QIB UK

QIB (UK) plc

Annual Report
For the year ended 31 December 2018

Registered number 4656003

Contents

Strategic Report

2018 has been a very successful year for QIB (UK). The Bank reported a net profit after provisions and tax of £3.7m, an increase of 111% year on year. Despite challenging market conditions and an uncertain political backdrop, we have grown our financing portfolio by 21%, without compromising the credit quality of the portfolio.

Below are the highlights of the financial performance during 2018.

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

We continue to operate a business model with two divisions, Private Banking and Structured Real Estate. Private Banking finance residential property for predominantly high net worth Qatari clients. Structured Real Estate finance real estate assets for UK investors, asset managers and developers.

QIB (UK) embarked on two major business led projects during 2018. The first was to establish a retail savings presence in the UK and the second was to develop a mobile banking application.

We successfully launched QIB (UK) into the domestic retail savings market and are now represented on the Raisin UK savings platform and appear on the "Best Rate" charts featured by the popular savings websites. This project represented a major out-sourcing initiative for the Bank. We have purposely started in a modest fashion to ensure that all processes and procedures are robust, however we are satisfied that this channel will greatly assist our efforts to diversify and lengthen our depositor profile.

The mobile banking project that was originally scheduled for delivery late in 2018 was delayed to ensure that it incorporated the requirements of the latest Payment Services Directive (PSD 2). Completion is scheduled for Q2 2019.

2018 has been a positive year for QIB (UK)'s capital management. The balance sheet growth was achieved without the requirement for further capital and the Bank also obtained shareholder and regulatory approval to write off previously provided for legacy losses against share capital.

During 2018 there were two significant new regulations introduced; the General Data Protection Regulation (GDPR) which was adopted within the deadline of May 31st and IFRS 9 where we established a suitable expected credit loss methodology with the appropriate controls and governance.

Principal risks that the Bank will face in 2019 remain credit risk, regulatory risk and operational risk. In the current environment a key concern is cybersecurity. Although we have had no direct issues yet we are alert to the risks posed and during 2018 we carried out a specific audit assessment of IT General Controls and Data Security. A number of recommendations were made and these have been successfully implemented.

We maintain a robust risk management framework and governance structure of which further details are available in the notes to this report.

Brexit is creating high levels of political and economic uncertainty for the UK economy and real estate market in particular. This has manifested itself in falling transaction volumes, leading to increased competition for deals and a tightening of margins. As a result of these market conditions, the Bank has decided to take a prudent view and not recognise any addition to a deferred tax asset in the current year. We will review this again in 2019 provided that the political landscape becomes more certain. Despite these pressures we maintain a healthy business pipeline and continue to monitor the portfolio closely.

The Bank remains focussed on accessing reasonably priced liquidity from diversified sources. The change in interest rate expectations, prompted by the first rate rise in November 2017 and continuing with a further increase in early August 2018, has impacted our cost of funding and will continue to do so in 2019.

2018 has been a record breaking year for the Bank with net profit of £3.7m based upon a 21% increase in net operating revenues year on year and rigorous cost control. As a result the Bank's cost to income ratio fell from 73% to 62% and our return on capital improved to 7.6%. Although the political and economic uncertainty represents an unpromising business environment for 2019 we have an experienced management team and expect to deliver measured growth. 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
15th January 2019

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

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 28 for a detailed disclosure of the Bank's risk management.

Financial results

The financial statements for the year ended 31 December 2018 are shown on pages 18 to 55. The profit for the year is £3,712,860 (2017: £1,760,047).

Proposed dividend

The Directors do not propose the payment of a dividend (2017: £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

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

Gareth Howells
Secretary
15th January 2019

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 2018

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 2018.

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 2018 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 2018 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 32, 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 2018 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 (2017: £1.5m) which represents 1% (2017: 2%) of the Bank's regulatory capital ((which includes equity and subordinated debt)) (as per the capital management section of note 26).

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 £17.7 million (2017 £15.2 million). Income from fees and commissions is £1.8 million (2017 £1.4 million). Refer to the accounting policies (note 4), note 6, and note 9 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 or in accordance with how the underlying structure should be treated, and (ii) Fees and commissions can require judgment as to the amount and timing of recognition. The risk has been amended in 2018 to incorporate the consideration of IFRS 9 and IFRS 15 accounting standard adoption.	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; ➢ 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-Fend to identify potential fictitious or non-recoverable income; and ➢ Reviewing disclosures made in financial statements to ensure compliance with new IFRS 9 requirements.	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.

Credit impairments and disclosures Financing arrangements amount to £482 million (2017 £398 million) net of credit impairment provisions of £6.7 million (2017 £5 million). A charge of £2 thousand (2017 £1.7 million) was taken to the statement of comprehensive income. Refer to the strategic report (pages 3 to 4), accounting policies (note 4), and note 28 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 are incomplete, inaccurate or non-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. The risk has increased in 2018 due to first year of IFRS 9 accounting standard adoption.	Our approach focused on: ➢ Reviewing management's classification and measurement policy, and impairment policy under IFRS 9 ➢ Reviewing 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. ➢ Reviewing whether forward-looking macroeconomic indicators are taken into account once probability of default and loss given default are calculated ➢ Testing the allocations of exposures between stages 1,2 and 3. ➢ Reviewing 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; ➢ Validating opening balance sheet adjustment for first time adoption of the standard by tracing to underlying calculations. We further	Using the support of our risk modelling and technical accounting specialists, we reviewed the Bank's ECL model and judgemental overlays, 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 challenged the Directors on the application of the policy to certain overdue loans, and concur with the Directors conclusions regarding stage allocation. As a result of the procedures performed we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the credit impairment provisions and related disclosures.

	validated ratings and collateral values at origination and opening balance sheet date to support obtained at on-boarding, for a sample of exposures. ➢ Reviewing disclosures in line with new disclosure requirements.	
Recognition and valuation of deferred tax asset The recognised deferred tax asset is £1.5 million, (2017 £2.3 million) with a charge of £1 million being taken to the Statement of Comprehensive income (2017 £0.4 million). Management provided an explanation to their approach in arriving to recognised DTA amount in Note 12 of the financial statements. There is also an unrecognised deferred tax asset of £1.8 million, (2017 £1.75 million). Refer to the accounting policies (note 4) and note 12 of the financial statements. Under IFRS, a deferred tax asset shall be recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.	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, as a result of the procedures that we performed we are satisfied there is no evidence of material misstatement in the amount of the recognised deferred tax asset.

The judgmental nature of profit projections prepared by management to determine the amount of the deferred tax asset to be recognised creates a risk that the recognised deferred tax asset could be materially misstated.		
Valuation of investment property 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, (2017 credit of £1 million) being taken to the statement of comprehensive income. Refer to the strategic report (pages 3 to 4), accounting policies (note 4), and note 20 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 2018.	Our approach focused on: ➢ Reviewing 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. ➢ Reviewing the calculation performed by management using the IPD (Investment property databank) indices for obtaining the fair value of the the investment property. ➢ With support from the EY property valuation specialists, we confirmed that the management's assessment using indices and assumptions made are appropriate and consistent with valuation practice given the characteristics of the investment property.	We noted that the Directors did not obtain an external valuation of the property as at 31 December 2018, and instead relied on a prior year valuation and an analysis of property price movements from indices provided by real estate specialists. We engaged real estate valuation specialists to challenge the fair value, and noted the fair value is within a reasonable range of possible valuations. 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 (2017: £1.5m), which is 1% (2017: 2%) of the Bank's regulatory capital (as per the capital management section of note 26). We determined our materiality based on regulatory capital because the firm has only recently become 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% (2017: 75%) of our planning materiality, namely £0.6 million (£1.1 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 £39,257 (2017: £75,972) which is set at 5% (2017: 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 6 years, covering the years ending 31 December 2013 to 31 December 2018.

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

Ernst & Young LLP

Helen Joseph (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
London
15 January 2019

Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018	2017
		£	£
Income			
Income from financing activities	6	**17,726,668**	15,197,647
Income from investing activities	7	**1,143,463**	2,193,497
Returns to banks and customers	8	**(8,503,736)**	(7,241,968)
Net income from financing and investing activities		**10,366,395**	10,149,176
Fees and commissions income	9	**1,798,526**	1,378,813
Fees and commissions expense		**(57,746)**	(189,859)
Net fees and commissions income		**1,740,780**	1,188,954
Net (loss)/gain on financial assets at amortised cost		**(2,190)**	-
Net (loss)/gain on financial assets classified as AFS		**-**	(145,408)
Gain/(loss) on foreign exchange	28	**29,050**	33,803
Rental income		**283,557**	109,922
Total operating income		**12,417,592**	11,336,448
Expenses			
Personnel expenses	10	**(4,631,460)**	(4,568,984)
Depreciation and amortisation	18,19	**(762,582)**	(769,185)
Other expenses	10	**(2,262,508)**	(2,111,124)
		(7,656,550)	(7,449,293)
Profit / (loss) before provisions for impairment		**4,761,042**	3,887,155
Credit loss expense on financial assets	28	**(1,940)**	1,724,839
Profit / (loss) before taxation		**4,759,102**	2,162,316
Taxation	12	**(1,046,242)**	(402,269)
Profit / (loss) for the year		**3,712,860**	1,760,047
Other comprehensive income (that will be recycled to Profit & Loss)			
Change in fair value of AFS financial assets net of tax		**-**	140,793
Change in fair value of cash flow hedge net of tax	17	**52,600**	60,349
Other comprehensive income		**52,600**	201,142
Total comprehensive profit / (loss) for the year		**3,765,460**	1,961,189

All activities are derived from continuing operations. The notes on pages 22 to 55 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2018

	Note	2018 £	2017 restated £
Assets			
Cash and balances with banks	13	**37,016,753**	30,751,631
Financing arrangements	14	**482,374,737**	398,273,263
Financial assets at amortised cost	15	**66,832,272**	-
Financial assets available for sale	16	**-**	69,064,158
Derivative financial instruments	17	**5,371,224**	-
Property and equipment	18	**14,836,478**	15,353,959
Intangible assets	19	**11,389**	80,970
Investment property	20	**10,240,000**	10,240,000
Other assets	21	**3,651,433**	3,729,134
Deferred tax asset	12	**1,478,710**	2,274,425
Total assets		**621,812,996**	529,767,540
Liabilities			
Due to banks	22	**91,504,145**	72,566,143
Due to customers	23	**434,542,830**	366,604,600
Other liabilities	24	**17,001,377**	12,851,817
Derivative financial instruments	17	**-**	1,694,241
Subordinated Wakala	27	**15,950,000**	15,950,000
Total liabilities		**558,998,352**	469,666,801
Equity			
Share capital	26	**60,864,221**	85,807,834
Fair Value reserve on AFS financial assets	16	**-**	(457,745)
Cash flow hedge reserve		**(253,137)**	(305,737)
Retained earnings		**2,203,560**	(24,943,613)
Total equity		**62,814,644**	60,100,739
Total liabilities and equity		**621,812,996**	529,767,540

The notes on pages 22 to 55 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

Duncan Steele-Bodger
Chief Executive Officer
15th January 2019
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity
For the year ended 31 December 2018

	Share Capital	Fair Value Reserve on AFS Financial Assets	Cash Flow Hedge	Retained Earnings	Total
	£	£	£	£	£
Balance at 1 January 2017	79,557,834	(598,538)	(366,086)	(26,703,660)	51,889,550
Share issuance	6,250,000	-	-	-	6,250,000
Change in fair value of AFS financial assets net of tax	-	140,793	-	-	140,793
Changes in fair value of cash flow hedge foreign exchange	-	-	60,349	-	60,349
Profit for the year after tax	-	-	-	1,760,047	1,760,047
Balance at 31 December 2017	**85,807,834**	**(457,745)**	**(305,737)**	**(24,943,613)**	**60,100,739**
Balance at 1 January 2018	85,807,834	(457,745)	(305,737)	(24,943,613)	60,100,739
IFRS 9 ECL Allowance	-	-	-	(1,808,946)	(1,808,946)
Movement in Deferred tax related to AFS reserve	-	(49,121)	-	49,121	-
Reclassification of AFS financial assets to amortised cost under IFRS 9	-	506,866	-	-	506,866
Changes in Deferred Tax	-	-	-	250,528	250,528
Restated opening balance under IFRS 9	85,807,834	-	(305,737)	(26,452,913)	59,049,184
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)**	**2,203,560**	**62,814,644**

The notes on pages 22 to 55 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2018

	Note	**2018** **£**	2017 £
Cash flows from operating activities			
Profit / (Loss) for the year		**3,712,860**	1,760,047
Adjustments for:			
Depreciation	*18*	**688,272**	637,431
Amortisation	*19*	**74,311**	131,754
Fair Value on Building	*20*	**-**	(1,063,929)
Taxation	*12*	**1,046,242**	402,269
ECL Loss allowance and write-offs		**(37,271)**	2,246,642
(Increase)/decrease in amounts due from banks		**-**	90,861,366
(Increase)/decrease in financing arrangements		**(85,674,969)**	(110,257,569)
(Increase)/decrease in Impairment on financing arrangements		**(87,867)**	-
(Increase)/decrease in other assets		**77,700**	(696,030)
Increase/(decrease) in amounts due to banks		**18,938,002**	23,127,632
Increase/(decrease) in amounts due to customers		**67,938,230**	(21,773,283)
Increase/(decrease) in other liabilities		**4,059,147**	1,823,046
(Increase)/decrease in financial assets at amortised cost		**2,771,857**	2,422,970
(Increase)/decrease in financial assets available for sale		**-**	8,822,231
(Increase)/decrease in derivative financial instruments		**(7,065,464)**	9,821,270
Net cash inflow / (outflow) from operating activities		**6,441,050**	8,265,847
Cash flows from investing activities			
Purchase of property and equipment	*18*	**(170,791)**	(164,480)
Purchase of intangible assets	*19*	**(4,729)**	(12,182)
Net cash outflow from investing activities		**(175,520)**	(176,662)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	*26*	**-**	6,250,000
Proceeds from subordinated Wakala	*27*	**-**	(250,000)
Net cash inflow from financing activities		**-**	6,000,000
Net increase / (decrease) in cash and cash equivalents		**6,265, 530**	14,089,185
Cash and cash equivalents at start of year		**30,751,631**	16,662,446
Cash and cash equivalents at end of year	*12*	**37,017,161**	30,751,631

The notes on pages 22 to 55 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 15th January 2019.

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 which is 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:

Provisions for impairment of financial assets

The measurement of impairment losses under both IFRS 9 and IAS 39 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.

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

a. New standards adopted

In these financial statements, the Bank has applied IFRS 9, effective for annual periods beginning on or after 1 January 2018, for the first time.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. The comparative information for 2017 is therefore reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in note 5.

Changes to classification and measurement

IFRS 9 requires all financial assets, except derivatives and equity instruments, to be classified and measured based on an assessment of the entity's business model for managing the assets and of their contractual cash flow characteristics.

The IAS 39 measurement categories have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled through to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses on derecognition
- Financial assets at fair value through profit or loss (FVPL)

The Bank's classification of its financial assets is explained in note 4b. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 5.

Changes to the impairment calculation

IFRS 9 has replaced IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. It requires the Bank to record an ECL allowance for all loans and other debt financial assets not held at FVPL and for loan commitments. The allowance is based on the ECLs associated with the probability of default in the next twelve months, unless there has been a significant increase in credit risk since origination, in which base it is based on the lifetime of the asset.

The Bank's impairment method is explained in note 28.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' outlines the principles an entity must apply to measure and recognise revenue. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard requires an entity to recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank has adopted IFRS 15 as of 1 January 2018. Based on the revenue streams, the Bank has assessed that there is no material change.

b. New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16, 'Leases' requires lessees to recognise new 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. This standard will not have a material impact for the Bank.

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

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

From 1 January 2018, 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
FVOCI
FVPL

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 cashflows of an asset gives rise to payments on specified dates that are solely payment of principal and profit on the principal amount outstanding.

Before 1 January 2018, the Bank classified its financial assets such as financing facilities, investments and receivables at amortised cost.

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.

These have been reclassified from Financial Assets Available for Sale (AFS) to amortised cost under IFRS 9.

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.

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.

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

On transition to IFRS 9, financial assets have been reviewed and classified according to the Bank's accounting policies set out in note (b) above. The application of this policy has resulted in the reclassification of Sukuk investments from AFS under IAS 39, to Amortised Cost under IFRS 9.

On the adoption of IFRS 9, the carrying amount of these assets was adjusted so that their amortised cost under IFRS 9 was as if those Sukuk were accounted at amortised cost from the date that they were purchased.

From 1 January 2018, 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.

IAS 39 policies can be found in the 2017 financial statements.

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

IFRS 9 has changed the Bank's facility impairment method by replacing IAS 39's incurred loss approach with a forward looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financial assets and other debt financial assets not held at FVPL, together with financing commitments.

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
- FTV breach monitoring
- 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 profit 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 profit 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 profit 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 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 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.

h. 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.

i. 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.

j. 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 2018, 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

k. 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.

l. 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

m. 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.

n. 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.

o. Cash and cash equivalents

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

p. Other receivables

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

q. Lease payments made

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

r. 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. Transition Disclosures

The following table sets out the impact of adopting IFRS 9 on the statement of financial position as of 1 January 2018:

In £	IAS 39 measurement		Re-	Remeasurement		IFRS 9	
Financial Assets	Category	Amount	classification	ECL	Other	Amount	Category
Cash and balances with banks	L&R	30,751,631	-	(426)	-	30,751,205	AC
Due from banks	L&R	-	-	-	-	-	AC
Financing arrangements	L&R	398,273,263	-	(1,663,323)	-	396,609,940	AC/FVPL
Debt Instruments at amortised cost		-	69,064,158	(16,758)	506,866	69,554,267	AC
	L&R	429,024,895	69,064,158	(1,680,507)	506,866	496,915,412	
Financial Investments - AFS		69,064,158	(69,064,158)			-	
Non -financial assets		29,404,062	-	-	-	29,404,062	
Deferred tax assets		2,274,425	-	-	250,525	2,274,425	
Total assets		529,767,540			757,391	528,593,899	

In £	IAS 39 measurement		Re-	Remeasurement		IFRS 9	
Financial Liabilities	Category	Amount	classification	ECL	Other	Amount	Category
Due to banks	AC	72,566,143		-	-	72,566,143	AC
Due to customers	AC	366,604,600	-	-	-	366,604,600	AC
Subordinated loan	AC	15,950,000	-	-	-	15,950,000	AC
Derivative financial instruments	FVPL	1,694,241	-	-	-	1,694,241	FVPL
Other liabilities		12,851,817	-	128,439	-	12,980,256	
Total liabilities		469,666,801	-	128,439	-	469,795,240	

In £	IAS 39 measurement		Re-	Remeasurement		IFRS 9	
Equity	Category	Amount	classification	ECL	Other	Amount	Category
Share Capital		85,807,834	-	-	-	85,807,834	
Fair Value Reserve on AFS financial assets		(457,745)	-	-	457,745	0	
Cash flow hedge reserve		(305,737)	-	-	-	(305,737)	
Retained deficit		(24,943,613)	-	(1,808,946)	299,646	(26,452,913)	
Total equity		60,100,739	-	(1,808,946)	757,391	59,049,184	
Total liabilities and equity		529,767,540	-	(1,680,507)	757,391	528,844,424	

The Bank has adopted IFRS 15 as of 1 January 2018. Based on the revenue streams, the Bank has assessed that there is no material change.

6. Income from financing activities

Income from	**2018** £	2017 £
Banks		
Murabaha placements	**-**	1,288,298
Wakala placements	**36,119**	5,243
Financing arrangements		
Murabaha financing	**17,633,741**	13,687,568
Musharaka financing	**56,808**	216,538
Total income from financing activities	**17,726,668**	15,197,647

7. Income from investing activities

	2018	2017
	£	£
Returns on investments	**1,143,463**	1,129,568
Fair Value adjustment on investment property	-	1,063,929
Total income from investing activities	**1,143,463**	2,193,497

8. Returns to banks and customers

	2018	2017
	£	£
Murabaha deposits	**96,878**	402,610
Wakala deposits	**5,517,786**	4,520,037
Notice accounts	**1,972,447**	1,913,985
Instant access savings accounts	**54,758**	12,583
Subordinated Wakala & Others returns	**861,867**	392,752
Total returns to banks and customers	**8,503,736**	7,241,968

9. Fees and commissions income

	2018	2017
	£	£
Property financing fees	**1,492,235**	1,111,637
Other fee income	**306,292**	267,176
Total fees and commissions income	**1,798,526**	1,378,813

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.

10. Personnel expenses

	2018	2017
	£	£
Directors' emoluments and fees	**674,750**	657,963
Wages and salaries	**3,074,248**	3,001,100
Social security costs	**453,061**	451,277
Pension contributions	**274,786**	295,888
Other staff costs	**154,615**	162,756
Total personnel expenses	**4,631,460**	4,568,984

The aggregate of the emoluments in 2018 of the highest paid Director was £367,000 (2017: £319,500) and Company pension contributions of £nil (2017: £nil) were made on their behalf.

The value of services performed by three Doha directors was estimated by the Board as £75,000 (2017: £75,000). This amount was not recharged to the Bank.

The number of employees at the end of the year was 38 (2017: 36) and the average number throughout the year was 37 (2017: 37).

Other expenses

	2018 £	2017 £
Other Staff Related Costs	**158,837**	159,609
IT Expenses	**542,029**	542,604
General and Admistrative costs	**1,561,642**	1,409,110
Total Other expenses	**2,262,508**	2,111,124

11. Profit / (loss) before taxation

Profit / (loss) before taxation is stated after charging:	2018 £	2017 £
Auditor's remuneration		
Fees payable to Bank's auditor for the audit of financial statements	**142,000**	117,000
Fees payable to Bank's auditor for other services:		
– other services pursuant to legislation	**6,000**	6,000
– other services	**20,750**	20,750
	168,750	143,750

12. Taxation

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

	2018 £	2017 £
Current tax expense / (credit) for period 19% (2017: 19.25%)	**38,368**	(28,771)
Deferred tax expense / (credit) relating to:		
Origination and reversal of temporary differences	**990,059**	394,761
Effect of tax rate change	**(3,732)**	10,398
Prior year adjustment	**21,547**	25,881
Total tax expense	**1,046,242**	402,269

(ii) Reconciliation of the total tax credit

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

	2018 £	2017 £
(Loss) / profit before tax	**4,759,101**	2,162,316
At standard rate of UK corporation tax of 19% (2017: 19.25%)	**904,229**	416,246
Effects of:		
Non-deductible expenses	**110,153**	106,942
Effect of tax rate change	**(3,732)**	10,398
Deferred tax prior year adjustment	**21,547**	25,881
Movement in unrecognised Deferred tax asset	**14,045**	(157,198)
Total tax expense	**1,046,242**	402,269

(iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 17.7% (2017: 18.2%). 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.

	2018	2017
	£	£
Deferred tax asset as at 1 January	**(2,274,425)**	(2,696,072)
Expensed to the Statement of Comprehensive Income	**990,059**	394,761
Credit to Other Comprehensive Income/ Reserves	**(212,159)**	(9,393)
Effect of rate change	**(3,732)**	10,398
Prior year adjustment	**21,547**	25,881
Deferred tax asset as at 31 December	**(1,478,711)**	(2,274,425)

The deferred tax asset can be analysed as follows:

Decelerating capital allowances	**72,508**	40,093
Other timing differences	**(147,320)**	64,840
Tax losses carried forward	**(1,403,899)**	(2,379,358)
	(1,478,711)	(2,274,425)

The Bank utilised tax losses of £5,110,723 in the period.

The recognition of a deferred tax asset of £1,478,711 (net) as at 31 December 2018 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 £10,406,059, net £ 1,769,030 (2017: £10,327,627, net £1,755,697) arising on tax losses. This represents a portion of the overall tax losses on which a deferred tax asset cannot be recognised due to insufficient evidence of future expected taxable profits.
On 1 April 2015, the UK Government introduced legislation in the Finance (No. 2) Act 2015, which restricts the proportion of banks' annual taxable profit that can be offset by certain carried forward tax losses. The restriction applies to relevant tax losses arising prior to this date. Tax losses arising in the first 5 years of the bank commencing a banking activity, as well as tax losses arising in an accounting period prior to the one in which the company began undertaking a banking activity, are not included within the restriction. A further restriction to 25% on the amount of taxable profits that can be relieved by brought forward losses was enacted on 15 September 2016 through Finance Act 2016 and took effect from 1 April 2016. The Bank has assessed and included the impact of these regulations on the tax charge and closing deferred tax balances. As a result of uncertain market conditions, the Bank has decided to take a prudent view and not recognise any addition to a deferred tax asset in the current year.

13. Cash and balances with banks

	2018	2017
	£	£
Cash	**470,485**	440,967
On demand bank deposits	**36,546,676**	30,310,664
Less: Allowance for impairment losses	**(408)**	-
Total cash and balances with banks	**37,016,753**	30,751,631

14. Financing arrangements

	2018 £	2017 £
Murabaha financing	**486,587,450**	400,687,285
Musharaka financing	**1,375,000**	1,375,000
Mudaraba financing	**932,298**	973,548
Ijara financing	**-**	172,495
Other financing	**50,499**	61,949
Less: Allowance for impairment losses	**(6,570,510)**	(4,997,014)
Total financing arrangements	**482,374,737**	398,273,263

15. Financial assets held at amortised cost

	2018 £	2017 £
Investment in Sukuk	**66,851,765**	-
Less: Allowance for impairment losses	**(19,493)**	-
Total financial assets held at amortised cost	**66,832,272**	-

On transition to IFRS 9, financial assets have been reviewed and classified according to the Bank's accounting policies set out in note 4(b) above. The application of this policy has resulted in the reclassification of Sukuk investments from AFS under IAS 39, to Amortised Cost under IFRS 9. On the adoption of IFRS 9, the carrying amount of these assets was adjusted so that their amortised cost under IFRS 9 was as if those Sukuk were accounted at amortised cost from the date that they were purchased.

16. Financial assets available for sale

	2018 £	2017 £
Value of financial assets available for sale (AFS) as at 1 January	**69,064,158**	77,665,869
Net additions / (disposals) in AFS	**-**	(8,761,883)
Increase / (decrease) in fair value of AFS	**-**	160,172
IFRS 9 reclassification to amortised cost	**(69,064,158)**	-
Value of financial assets available for sale as at 31 December	**-**	69,064,158

As per notes 5 and 15, in 2018 the Bank has reclassified all financial assets available for sale to financial assets at amortised cost in line with IFRS 9. The movement in AFS reserve in the year was a result of this reclassification.

17. Derivative financial instruments

	2018 £	2017 £
Gain on fair value of forward foreign exchange contracts	**5,728,697**	316,342
Loss on fair value of forward foreign exchange contracts	**(357,473)**	(2,010,583)
Total derivative financial instruments	**5,371,224**	(1,694,241)

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 £5,371,224 represents an aggregate net position of £5,728,697 gains netted against £357,473 losses. 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 £253,137 (2017: loss of £305,737).

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 £29,050 (2017: £33,803 net gain). This is the outcome of the ineffective hedging portion and this net position is arising out of a FX total gain of £6,410,031 (2017: £8,982,324) of the hedging instruments and total loss of £6,380,981 (2017: 8,948,521) of hedged items. The total nominal value of the derivatives as at year-end was £141m (2017: £106m). 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:

Derivative financial instruments at Nominal value (31 December)

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
2018	81,077,684	6,344,949	53,179,735	-	-	**140,602,368**
2017	18,948,294	2,883,837	83,820,024	-	-	**105,652,155**

18. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment/ Fixed Assets in Progress	Total
	£	£	£	£	£
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**
Cost:					
Balance at 1 January 2017	14,269,334	401,626	3,090,056	844,452	18,605,468
Additions	-	31,258	-	133,222	164,480
Balance at 31 December 2017	14,269,334	432,884	3,090,056	977,675	18,769,948
Depreciation:					
Balance at 1 January 2017	(572,438)	(378,278)	(1,291,426)	(536,416)	(2,778,558)
Depreciation charge for the year	(284,528)	(26,747)	(224,170)	(101,986)	(637,431)
Balance at 31 December 2017	(856,966)	(405,025)	(1,515,596)	(638,402)	(3,415,989)
Net book value at 31 December 2017	**13,412,368**	**27,859**	**1,574,460**	**339,273**	**15,353,959**

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 20.

19. Intangible assets

	Computer Software	Computer Licenses	Total
	£	£	£
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**

Cost:			
Balance at 1 January 2017	1,162,077	464,145	1,626,222
Additions	-	12,182	12,182
Balance at 31 December 2017	1,162,077	476,327	1,638,404
Amortisation:			
Balance at 1 January 2017	(967,299)	(458,381)	(1,425,680)
Amortisation charge for the year	(123,938)	(7,816)	(131,754)
Balance at 31 December 2017	(1,091,237)	(466,197)	(1,557,434)
Net book value at 31 December 2017	**70,840**	**10,130**	**80,970**

20. Investment property

	£
Balance at 1 January 2018	10,240,000
Fair Value adjustment	-
Balance at 31 December 2018	10,240,000

CBRE Limited valued the building during October 2017 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.

In 2018 the Investment Property Databank (IPD) Index for London Office Mid-Town & West End was used to assess the fair value. The 2018 adjustment was 1.81%, which would give rise to a fair value gain adjustment of £185,345. The Bank has not recognised this and maintained the fair value at £10,240,000.

This valuation represents level 2 in the fair value hierarchy described in note 29.

21. Other assets

	2018	2017
	£	£
Income receivable	**2,960,973**	2,723,447
Fees receivable	**242,954**	444,205
VAT recoverable	**47,402**	47,077
Prepayments	**185,599**	216,559
Other receivables	**214,505**	297,846
Total other assets	**3,651,433**	3,729,134

22. Due to banks

	2018	2017
	£	£
Demand	**105,564**	102,862
Murabaha deposits	**10,151,921**	4,928,170
Wakala deposits	**81,246,660**	67,535,111
Total due to banks	**91,504,145**	72,566,143

23. Due to customers

	2018 £	2017 £
Demand	**44,946,398**	34,680,179
Notice	**112,844,276**	113,403,240
Murabaha Deposits	**85,189**	-
Wakala Deposits	**276,666,967**	218,521,181
Total due to customers	**434,542,830**	366,604,600

24. Other liabilities

	2018 £	2017 £
Returns payable	**12,600,030**	8,898,832
Accruals	**1,389,000**	1,069,535
Trade payables	**84,178**	69,727
Social security and income tax	**128,756**	122,549
Deferred Income	**2,681,064**	2,514,963
Allowance for impairment losses on undrawn commitments	**90,411**	-
Other payables	**27,938**	176,211
Total other liabilities	**17,001,377**	12,851,817

25. Commitments under operating lease

A long-term operating lease was signed during 2017 in relation to an IT rental lease with an annual rental of £23,620. The following shows the total future minimum lease payments under this non-cancellable operating lease:

	2018 £	2017 £
Not later than one year	**23,620**	23,620
Later than one year and not later than five years	**53,145**	76,765
	76,765	100,385

During the year £23,817 (2017: £13,983) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

26. Share capital

	2018 £	2017 £
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**	85,807,834

The Bank has CRR permission under article 77 and 78 to restructure its capital by cancelling £1 shares to offset against legacy retained losses from 2007 to 2017. The Bank's application to reduce the share capital by £24,943,613 was approved in the High Court of Justice on 20 November 2018.

27. 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 2018 there was an outstanding subordinated Wakala balance payable to QIB Doha of £15,950,000 (2017: £15,950,000).

Total subordinated Wakala returns due to QIB Doha in the year were £861,867 (2017: £392,752) and returns of £308,388 (2017: £110,141) were payable as at the end of the year.

Bank lines
As at 31 December 2018, the Bank had £58,600,000 (2017: £110,950,000) of agreed inter-bank funding lines and £60,000,000 (2017: £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 2018, total demand deposits due to QIB Doha were £105,564 (2017: £102,862).

QIB Doha also entered into Wakala deposit transactions with the Bank on an arm's length basis. As at 31 December, total deposits from QIB Doha were £32,650,000 (2017: £44,195,906). Total returns due to QIB Doha in the year were £297,429 (2017: £274,561) and returns of £56,457 (2017: £24,949) were payable as at the end of the year.

QInvest entered into Wakala deposit transactions with the Bank on an arm's length basis. As at 31 December, total deposits from QInvest were £11,718,750 (2017: £nil). Total returns due to QInvest in the year were £222,429 (2017: £32,602) and returns of £11,339 (2017: £nil) were payable as at the end of the year.

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 2018, the Bank had a balance of £40,642 with QIB Doha (2017: £39,161)

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, the guarantee fees charged to the statement of comprehensive income are £22,750 (2017: £167,102). The amount outstanding as at 31 December 2018 is £2,650,151 (2017: £2,509,297).

Financing arrangements
As at 31 December 2018, financing arrangements included a balance of £6,000,000 (2017: £6,000,000) and other assets of £35,869 (2017: £33,606) 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 £221,007 (2017: £201,116).

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

	2018	2017
	£	£
Emoluments including social security costs	**1,646,487**	1,555,196
Company contributions to pension plans	**90,058**	92,954
	1,736,545	1,648,150

28. Financial risk management

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

- Capital adequacy
- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Profit rate risk
- Shari'a compliance risk
- This note presents information about the Bank's exposure to each of these risks; and its objectives, policies and processes for identifying, mitigating, managing and reporting them.

Risk management framework

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

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

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

Elements of the framework are detailed further below:

Governance structure

QIB (UK) Board

The QIB (UK) Board ('the Board') is the statutory board of directors of 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 department and internal and external auditors are competent and provided with appropriate resource in the discharge of their duties
e) an integrated system of planning and budgeting is established to ensure that the 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 its skill set is appropriate to current and future business requirements.

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

The Board has established a governance framework of board sub-committees and management committees to ensure the sound management of the Bank. These committees are depicted below.

The Board approves financing and investment proposals and corporate facilities above the sub-committees' and sub-management committees' delegated authority in accordance with the agreed delegated credit authority limit structure.

Shari'a Supervisory Board ("SSB")

The SSB reviews 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. The guidance of the SSB prevents the Bank from taking risks outside an important facet of its risk appetite, that of compliance with Shari'a.

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

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

Board Audit & Risk Committee ("ARC")
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.

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

Executive Management Committee ("ManCo")
Drawn from the executives of the Bank, ManCo is responsible for the operational oversight and management of the Bank.

Under the leadership of the Chief Executive Officer ("CEO"), ManCo is the principal forum for conducting the business of the Bank and is responsible for the efficient and controlled operation of the business within the limits of the strategy, budgets and mandates approved by the Board.
ManCo has specific delegated authority for the establishment, approval and periodic review of all policies and procedures adopted by the Bank as part of the risk management and control framework.

Sub-management committees
ManCo has three sub-management committees:
- Risk Management Committee
- Asset & Liability Committee
- Product and Pricing Committee

Their roles and responsibilities 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")
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.

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. 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.

Capital management

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

- Tier 1 capital, which includes ordinary share capital and retained earnings
- Tier 2 capital, which includes qualifying subordinated 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 the risk of financial loss to the Bank if a customer or counterparty is unable to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements.

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

Management of credit risk

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

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 committee.
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and actioning, as appropriate, any non-performing credits
- monitoring ongoing adherence to country and counterparty limits

The credit limit structure forms part of the Credit & Investment Policy and associated Risk Appetite Statement, something that 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, Audit & Risk Committee (ARC) or the Board itself.

RMC is responsible for the formal assessment of any new exposures. Business lines submit credit approval requests to the Risk Management department using the standardised QIB (UK) Credit Application Template.

The Risk Manager undertakes an initial credit analysis and submits the analysis with the request to RMC for consideration and approval sign-off.

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.

Credit risk exposures as at 31 December are shown below.

	2018	2017
	£	£
Balances with banks	**36,546,268**	30,310,665
Other financing	**22,167**	53,822
Murabaha financing	**483,546,216**	399,103,595
Musharaka financing	**1,384,806**	1,383,938
Financial assets available for sale	**-**	69,064,158
Financial assets at amortised cost	**66,832,272**	-
Total	**588,331,729**	499,916,178
Off Balance sheet:		
Undrawn commitments	**10,354,126**	13,818,622
Total	**10,354,126**	13,818,622
Total Credit Risk	**598,685,855**	513,734,800

The credit exposures shown above are the maximum credit exposure and gross before 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 credit exposure, showing 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	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 available for sale	-	-	-	-	-
Financial assets at amortised cost	-	64,503,811	-	2,328,461	66,832,272
31 December 2018	**510,887,197**	**64,544,452**	**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**
Balances with banks	15,403,126	44,161	14,863,378	-	30,310,665
Other financing	53,822	-	-	-	53,822
Murabaha financing	398,880,614	222,981	-	-	399,103,595
Musharaka financing	1,383,938	-	-	-	1,383,938
Financial assets available for sale	1,484,451	67,579,707	-	-	69,064,158
Financial assets at amortised cost	-	-	-	-	-
31 December 2017	**417,205,951**	**67,846,849**	**14,863,378**	**-**	**499,916,178**
Off Balance sheet:					
Undrawn commitments	13,818,622	-	-	-	13,818,622
31 December 2017	**13,818,622**	**-**	**-**	**-**	**13,818,622**
Total	**531,024,573**	**67,846,849**	**14,863,378**	**-**	**513,734,800**

Industry sectors:

	Banks	Individuals	Real Estate	Corporates	Other	Total
	£	£	£	£	£	£
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 available for sale	-	-	-	-	-	-
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**	**3,993,357**	**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**
Balances with banks	30,310,665	-	-	-	-	30,310,665
Other financing	-	53,822	-	-	-	53,822
Murabaha financing	-	-	397,442,561	-	1,661,034	399,103,595
Musharaka financing	-	-	1,383,938	-	-	1,383,938
Financial assets available for sale	44,518,630	-	-	5,338,207	19,207,321	69,064,158
Financial assets at amortised cost	-	-	-	-	-	-
31 December 2017	**74,829,295**	**53,822**	**398,826,499**	**5,338,207**	**20,868,355**	**499,916,178**
Off Balance sheet:						
Undrawn commitments	-	570,500	13,248,122	-	-	13,818,622
31 December 2017	**-**	**570,500**	**13,248,122**	**-**	**-**	**13,818,622**
Total	**74,829,295**	**624,322**	**412,074,621**	**5,338,207**	**20,868,355**	**513,734,800**

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.

Credit quality 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, to determine internal risk ratings which 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.

The Bank continuously monitors all financial assets in order to determine whether there has been a significant increase in credit risk since initial recognition. The Bank assesses this based on key indicators such as:

- 2 notch adverse movement in internal risk rating
- Contractual payments 60 days past due
- Adverse market changes in collateral value
- Covenant breaches
- FTV breach monitoring
- Drop in external ratings
- Annual review

During the year, the Bank incurred a credit loss expense on financial assets of £1,940 (2017: £1,724,839).

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

Total provisions brought forward	**4,997,014**
Reclassification to Stage 3 ECL loss allowance	4,997,014
Day 1 ECL loss allowances	1,808,946
Total Day 1 ECL loss allowance	**6,805,960**
Additional ECL loss allowances	89,807
Stage 3 recoveries	(87,867)
Stage 3 write-offs	(127,078)
Total 2018 ECL loss allowance	**6,680,822**

Three collateralised Murabaha financings, with a gross carrying amount totaling £4,961,747, transferred from Stage 1 to Stage 2 in the year. As a consequence, the ECL loss allowance increased by a total of £476,386. During the year there was credit of £386,579 on ECL within stage 1.

Credit Quality

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	£	£	£	£	£
Balances with banks					
Gross carrying amount	36,546,676	-	-	36,546,676	30,310,665
ECL allowance	(408)	-	-	(408)	-
Total balances with banks	36,546,268	-	-	36,546,268	30,310,665
Due from banks					
Gross carrying amount	-	-	-	-	-
ECL allowance	-	-	-	-	-
Total due from banks	-	-	-	-	-
Financing Arrangements					
Gross carrying amount	479,180,025	4,961,747	4,803,475	488,945,247	403,270,277
ECL allowance	(1,289,498)	(477,537)	(4,803,475)	(6,570,510)	(4,997,014)
Total financing arrangements	477,890,527	4,484,210	-	482,374,737	398,273,263
Financial assets at amortised cost					
Gross carrying amount	66,851,765	-	-	66,851,765	-
ECL allowance	(19,493)	-	-	(19,493)	-
Total financial assets at amortised cost	66,832,272	-	-	66,832,272	-
Financial assets available for sale					
Gross carrying amount	-	-	-	-	69,064,158
ECL allowance	-	-	-	-	-
Total financial assets available for sale	-	-	-	-	69,064,158
Undrawn Commitments					
Gross carrying amount	10,354,126	-	-	10,354,126	10,354,126
ECL allowance	(90,411)	-	-	(90,411)	-
Total financial assets available for sale	10,263,715	-	-	10,263,715	10,354,126

	Investment Grade	Standard Monitoring	Special Monitoring	Total
	£	£	£	£
Balances with banks	36,546,268	-	-	36,546,268
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 available for sale	-	-	-	-
Financial assets at amortised cost	66,832,272	-	-	66,832,272
31 December 2018	**553,250,141**	**35,059,420**	**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**
Balances with banks	30,310,665	-	-	30,310,665
Other financing	-	-	53,822	53,822
Murabaha financing	348,787,140	50,316,455	-	399,103,595
Musharaka financing	1,383,938	-	-	1,383,938
Financial assets available for sale	67,579,707	1,484,451	-	69,064,158
Financial assets at amortised cost	-	-	-	-
31 December 2017	**448,061,450**	**51,800,906**	**53,822**	**499,916,178**
Off Balance sheet:				
Undrawn commitments	3,460,500	10,358,122	-	13,818,622
31 December 2017	**3,460,500**	**10,358,122**	**-**	**13,818,622**
Total	**451,521,950**	**62,159,028**	**53,822**	**513,734,800**

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 2018, 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 £932,298 (2017: £973,548). The total impairment provision against this asset as at 31 December is £932,298 (2017: £973,548).

2) A UK corporate with a total Murabaha financing amount due of £3,842,843 (2017: £3,842,843). The total impairment provision against this asset as at 31 December is £3,842,843 (2017: £3,842,843).

3) A UK individual with a total Qard Hasan financing amount due of £21,405 (2017: £22,155). The total impairment provision against this asset as at 31 December is £21,405 (2017: £nil).

4) A UK individual with a total Qard Hasan financing amount due of £6,927 (2017: £8,127). The total impairment provision against this asset as at 31 December is £6,927 (2017: £8,127).

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.

	2018		2017	
	Exposure	**Collateral**	Exposure	Collateral
	£	**£**	**£**	**£**
Balances with banks	36,546,268	36,546,268	30,310,665	30,310,665
Other financing	22,167	-	53,822	-
Murabaha financing	483,546,216	878,457,324	399,103,595	663,955,809
Musharaka financing	1,384,806	2,125,000	1,383,938	2,125,000
Financial assets available for sale	-	-	69,064,158	69,064,158
Financial assets at amortised cost	66,832,272	-	-	-
Total Credit Risk	**588,331,729**	**917,128,592**	**499,916,178**	**765,455,632**

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 across different currencies arising from its financial instruments:

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Cash and balances 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
Financial assets available for sale	-	-	-	-	-	-
Derivative financial instruments	5,291,356	79,868	-	-	-	5,371,224
Other assets	354,714	-	29,863,296	-	-	30,218,009
31 December 2018	83,089,024	862,613	537,850,011	1,579	9,767	621,812,996
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	219,522,592	5,715,823	333,806,446	-	-	559,044,862
Net on balance sheet financial position	(136,433,568)	(4,853,210)	204,043,564	1,579	9,767	62,768,134
Forward foreign exchange contracts	141,597,754	4,913,260	-	-	-	146,511,014
Assets						
Cash and balances with banks	14,918,858	2,009,203	13,812,361	2,383	8,826	30,751,631
Financing arrangements	-	-	398,273,263	-	-	398,273,263
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets available for sale	69,064,158	-	-	-	-	69,064,158
Derivative financial instruments	(2,009,687)	2,965	312,481	-	-	(1,694,241)
Other assets	449,365	-	31,229,123	-	-	31,678,488
31 December 2017	82,422,694	2,012,168	443,627,228	2,383	8,826	528,073,299
Liabilities						
Due to banks	36,021,008	913,526	35,631,609	-	-	72,566,143
Due to other financial institutions	12,705,142	1,953,596	41,170,001	-	-	55,828,739
Due to customers	107,488,141	932,301	202,355,419	-	-	310,775,861
Subordinated Loan	-	-	15,950,000	-	-	15,950,000
Other Liabilities	3,205,265	285	9,646,267	-	-	12,851,817
Reserves	(506,866)	-	(256,616)	-	-	(763,482)
31 December 2017	158,912,690	3,799,708	304,496,680	-	-	467,209,078
Net on balance sheet financial position	(76,489,996)	(1,787,540)	139,130,548	2,383	8,826	60,864,221
Forward foreign exchange contracts	74,342,568	1,774,240	-	-	-	76,116,808

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible, and as at 31 December 2018, held a £29,050 net gain from FX hedges (2017: £33,803 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.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations due from its financial liabilities. Managing Liquidity risk is primarily the responsibility of Treasury and 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. Finance monitors liquidity on a daily basis by calculating the liquid assets buffer (LAB) requirement using the Liquidity Coverage Ratio (LCR). RMC also has oversight of liquidity risk with the risk report including key elements of liquidity risk.

Following the successful launch of the new on-line Retail funding product, the Bank now has access to the mainstream UK Retail market. Since launch in October 2018, the infrastructure supporting the product, both in the outsourced supplier and internally within QIB (UK) have been tested and proven.

Details of the Bank's net liquid assets are summarised in the table on the following page 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 balances 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	-	-	-	-	-	-
Derivative financial instruments	2,839,549	131,340	2,400,335	-	-	5,371,224
Other assets	2,551,692	-	-	25,087,866	-	27,639,558
31 December 2018	109,240,267	19,650,350	41,068,221	374,824,520	77,029,639	621,812,996
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	(61,125,001)	(63,795,604)	(255,311,996)	363,520,244	55,357,422	38,645,066
Assets						
Cash and balances with banks	30,751,631	-	-	-	-	30,751,631
Due from banks	-	-	-	-	-	-
Financing arrangements	11,655,386	5,216,441	22,942,985	283,031,702	77,694,841	400,541,355
Financial assets held to maturity	-	-	-	-	-	-
Financial assets available for sale	69,064,158	-	-	-	-	69,064,158
Derivative financial instruments	(470,190)	(151,156)	(1,072,895)	-	-	(1,694,241)
Other assets	3,735,467	-	-	25,674,929	-	29,410,396
31 December 2017	114,736,453	5,065,285	21,870,090	308,706,631	77,694,841	528,073,299
	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-
Due to banks	29,161,398	36,789,026	5,629,532	-	-	71,579,956
Due to other financial institutions	3,162,631	6,620,253	45,888,180	-	-	55,671,063
Due to customers	74,365,583	11,657,300	222,587,937	-	-	308,610,820
Subordinated loan	28,350	53,956	251,490	1,336,100	18,012,116	19,682,012
Other liabilities	-	-	6,529,569	-	-	6,529,569
Reserves	(763,482)	-	-	-	-	(763,482)
31 December 2017	105,954,479	55,120,534	280,886,709	1,336,100	18,012,116	461,309,937
	13,818,622	-	-	-	-	13,818,622
Difference	(5,036,648)	(50,055,249)	(259,016,619)	307,370,531	59,682,725	52,944,741

Liabilities arising from funding activities

	Balances as at 1 January 2018	Cashflows	Balances as at 31 December 2018
	£	£	£
Due to Banks	72,566,143	18,938,002	91,504,145
Due to customers	366,604,600	67,938,230	434,542,830
Subordinated Loan	15,950,000	0	15,950,000
Total liabilities arising from financing activities	**455,120,743**	**86,876,232**	**541,996,975**

Profit rate risk (non-trading book)

The majority of the real estate financed portfolio is priced on a LIBOR plus basis with quarterly repricing. Therefore any increase in cost of funds resulting from an increase in LIBOR is expected to be passed on to customers, resulting in a minimal impact when considering the following risk mitigants:

- A material proportion of the real estate portfolio is provided to High Net Worth Individuals (HNWI) who have significant wider income and asset streams to absorb profit rate increases.

- Cases are assessed on a case by case basis using prudent profit rate assumptions, with buy to let / Residential Investment typically having a blocked deposit account (holding 6 months profit costs as a contingency) providing additional comfort.

From a liability perspective, following the withdrawal of a large fixed rate deposit during 2016, the remaining deposits are structured on a floating rate basis.

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.

	2018	2017
Parallel rate shock risk		
• ±2% rate shock	**£1,903,332**	£1,845,335
• Impact on regulatory capital	**(2.4%)**	(2.5%)

Operational risk

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

The Bank's objective in managing operational risk is to implement an integrated internal control and operating infrastructure that supports process efficiency and customer needs, whilst effectively reducing the risk of error and financial loss in a cost effective manner. The overall operational risk framework is set by the Board 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 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 assurance functions, namely Internal Audit. They are responsible for checking and reporting compliance with Regulatory requirements and internal policies

There is a detailed Bank risk register maintained which provides details on the top and medium priority risks derived from internal audit reviews, incident reports, risk control self-assessment results (where residual risk is considered medium or high) and those identified proactively within the Bank. The risk register will have a clear action plan / mitigation steps, owner and timeline to resolve and is presented through governance quarterly. Alongside, the top risks are contained within risk management information and debated and discussed through

both RMC and ARC in order to ensure senior management are aware of and are taking action to manage the Bank's key risks.
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 part of the operational risk, 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.

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.

29. 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 (£66m) is lower than the carrying value (£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 for investments in Sukuk and funds under 'financial assets available for sale' are based on quoted prices as defined in level 1 under IFRS 7. The fair value of 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 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

	Level 1	Level 2	Level 3	Total
31 December 2017	£	£	£	£
- Debt instruments	-	-	-	-
Derivative financial instruments at fair value through profit and loss	-	(1,694,241)	-	(1,694,241)
Total Assets	76,072,743	9,720,155	-	85,792,898

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

30. Events after the balance sheet date

There were no events between the balance sheet date and the date when the financial statements were signed, which would have had any material impact on the financial results for the year ended 31 December 2018.

31. 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.

32. 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 2018 are set out below.

	UK	*Total*
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income	£12,417,592	£12,417,592
d) Average number of employees	37	37
e) Profit before tax	£4,759,102	£4,759,102
f) Corporation tax paid	-	-
g) Public subsidies received	-	-

Appendix: QIB (UK) Pillar 3 Declaration

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

1. Introduction

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

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

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

This declaration follows BIPRU rules for capital disclosures as of 31 December 2018, the effective date of the declaration. The BIPRU rules form part of the FCA Handbook and PRA Handbook which implements Basel III in this respect.

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

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

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

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

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

2. Scope

As of 31 December 2018, the Bank had no active subsidiaries or joint ventures. All banking activities are reflected in the Bank's balance sheet.

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

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

This Pillar 3 report is based on the Bank's Annual Report and Accounts for the year ended 31 December 2018, and is consistent with its accounting policies.

Frequency

The Board, after due consideration of the size and complexity of the Bank, do not feel it is necessary to produce Pillar 3 disclosures any more frequently than annually unless there is a material change in the business plan or permissions from the Regulator. The disclosures will therefore be made annually on the Bank's website (https://www.qib-uk.com) as soon as practicable after the approval of the annual report and accounts of the Bank.

Verification

The Pillar 3 disclosure has been prepared in accordance BIPRU 11 and reviewed and approved by the Board on 15 January 2019.

3. Risk Management

3.1 Risk management objectives

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

3.2 Risk management framework

This includes

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

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

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

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

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

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

The committee structure is covered in more detail in section 3.7 below.

3.3 Principal risks

The Bank faces the following principal risks:

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

ii. Credit risk: loss from a counterparty failing to meet their financial obligations to the Bank

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

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

v. Profit rate risk (similar to interest rate risk for a conventional bank): financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in profit rates

vi. Market risk: the financial effect of adverse changes in market prices on the value of assets and liabilities

i. Operational risk: financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events

ii. Conduct risk: the risk of detriment to the Bank's customers due to inappropriate execution of its business activities and processes

iii. Shari'a risk: the risk of products and services offered that are not in compliance with the rules and principles of Shari'a.

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

3.4 Risk appetite

The Bank has a clearly defined risk appetite for the risks it faces. This appetite is designed to meet the risk management objectives, and is regularly reviewed and exposure against it monitored and reported. The risk appetite is set by the Board with the advice of ARC, and implemented by ManCo.

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

<u>Strategic risk</u>
Performance against the business plan and budget is tracked monthly by line of business and reported to the Board.

<u>Credit risk</u>
As a small, specialist institution, the Bank sets credit risk limits at portfolio level for higher risk products, individual counterparty limits and country risk limits. These appetites and limits are factored into the budget process.

<u>Capital risk</u>
The Bank maintains at all times sufficient capital to cover the TCR set by the Regulator, which includes Pillar 1 and Pillar 2 requirements, plus additional elements that may be imposed by the Regulator.

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

Market & profit rate risk
The Bank aims to minimise both these risks, maintaining a hedged book so far as possible. The Bank does not take proprietary trading positions, although some liquid assets which form part of the LAB carry an amount of mark to market risk which is regularly monitored.

Operational risk
As a bank we have a medium low appetite to take operational risk. Operational risk takes many forms, so effective control is central to the Bank's risk management approach. It maintains robust operational systems and controls and seeks to operate prudently at all times. It holds additional Pillar 2 capital for certain identified operational risks.

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

Shari'a compliance risk
The Bank maintains a Shari'a Supervisory Board which reviews products and services offered to ensure they are fully compliant and in accordance with the rules and principles of Shari'a.

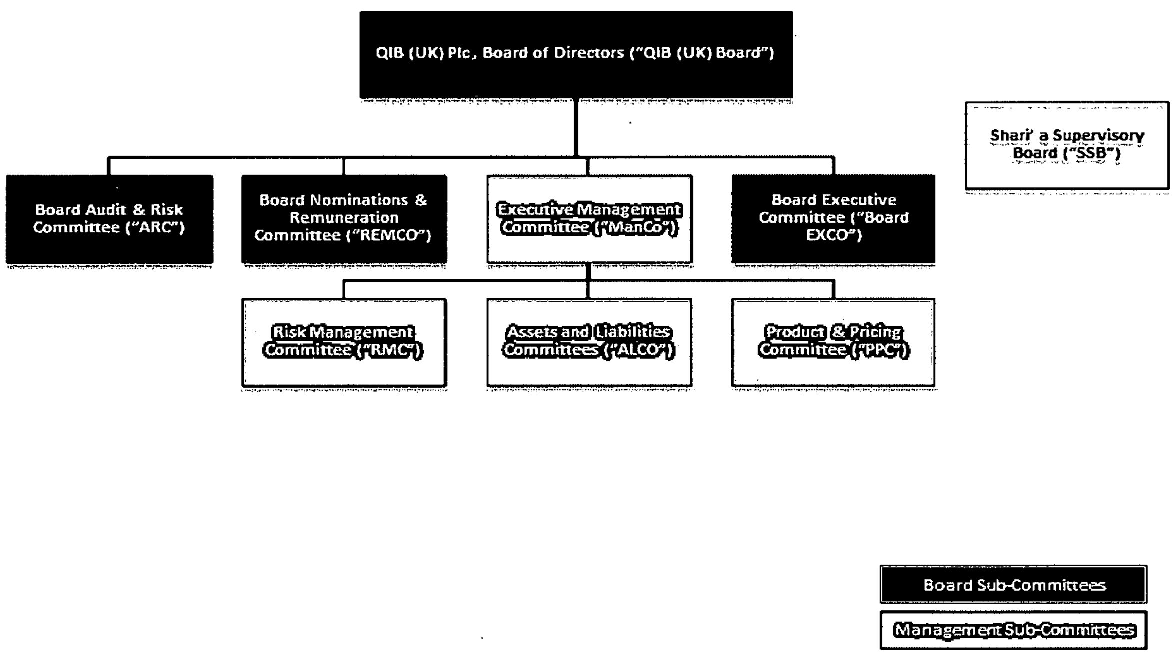
3.5 Risk oversight, monitoring and reporting

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

3.6 Risk governance structure

The responsibility for managing the principal risks ultimately rests with the Board.

This governance around this principal responsibility is discharged through the Bank's committee governance structure, which is outlined below:



QIB (UK) Board ('the Board')

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

Board Executive Committee

The Board Executive Committee ("ExCo") is charged with overseeing more material or complex credit risk proposals that exceed the authority delegated to the Risk Management Committee (RMC).

Audit & Risk Committee

The Board has delegated responsibility for reviewing the effectiveness of the Bank's internal controls to the Audit & Risk Committee (ARC). This committee monitors the internal control environment including a focus on enterprise wide risks and compliance. It also reviews the Bank's aggregate credit risk exposures and concentration risk.

The Internal Audit function reports directly to the Chair of ARC with a dotted line report to the CEO. ARC approves the terms of appointment and receives reports from the external auditors.

Board Remuneration Committee ("RemCo")

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

Management Committee ("ManCo")

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

Risk Management Committee ("RMC")

This Committee is responsible for reviewing and approving credit proposals up to its delegated authority, escalating them if necessary to ExCo.

It also monitors portfolio performance and reviews policy issues such as provisioning and lending policies, then recommending these to the Board or Audit & Risk Committee. The committee meetings take place at least on a monthly basis or when necessary.

Asset & Liability Committee ("ALCO")

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

Product and Pricing Committee ("P&PC")

The Product and Pricing Committee is responsible for approving 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.

4. Capital resources

As at 31 December 2018, the Bank's capital base was made up of £62.7 million of Tier 1 capital and £15.9 million of Tier 2 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA's regulatory document GENPRU 2.2.83 R and audited reserves. Tier 2 capital consists of subordinated Wakala notes from the Bank's parent, Qatar Islamic Bank S.A.Q.

The Bank has elected to use the standardised approach for credit risk.

Under Basel III, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its Pillar 1 capital requirements. The Bank must also set aside additional Pillar 2 capital to provide for additional risks, as directed by the PRA in its Total Capital Requirement (TCR). The Bank's capital base was in excess of the minimum required under the TCR and wider regulatory requirements.

4.1 Regulatory available capital composition

	£m 2018	**£m** 2017
Share capital	61	86
Fair value reserve on AFS financial assets	-	(1)
Retained deficit	4	(25)
Intangible assets	-	-
Deferred tax asset and transitional arrangement	(2)	(2)
Total CET1	**63**	**58**
Additional Tier 1		
Capital instruments eligible as AT1 Capital	0	0
Total Tier 1 Capital	63	58
Tier 2		
Subordinated Wakala	16	16
Total Tier 2 Capital	16	16
Total Regulatory Capital resources	**79**	**74**

4.2 Regulatory capital required

Risk Weighted Assets- Pillar 1		
Credit risk	336	316
Market risk	-	1
Operational risk	18	18
Total	**354**	**335**

Capital ratios

	2018		**2017**	
	Capital	**QIB (UK) %**	**Capital**	**QIB (UK) %**
CET1 capital (regulatory requirement – 4.5%)	£16m	18%	£15m	17%
Total capital requirement including PRA buffer (regulatory requirement – 17.66%)	£62m	22%	£71m	22%

4.3 Capital Instruments – features and terms

Tier 1 – Equity share capital

The following table represents the terms and conditions for the issue of Tier 1 capital:

Issues	1	2	3	4	5	6	7	8	9	Total
ISIN	not listed	not listed	not listed	not listed	not listed	not listed	not listed	not listed	not listed	not listed
Governing law	English	English	English	English	English	English	English	English	English	English
CRR Rules	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 77& 78	
Instrument type	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital
Regulatory capital value (£m)	25	19	12.5	4.8	13.3	3.7	1.2	6.25	24.94	60.86
Nominal value (£m)	25	19	12.5	4.8	13.3	3.7	1.2	6.25	24.94	60.86
Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity
Date of issue	28/1/2008	9/9/2013	21/8/2014	30/3/2015	31/3/2015	04/6/2015	5/11/2015	27/12/2017		-
Date of reduction									25/10/2018	-
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
Maturity date	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Callable	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Convertible	No	No	No	No	No	No	No	No	No	No
Coupon rate or any related index	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Tier 2 – Subordinated Wakala (capital)

The following table represents the terms and conditions for the issue of Tier 2 capital.

Issues	1	2	3	4	5	6	Total
ISIN	not listed	not listed	not listed	not listed	not listed	not listed	not listed
Governing law	English	English	English	English	English	English	English
CRR Rules	Tier 2 Article 71	Tier 2 Article 71	Tier 2 Article 71	Tier 2 Article 71	Tier 2 Article 71	Tier 2 Article 71	Tier 2 Article 71
Regulatory capital value (£m)	2	3	6.7	0.25	2	2	16
Accounting classification	Subordinated Wakala	Subordinated Wakala	Subordinated Wakala	Subordinated Wakala	Subordinated Wakala	Subordinated Wakala	Subordinated Wakala
Date of issue	29/7/2013	18/3/2013	31/3/2015	5/11/2015	11/7/2017	31/7/2017	-
Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
Maturity date	29/7/2033	18/3/2033	31/3/2025	5/11/2025	12/7/2027	30/7/2027	-

4.4 Capital risk and capital adequacy

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

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

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

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

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

5. Principal risks

5.1 Credit risk

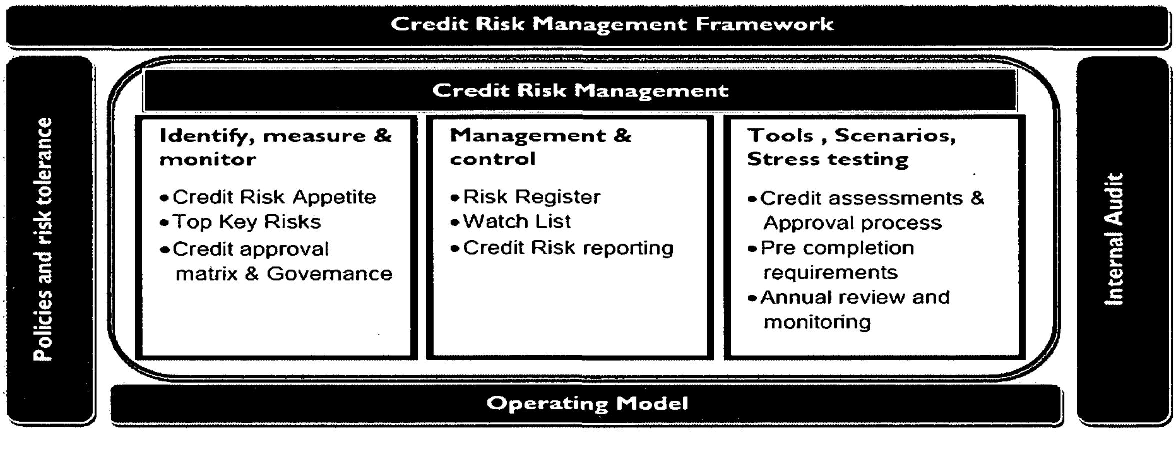
Credit risk is the risk of financial loss arising from a counterparty failing to meet their financial obligations to the Bank. It arises from the Bank's lending activities and is the most significant risk incurred by the Bank.

The Bank does not trade in financial instruments, other than for liquidity management purposes. It does not sell payment protection insurance policies or act as an insurance intermediary.

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

The Bank uses the standardised approach in determining the appropriate level of capital to be held for regulatory purposes.

The following sets out the Bank's credit risk framework:



Credit risk: Real Estate

The Bank specialises in real estate lending.

The Bank seeks to mitigate credit risk by focusing on finance for prime London investment property, regulated and unregulated owner occupier for HNWI private banking clients and wider structured real estate facilities for experienced UK based property corporates. The Bank's private banking activities tend to be focused around HNWI clients from the Middle East, with a specific focus on Qatar, noting its parent's strong presence in the jurisdiction.

The Bank has conservative policies on security cover, typically extending finance of no more than 70% of the property value. It undertakes a full valuation of all properties which act as security. Valuation reports are produced by an experienced panel of qualified external valuers.

Each proposal is reviewed, subject to an internal credit rating assessment by the relationship team, before being reviewed by an independent credit analyst and submitted with a recommendation through Credit Committee Governance.

Credit risk: Treasury

Credit risk arises from Treasury assets where the Bank has acquired securities such as Sukuk, or placed cash deposits with other financial institutions. The credit risk of these assets is low, as the Bank limits its investments to high quality counterparties/issuers. The counterparties tend to be externally rated by either S&P, Fitch or Moodys, subject to regular assessment with action taken where required.

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

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

As part of its liquidity buffer, the Bank holds a portfolio of high quality Sukuk. These are highly liquid, highly-rated and accepted by the Regulator as a component of the Bank's statutory core liquidity. The amount held in these securities at 31 December 2018 was £67 million. These instruments have a 0% risk-weighting.

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 committee
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and actioning, as appropriate, any non-performing credit exposures
- monitoring ongoing adherence to country and counterparty limits

The credit limit structure forms part of the Credit & Investment Policy and associated Risk Appetite Statement, something that 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 itself.

RMC is responsible for the formal assessment of any new exposures. Business lines submit credit approval requests to the Risk Management department using the standardised QIB (UK) credit application template. The

Risk Manager undertakes an initial credit analysis and submits the analysis with the request to RMC for consideration and approval sign-off.

If required under credit governance, submissions will be escalated to ExCo or the Board.

For credit risk exposures, including details of geographical and sector concentration, please refer to the notes section of the Financial Accounts.

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.

Credit quality 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, to determine internal risk ratings which 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.

The Bank has detailed in its Credit and Investment policy and related procedures relevant guidance on how to monitor impairment events that could lead to losses in its asset portfolio.

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

During the year, the Bank incurred a credit loss on financial assets of £1,940 (2017: £1,724,839).

For the movement in impairment provisions and portfolio credit quality, please refer to the notes section of the Financial Accounts.

Collateral

Risk Management assesses exposure 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 collateralised Murabaha and Musharaka financing exposures are fully detailed in the notes section of the Financial Accounts.

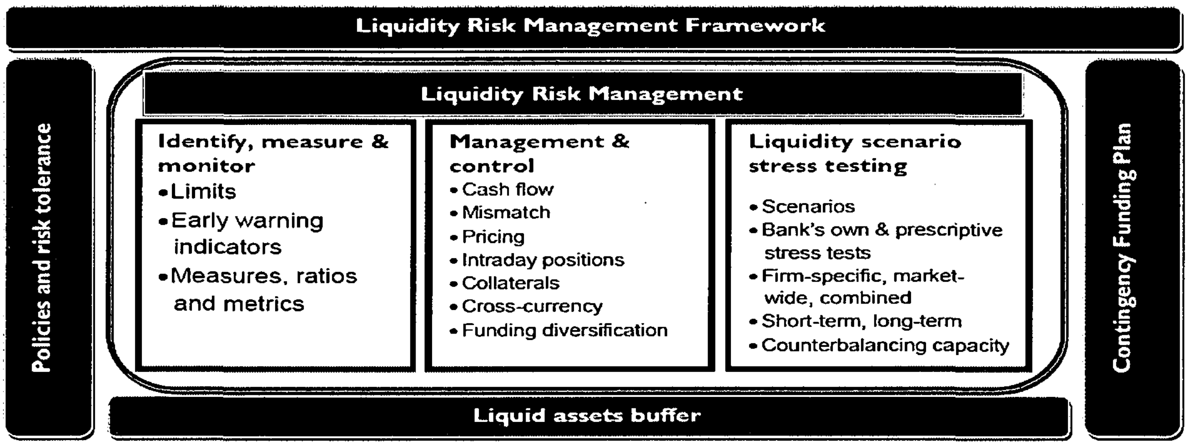
5.2 Liquidity risk

Liquidity risk is the risk that the Bank is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. To protect the Bank and its depositors against liquidity risks, the Bank maintains a liquidity buffer which reflects the Bank's liquidity needs under stressed conditions. Finance monitors liquidity on a daily basis by calculating the LAB requirement using the LCR. RMC also has oversight of liquidity risk with the Risk Report including key elements of liquidity risk.

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

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

The following sets out the Bank's liquidity risk framework.



Liquidity risk drivers

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

Deposit funding risk
The risk would arise if depositors elected to withdraw their funds more rapidly than the Bank could liquidate assets. The Bank maintains very conservative liquidity reserves against this possibility; and a proportion of deposits are protected by the government Financial Services Compensation Scheme ("FSCS"). As from 30th January 2017, the insured amount provided by the FSCS will be £85,000 for each depositor.

Wholesale funding
The Bank benefits from substantial stable funding lines from its parent and wider wholesale entities. These are tracked closely and maturity profiles spread in order to mitigate risk.

Retail funding
The Bank continues to make good progress in diversifying its funding, with Middle Eastern HNWI providing good levels of deposits. During the year, the Bank launched retail deposit products for the term of one and two years for UK retail customers.

Payment systems
The Bank is not a direct part of the UK payments system, but uses its relationships with large UK clearing banks.

Pipeline financing commitments
The Bank maintains liquidity to cover the outstanding pipeline of financing offers.

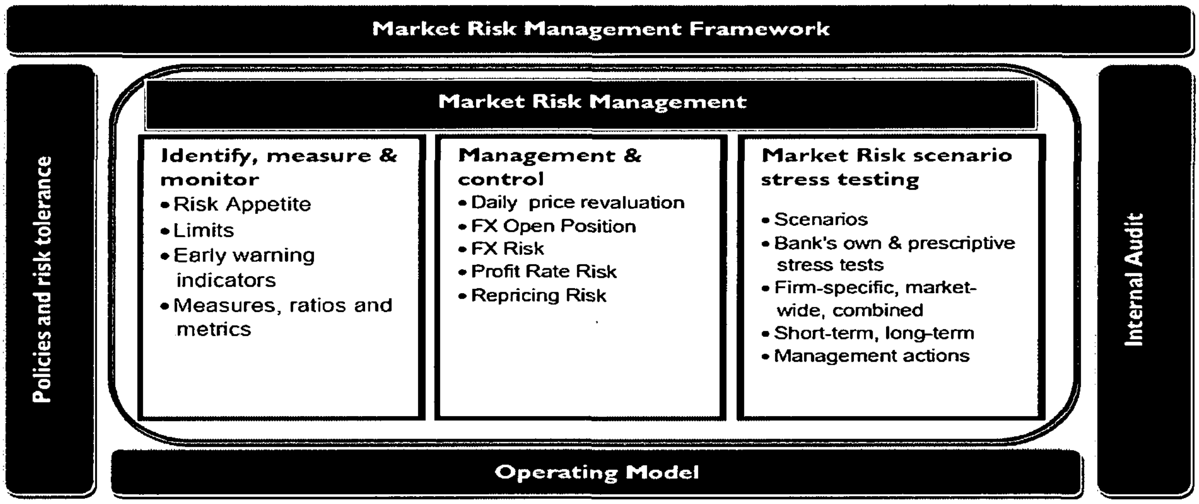
Details of the Bank's net liquid assets are summarised in notes section of the financial accounts.

5.3 Market risk

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

Profit rate risk is the risk of loss through un-hedged or mismatched asset and liability positions sensitive to changes in profit rates. Where possible the Bank seeks to match the profit rate structure of assets with liabilities, or deposits, creating a natural hedge. As part of the monthly ALCO meeting, the Investment portfolio is regularly tracked for changes relating to MTM, duration analysis, yield to maturity and a stress test to which a 2% parallel upward shift in profit rates is being applied to see resulting impact. This is then compared against the regulatory capital surplus / shortfall to agree if any hedging of profit rate risk needs to be considered at the committee level. Profit rate risk is managed and monitored by Treasury, with oversight from Finance and Risk and reported to ALCO and the Regulator on a periodic basis.

The following sets out the Bank's market risk framework.



With regard to the Investment portfolio (fixed rate, non-trading book Sukuk), whilst these are valued daily on a mark to market basis, please refer to the notes section of the financial accounts for an impact assessment of a 2% shift rate shock based on an effective duration methodology.

5.4 Operational risk

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

Cyber Risk, which is part of the operational risk, 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.

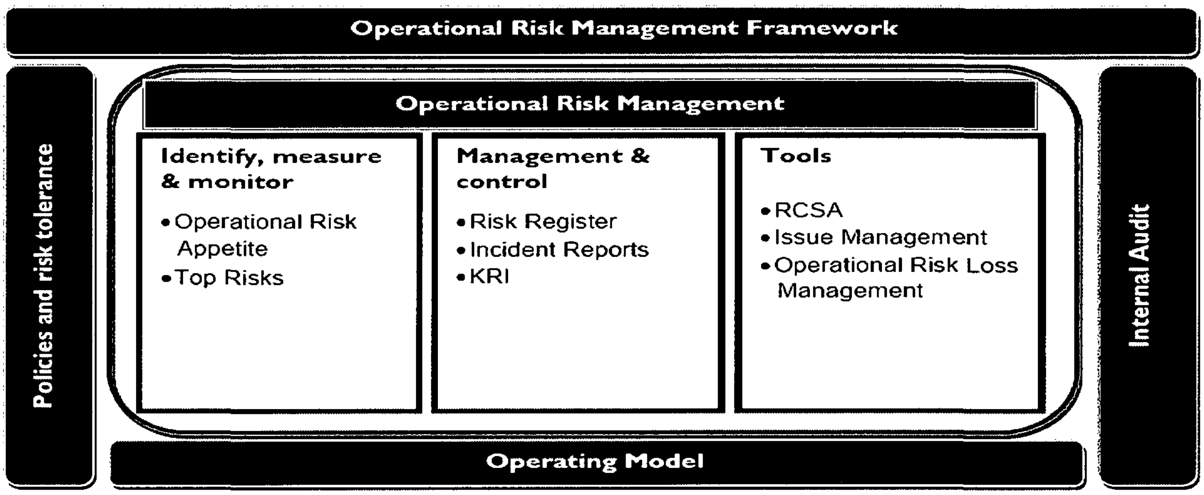
The operational risk charge for the Bank under Pillar 1 is calculated using the basic indicator approach, whereby a 15% multiplier is applied to the 3 year historical average of net income. The amount calculated under this approach was £18 million for 2018.

Risk register & key risks

The Bank's risk register is maintained by the CRO and owned by ARC. Key operational risks from the risk register are defined in accordance with Basel III and considered as part of the ICAAP.

Business continuity plans ("BCP") and disaster recovery ("DR") plans
The Bank uses an external continuity and disaster recovery site based in Basildon as back up locations for both IT servers and staff. BCP and DR plans are in place and are regularly updated. The plans are tested to ensure that they are robust and fit for purpose.

The following sets out the Bank's operational risk framework.



5.5 Conduct risk

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

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

5.6 Pension obligation risk

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

5.7 Residual risk

Residual risks result from the partial performance or failure of credit risk mitigation techniques for reasons unconnected with their intrinsic value. This risk is immaterial for the Bank as it does not use derivatives such as CDS to hedge its credit risk, and tangible reliance upon guarantees is limited. Where it accepts guarantees, the risk to the Bank is captured by the Pillar I calculation (which applies to the gross value of the exposure) or the Pillar 2 stress tests, which capture the potential loss to the Bank if credit-related losses exceed expected levels due to, for example, a weakening of real estate/security values. It is the opinion of senior management that there is no material residual risk beyond this.

As at the 2018 year-end, the Bank does not have any residual value risk exposure.

5.8 Insurance risk

Insurance risk is not directly applicable to the Bank as it has no insurance liabilities. The Bank is not involved in writing insurance cover for third parties and as such its exposure is limited to the payment of excesses under existing policies, non-performance of its insurer and an inability to renew insurance at commercially attractive terms.

The Risk function is responsible for the maintenance of sufficient insurance cover and reports to RMC and ManCo annually on the status of the cover.

5.9 Legal, regulatory and compliance risk

This category of risk covers changes in the regulatory environment that impact the Bank's strategic objectives or business methodology and the risk of failure by the Bank to comply with all applicable regulations.

The Bank has a number of policies in relation to legal, regulatory and compliance risk and a dedicated Compliance department. In accordance with the three lines of defence, compliance is the responsibility of all members of staff. The compliance monitoring plan and compliance training programmes are designed to minimise this risk, the outputs of which are reported to ARC and the Board.

5.10 Reputational risk

The Bank and the QIB Group rely upon a reputation for integrity in order to maintain existing business and to pursue their strategies for growth and new business. The Bank has no risk appetite for reputational risk and a number of initiatives are dedicated to the avoidance of reputational damage, including controls relating to maintaining Shari'a compliance, anti-money laundering controls and data security.

5.11 Money laundering risk

The Bank has an Anti-Money Laundering Policy, which is managed by the MLRO and reviewed and approved by the Board. The MLRO provides periodic reports to ManCo and the Board on matters in relation to money laundering risk. Staff receive training on anti-money laundering and financial crime annually and the controls to detect any such activity are embedded in the organisation throughout the three lines of defence.

6. Remuneration

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

This requires the Bank to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities. Firms must maintain a record of material risk takers (staff whose activities may have a material impact on the firm's risk profile) and take reasonable steps to ensure they understand the implications of the Remuneration Code. The disclosure requirements of Pillar 3 are defined by the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11 as at 31 December 2018.

6.1 Overview of approach to remuneration

The principles behind the Bank's remuneration policy are those we believe are critical to the business and reflect our values.

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

The policy and the Bank's general incentive structures focus on promoting *"sound and effective risk management that does not encourage risk taking that exceeds the level of tolerated risk of the firm"* This is achieved by:

- a stringent governance structure for setting goals and communicating these goals to employees
- alignment with the Bank's business strategy, values, standards of conduct, key priorities and long-term goals
- alignment with the principle of protection of customers, investors ensuring prevention of conflict of interests
- the bonus pool does not undermine the Bank's profitability (and subsequent capital base)

Employees have clear and predetermined objectives which are set in accordance with the Bank's overall strategy and applicable regulation in individual Balanced Scorecards. (Balanced Scorecards set financial and non-financial targets, the latter being in the areas of risk, compliance and people.)

The Bank's remuneration policy (reviewed annually and any changes approved by RemCo) focuses on ensuring sound and effective risk management through:

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

6.2 **Governance and decision making**

In line with regulatory guidance, remuneration is overseen by RemCo. This committee has four members - the QIB (UK) Chairman, two independent non-executive directors and one non-executive director. The Remuneration Committee meets at least twice a year and otherwise as required.

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

6.3 **Material risk takers and control functions**

The remuneration of material risk takers and employees in control functions is subject to specific conditions laid down in applicable national legislation, EU rules and relevant guidelines.

Once a year, subject to the policy of conducting an annual assessment process, the Board designates employees in control functions and employees who are material risk takers.

In accordance with the regulations applicable, the designation of material risk takers is made subject to internal criteria set by the board of directors and regulatory qualitative and quantitative criteria. ExCo and the Board are appointed material risk takers on a continuous basis.

To the extent control functions could be negatively influenced by incentive schemes, the Bank ensures that control functions are remunerated for delivering their best performance in the specific role and that the variable remuneration does not compromise employees' objectivity and independence.

All employees, including senior management and executive directors, receive a fixed remuneration package.

6.4 **Aggregate remuneration data**

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

Total remuneration paid to members of the Management Committee for the year ending 31 December 2018 is £1.7 million (2017: £1.6 million).