Audit and Risk Management Committee (ARC). At an executive level, risk is managed by the Executive Management team, reporting to the Bank's CEO. The following outlines the governance structure for the Bank's operational risk framework which operates through a three lines of defence system for managing risk:

The first line of defence is the business unit, which manages the relationship with the customer. Its primary responsibility is to understand customer requirements to mitigate the risk of default or early withdrawal of deposits and to maintain and improve the processes through which the Bank serves the customers to mitigate operational failures leading to loss or damage to reputation.

The second line of defence is the risk control functions of Risk Management (including the CRO), Finance, Compliance and for restricted activities, Operations. These are responsible for establishing a robust risk management and control framework, conducting independent assessments and oversight and challenge to the first line of defense teams and activities.

The third line of defence contains the independent assurance functions, namely Internal Audit. They are responsible for checking and reporting compliance with Regulatory requirements and internal policies or identifying weaknesses in those internal policies or operating models.

The Bank's Risk Register provides details on the Top and Medium Priority risks derived from Internal Audit reviews, Incident Reports, RCSA results (where residual risk is considered medium or high priority) and top risk assessment. The risk register has a clear action plan / mitigation steps, owner and timeline to resolve and presented through the appropriate Governance Committee.

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 ARC, which is also responsible for reviewing and approving the annual internal audit plan.

The Bank conducts fire drills 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 based in Basildon, which is periodically tested by Bank staff to ensure that they can perform their functional duties away from the Bank's headquarters should it be required at any given point in time.

Cyber Risk, which is assessed as part of the operational risk framework, is the risk of any financial loss, disruption or damage as a result of cyber-attacks, security breaches, unauthorized access, loss or destruction of data, unavailability of service, computer viruses or other events that could have an adverse security impact.

Cyber Risk is managed through technology risk management such as penetration test, firewall, fishing-vishing test, Business Continuity Planning and is considered as part of the Bank's overall operational risk assessment.

Operational resilience, which refers to 'the ability of firms, FMIs and the sector as a whole to prevent, respond to, recover and learn from operational disruptions' is also a key area the Bank is working on implementing in 2020. The SMF24 is the responsible individual within the Bank for the resilience of operations.

The Bank's Operational Resilience programme will consist of:

- Defining a framework to achieve Operational Resilience
- Embedding Operational Resilience in the Governance Structure
- Ensuring effective capacity management
- Strengthening the management of own risk
- Enhancing resilience capability and agility
- Promoting a culture of learning and continuous improvement

Climate Change risk

QIB (UK) has set out a high level plan of the key matters that will be addressed to implement the appropriate framework. The CRO (SMF4) has been given responsibility for identifying and managing financial risks from climate change. The project work streams will cover the following:

1. Risk Management:
    - Identification and assessment of the financial risks from climate change; broken down into transition risks and physical risks.
    - The output from the assessment will also feed into the Board Risk Appetite Statement and the strategy to include appropriate longer term metrics for climate related risk.
    - Exposure to climate change risk will be evidenced in risk management policies and Management Information to Executive and Board Committees.
    - The Bank's Pillar III document will provide disclosure of how the Bank integrates climate related financial risks into the governance and risk management processes.
2. Governance:
    - Further to identifying the climate risks inherent in the Bank's business model, clear roles and responsibilities will be established at Board and Executive level.
    - The Board directors, with their long-term stewardship duties, are a crucial element in the governance of climate-related risks and opportunities. The Bank will ensure that the Board has the right knowledge and tools to discharge this duty in relation to climate change.
    - Individuals or committees designated with accountability will be sufficiently qualified or trained in climate risk.
3. Scenario Analysis:
    - Development of scenario analysis to assess the impact of identified physical and transition risk scenarios.
    - Scenario analysis will be run to assess the impact on capital and liquidity requirements as part of the Bank's ICAAP and ILAAP.
    - Output will inform strategy setting so that QIB (UK) can align the business to the adjustment to a climate-impacted and lower carbon operating environment.

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 Board (SSB) ensures that all products and activities of the Bank are Shari'a compliant. The members of the SSB are leading experts in the interpretation of Islamic law and its applications in contemporary financial markets. Shari'a approval is a necessary condition prior to the settlement of any transaction.

28. Fair value of financial assets and liabilities

In the opinion of the Directors, except for the sukuk portfolio (which are all level 1 assets), where the fair value (£76m) (2018: £66m) is higher than the carrying value (£75m) (2018: £67m) (which is not due to the credit risk), 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 Banks's market assumptions. These two types of inputs have created the following fair value hierarchy. The Bank follows the standardised approach of mapping, guided by ECAIs' credit assessments to credit quality steps:

• 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).
• 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 Bank considers relevant and observable market prices in its valuations where possible.

The fair value of forward currency exchange contracts was determined using quoted forward exchange rates matching the maturity of the contracts.

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

	Level 1	Level 2	Level 3	Total
31 December 2019	£	£	£	£
- Debt instruments	-	-	-	-
Derivative financial instruments at fair value through profit and loss	-	(3,312,709)	-	(3,312,709)
Total Liabilities	-	**(3,312,709)**	-	**(3,312,709)**
	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2018	£	£	£	£
- Debt instruments	-	-	-	-
Derivative financial instruments at fair value through profit and loss	-	5,371,224	-	5,371,224
Total Assets	-	**5,371,224**	-	**5,371,224**

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

29. 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 2019.

30. Immediate and ultimate controlling party

Qatar Islamic Bank (QIB Doha) 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 Bank. The financial statements of the immediate and controlling party can be obtain from QIB Doha's office at P.O. Box 559, Doha, Qatar.

31. 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 Bank falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2019 are set out below.

	UK	*Total*
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income	£13,467,120	£13,467,120
d) Average number of employees	37	37
e) Profit before tax	£4,426,547	£4,426,547
f) Corporation tax paid	25,882	25,882
g) Public subsidies received	-	-