QIB (UK) plc

Annual Report
For the year ended 31 December 2022

Registered number 4656003

Contents

Strategic Report

With the FIFA World Cup Finals being held in Doha during November and December, it was clear that 2022 was destined to be an important year for Qatar, and by extension the Qatar Islamic Bank Group and our regional customers. For those of us based here in the United Kingdom, the past year saw QIB (UK) continue to progress and for the first time we have ended the year with a balance sheet above £1 billion. This is a landmark achievement, and at the same time it gives me pleasure to report another excellent trading performance in which the Bank posted a net profit after provisions and tax of £9.7m, representing an increase of 41% year-on-year.

Below are the highlights of the financial performance during 2022:

Key Performance Indicators (KPIs)	2022	2021	2020
Financing Portfolio (£m)	*778*	*726*	*594*
Cost-to-Income Ratio (%)	*46%*	*52%*	*55%*
Net Profit after Tax (£m)	*9.7*	*6.9*	*4.7*
Net Income Margin (%)	*2.2%*	*2.1%*	*2.0%*
Pre Tax Return on Capital (%)	*14.0%*	*10.1%*	*8.1%*

This was the first year since 2019 where the Bank was relatively unaffected by COVID-19, and Q1 reflected this optimism with continued strong new business growth following on from the record performance of 2021. It is sad to report that this optimism did not last, as firstly the Russian invasion of Ukraine and secondly the dramatic uptick in inflation created tremendous negative sentiment in the global markets. Although inflation had started to appear during 2021, it accelerated after the Russian invasion, in large part due to the disruption in food and energy markets resulting from both the war itself and the unprecedented sanctions imposed upon Russia. In response, interest rates have been increased by central banks throughout the western world. In the UK, we also faced significant political uncertainty, with three Prime Ministers in as many months and the market fallout from the ill-judged "mini budget" in September. Although we have no direct exposure to either Russia or Ukraine, the UK real estate sector was certainly affected by the rate rises and negative sentiment, and subsequent business volumes declined throughout the year.

As we anticipated in this report last January, interest rates did increase but the scale and speed of the move took us by surprise. As described above, with inflation taking hold, the Bank of England has raised the BBR eight times during 2022 to close the year at 3.5%. This appears to have ended the unprecedented period of cheap money, prevailing since the Financial Crisis of 2008, and marks a return to a more "normalised rate environment". It is expected that Banks generally prosper in a rising rate environment and, as our asset portfolio fully consists of variable rate facilities, we have seen our Net Income Margin (NIM) increase from 2.07% to 2.20%. This has had a very substantial impact on our financing revenue, which was up 47% year on year. Rate rises have also impacted on our investment portfolio, where we have seen an increase in income. Due to an ongoing shortage of suitable GBP Sukuks, we continue to hold the majority of our Liquid Asset Buffer in USD denominated Sukuks. As a result, as well as enjoying the increase in investment yields this year, we have also benefitted as the GBP / USD rate moved lower.

With economic indicators turning negative, the forecast for the next 18 months is looking very difficult with the prospect of a recession looming large. I am however reassured that we enter this period of uncertainty with our asset portfolio in good health. Out of an initial thirty-three COVID-19 payment holidays, there is only one outstanding, which is scheduled to repay in Spring 2023. Also, as we continue to closely monitor the quality of our portfolio, despite the dire economic outlook, our analysis shows that at the present time our customers are proving resilient and adapting well to the higher rate environment. Nevertheless, we are starting to observe a gradual deterioration in some of the key economic inputs in our expected credit loss calculation. We remain conservative in our approach and there is no room for complacency, as during 2022 we reported the first specific write off against our asset portfolio since 2017. Hopefully this will remain a rare occurrence and currently our Non-Performing Facilities (NPF) ratio stands at zero%.

With the BBR increasing, there has been a continued rise in the cost of funding throughout 2022. Our cost of funding started the year at 1.10% and finished at 2.57%. This reversed the trend which we have seen since the onset of the pandemic in early 2020 and, based upon the UK and US rate paths, we anticipate further increases during 2023. In this scenario, it is even more important that QIB (UK) remains committed to diversification in our sources of liquidity. During the past year, we established a relationship with Insignis which allows us to access deposits from the UK Independent Financial Advisor (IFA) market. This is a welcome alternative to our longstanding arrangement with Raisin, which continues to grow, and between the two has enabled us to cope with all liquidity demands.

Once again, during 2022 I am pleased to report that QIB (UK) was recognised by The Banker with the award for the UK Islamic Bank of the Year. This is our third such award in four years. Established in 1926, The Banker Magazine is the world's longest running international banking title and the leading monthly title of the Financial Times Group, read by senior decision makers at the world's foremost financial institutions. Each year, The Banker produces a definitive ranking of the industry's best Islamic financial institutions in order to promote and reward excellence in the global Islamic banking community. In 2022, the Qatar Islamic Bank (QIB) Group received the 'Best Islamic Bank in the Middle East, Qatar, and the UK' awards in recognition of its continuous growth and solid performance at the local, regional and international levels.

Commenting on this recognition, Mr. Bassel Gamal, Group CEO of QIB and Chairman of QIB (UK) said: "*We are pleased to receive these prestigious awards from The Banker magazine showcasing our commitment to providing our customers with the best Shari'a-compliant banking products and services. This recognition is a testament to our strategic vision and customer-centric approach, in addition to our efforts to reshape the banking scene in Qatar and beyond. I would like to extend my appreciation to QIB's Board of Directors, the entire QIB team and our customers for their trust and support.*"

Future Developments

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

The principal risks that the Bank will face in 2023 remain credit risk, economic risk, and operational risk. The Prudential Regulatory Authority initiatives on climate change risk and operational resilience were at the forefront of our regulatory compliance activity during the year and all the required deadlines were met. Looking ahead, we will be focussed on publishing our first Sustainability Report and the requirements associated with the new Consumer Duty guidelines. A major review of Bank Supervision has recently been announced in the Edinburgh Reforms and we shall wait to see what recommendations are forthcoming. Regardless, at QIB (UK) we are committed to maintaining a robust risk management framework and governance structure, of which further details are available in the notes to this report.

To conclude, I can report that we have continued to progress during 2022, based upon the increase in our NIM accompanied with further balance sheet growth, leading to a 27% increase in net operating revenues year-on-year. This revenue growth has been accompanied by exceptional cost control and, as a result, our cost-to-income ratio fell once again from 50% to 46%. With no dividends paid out, our capital position remains very healthy and during the year our return on capital has improved further, coming in at 14% up from 10.1% last year.

For some years the Bank has benefitted from stability in Board personnel, however 2023 will see some changes; David Thomas will be stepping down as Senior Independent Non-Executive Director after completing 10 years of service to be replaced by Marianne Ismail. She in turn will be replaced as Independent Non-Executive Director by Julie Nicholson. In a further change, I have decided to step down as Chief Executive Officer after six years and will be replaced by Richard Musty. I take this opportunity to thank David for his significant contribution to the development of QIB (UK), wish Marianne every success in her new role and welcome both Julie and Richard to the Bank.

I have thoroughly enjoyed my experience with QIB (UK) and have been thankful for the guidance and support of our Chairman, Board of Directors and Shari'a Supervisory Board. As we conclude another year, I would once again like to give credit to my colleagues. They have worked tirelessly throughout 2022 and their efforts have ensured that QIB (UK) has continued to grow and prosper. In 2023 the Bank will welcome a new CEO, however the focus on our core business will stay the same and we remain committed to further improving our profitability and the return on capital for our shareholder.

By the order of the Board

Duncan Steele-Bodger
Director
19 January 2023

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

Principal activities

QIB (UK) plc (the 'Company' or the 'Bank'), was incorporated with the intention of developing and offering Shari'a compliant financial products and services in the UK. The Bank received authorisation from the Financial Services Authority (FSA) on 29 January 2008, after which date it commenced operations as a Shari'a compliant bank. The Bank is now authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Please refer to note 27 for a detailed disclosure of the Bank's risk management.

Principal risks

The Bank considers the principal risks that it will face in 2023 will include the downturn in the UK economy, increase in rates, residual impact of the COVID-19 pandemic and associated credit, operational and cybersecurity risks. The Bank will also continue to monitor Brexit and any potential impact on the business and the real estate markets it is exposed to, although there has been very little impact to date.

The Bank successfully managed the transition away from LIBOR. Net Stable Funding Ratio (NSFR) is fully embedded and supported by a growing retail funding base. There are a number of regulatory changes that will drive further work in 2023, namely, Climate Change Risk, Operational Resilience and the Consumer Duty. The initial risk assessment of Climate Change Risk has shown that there will be no material impact to the business in 2023.

At QIB (UK) we continue to maintain a robust risk management framework and governance structure, of which further details are available in this report.

Financial results

The financial statements for the year ended 31 December 2022 are shown on pages 22 to 64. The profit for the year is £9,692,373 (2021: £6,855,527).

Proposed dividend

The Directors do not propose the payment of a dividend (2021: £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. Ludwig Krause

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

Directors' Report (continued)

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 Mohamed Ahmaine

The annual report of the SSB is shown on page 10.

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. This annual review and report includes detailed analysis of capital, liquidity, business forecasts and expected credit losses.

This review covers the going concern for the twelve-month period to the end of January 2024. The going concern assessment is prepared by Executive Management, reviewed by the Board Audit and Risk Committee (ARC) and approved by the QIB (UK) Board.

Business volumes and redemption patterns have been adjusted to take into account the current economic downturn and rising rate environment, and the forward looking metrics in the Bank's expected credit loss modelling have been enhanced and re-calibrated.

As at 31 December 2022, QIB (UK) held eligible capital of £100m which translates to a capital surplus of £16m. In line with previous years, the 2022 profits will be retained to further strengthen the capital position.

ICAAP and ILAAP stress tests have improved and were run during 2022 to further support the real-time liquidity challenges faced during the COVID-19 pandemic. The Bank closes 2022 with a more diversified liability base, across a range on tenors, and a strong liquidity coverage ratio.

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.

Employees

The Bank considers its people to be its greatest asset and aims to build and retain a talented, committed and loyal team to maintain its position as an employer of choice.

Flexibility

In March 2020, the Bank enabled remote working for all employees in response to the COVID-19 pandemic. The Bank is committed to providing a flexible working environment where possible and has introduced a phased return to the office that is based around its customers' requirements.

Diversity and inclusion and equal opportunities

The Bank is committed to creating a workplace and culture that is welcoming and inclusive for all. It actively encourages and values employee contribution, and recognises that diverse backgrounds, experiences and ideas strengthen its resilience and growth.

Directors' Report (continued)

Environment

The Bank continues to assess its environmental impact and aims to mitigate or reduce this where possible. It encourages all employees to be environmentally friendly and aims to reduce its waste and carbon footprint where possible.

Health and safety

The Bank is committed to providing a safe environment for its employees and visitors. It continually assesses all health and safety obligations to ensure compliance.

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

Ludwig Krause
Chief Financial Officer
19 January 2023

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement on auditors' responsibilities on page 11, 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 UK-adopted international accounting standards.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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;
- make an assessment of the Company's ability to continue as a going concern, and if appropriate prepare the financial statements on a going concern basis;
- 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 2022

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 2022.

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 2022 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 Mohamed Ahmaine

Member of the QIB (UK) SSB

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

Opinion

We have audited the financial statements of QIB (UK) PLC (the "Company") for the year ended 31 December 2022 which comprise, Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following:

- We obtained an understanding of management's going concern assessment process.
- We assessed management's forecasts for the going concern period and evaluated the key assumptions on which management's assessment is based.
- We compared the budgeted financial information for the period ended 31 December 2022 with historical actual results.
- We reviewed management's downside sensitivity analysis as it relates to their Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

- We reviewed management's Liquidity Stress Test Model and Capital Surplus calculation as at 31 December 2022.
- We evaluated management's plans for future actions in relation to its going concern assessment.
- We performed inquiries with the group auditors of the Company's parent, Qatar Islamic Bank Q.P.S.C. ("QIB Doha") relating to their going concern procedures and results of their assessment, in order to identify any matters that may impact the financial statements of the Company.
- We reviewed regulatory correspondence and committee and board meeting minutes.
- We assessed the disclosures in the Annual Report and Accounts relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Improper recognition of income from financing activities and fees and commissions income • Credit impairments • Recognition and valuation of the deferred tax asset • Valuation of investment property
Materiality	• Overall materiality of £0.9m (2021: £0.8m) which represents 1% of Company's total equity.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including 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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact QIB (UK) plc. The Company has determined that there will be no material impact to the business in 2023. This is explained on page 6 of the Annual Report, in the Directors' Report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

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 and Risk Committee
Improper recognition of revenue: Income from Financing and Fees and Commissions Income **There is risk that income from financing activities are not recorded in the correct accounting period, recognised using EYR (effective yield rate) calculation or in accordance with how the underlying structure should be treated under IFRS 9.** **Fees and commissions can require judgment as to the amount and timing of recognition. There is a risk that fees and commission income is not recorded in the correct accounting period or in accordance with how the underlying structure should be treated under IFRS 15.** **Income from financing activities is £31.6 million (2021: £21.4 million).** **Fees and commissions income is £1.8 million (2021: £1.6 million).** **Refer to the accounting policies note 4. k., note 5, and note 8 of the financial statements.**	We performed the following procedures in response to the identified risk: ► Assessed the design, and tested the operating effectiveness of, key controls over revenue with the assistance, where required, of EY IT audit professionals. ► For both fixed and variable parts of interest income, recalculated a sample of income from financing activities and verifying inputs to the underlying contracts. ► Verified a sample of fees and commissions with the underlying contracts, ascertaining the service obligations provided for the fee or commission and determined whether it had been recognised in the correct period or deferred appropriately. ► In relation to re-negotiated or extended deals, understood the nature of the change made and whether fee income had been recorded appropriately. ► For deals with amortization of principal, we tested the appropriateness of income recognised. ► Performed year-end cut-off testing to ensure revenue is recognised in the correct period. ► Verified to supporting evidence any journal entries identified that have characteristics that could indicate unusual or inappropriate adjustments ► Reviewed aged and significant debtors at year-end to identify potential fictitious or non-recoverable revenue.	We highlighted the following to the audit and risk committee: Based on the procedures performed, we have determined that income from financing activities and income from fees and commissions is not materially misstated and accounted for in accordance with accounting standards.

Credit impairments

There is a risk that the calculated expected credit loss (ECL) or staging assessments are inaccurate due to inappropriate or incorrect data, assumptions and calculations in the IFRS 9 model. This includes the historical default data (both internal and external) and risk attributes used to build and run the models, which may be incomplete, inaccurate or non-representative of the portfolio. Further, forward looking elements relevant to the portfolio might not be incorporated in the ECL appropriately.

The risk continues to be heightened due to recent increase in inflation, macroeconomic outlook of the UK economy and residual impact of covid-19. Consideration is required to assess various macro-economic scenarios, PDs and the impact of any payment holidays provided to customers.

Financing arrangements amount to £778 million (2021: £726 million) net of credit impairment provisions of £1.6 million (2021: £4 million). An impairment reversal of £638 thousand (2021: £662 thousand charge) was taken to the Statement of Comprehensive Income.

Refer to the strategic report pages 3 and 4, accounting policies note 4. g., and note 14 of the financial statements.

We performed the following procedures in response to the identified risk:

- Obtained and assessed management's expected credit loss policy under IFRS9
- Walked-through and understood any changes to the modelling process since the prior year.
- Assessed the design effectiveness of key controls around identifying credit events.
- Validated the definition of significant deterioration in credit risk is in line with the accounting standard and determined if it had been appropriately applied.
- For a sample selected, we reviewed evidence supporting any collateral and assessed the valuation of underlying collateral.
- Understood and challenged assumptions in relation to the impact of COVID-19 upon various macro-economic scenarios, PDs, and uptake of payment holidays by certain counterparties. This included:
    I. Assessment of payment holidays approved and breaches of covenants
    II. Followed-up on previously approved payment holidays
    III. Individual and collective assessment, multiple macroeconomic scenarios and management overlays
    IV. Impact of financial support and credit enhancements, if any.
- On a sample basis we tested 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 was involved.
- On a sample basis, we assessed the appropriateness and adequacy of any impairment provisions; focusing on areas where significant estimation is involved, including the estimates of future recovery.
- Engaged risk and quantitative specialists to review the methodology and model applied for ECL calculation including staging of the loan portfolio, including assessment of

We highlighted the following to the audit and risk committee:

Overall provisions were within a reasonable range.

Our assessment of the design effectiveness of key controls around identifying credit events were that they are effective.

Our testing of models and economic inputs indicated certain judgmental differences; however, these did not result in a material impact to the financial statements.

Based on the procedures performed, we have concluded that credit impairments are not materially misstated and accounted for in line with IFRS9.

	appropriateness of any post-model adjustments made. ► Engaged internal Economic specialists to assess if forward-looking macroeconomic indicators were taken into account once probability of default and loss given default was calculated. ► Challenged management on assumptions which materially impacted the expected credit loss recorded. ► Tested the allocations of exposures between stages 1,2 and 3. ► Assessed management's back testing analysis to assess the performance of the model on historic data and understood the volatility of the outputs against historic periods. ► Assessed range of estimate values provided by Management, and developed our own acceptable range and compared against the amount recognized ► Assessed management's stress testing analysis. ► We considered the impact of the disclosures made in note 27 in respect of climate change on the modelling for credit risk and ensured adequate disclosures are prepared in accordance with IFRS 7.	

Recognition and Valuation of Deferred Tax Asset **Under IFRS, recognition of deferred tax assets is only permitted where there is convincing evidence that there will be sufficient future taxable profit against which this asset can be realised. The accounting standards require recognition of assets in certain circumstances.** **The risk continues to be heightened due to recent increase in inflation, macroeconomic outlook of the UK economy and residual impact of covid-19, and consequently its impact on the Bank's performance forecast, which is key in understanding the recoverability of the deferred tax asset.** **The recognised deferred tax asset is £2.2 million (2021: £1.8 million)** **The unrecognised deferred tax asset is £Nil (2021: £1 million).** **Refer to the accounting policies note 4. o., and note 12 of the financial statements.**	We performed the following procedures in response to the identified risk: ► Walked through the process and controls in place, to obtain understanding of the estimation uncertainty. ► Assessed the potential impact of the assumptions used on the recognition of the Deferred Tax Asset. Analysed 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. ► Utilised EY tax professionals to audit the calculations used in determining the amount of deferred tax asset is in line with the appropriate tax accounting requirements.	We highlighted the following to the audit and risk committee: Based on the procedures performed, we determined that the deferred tax asset is not materially misstated and accounted for in accordance with IAS12.

Valuation of investment property **The Bank leases a portion of its property. The accounting treatment of the building differs depending on the classification. The part of the building which is owner-occupied and classified as Property, plant and equipment is measured at amortized cost less any impairment. The part of the building leased out and classified as Investment property is measured at its fair value.** **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. The risk continues to be heightened due to recent increase in inflation, macroeconomic outlook of UK economy, residual impact of covid-19, and overall property prices across central London.** **The value of the investment property was £7.7 million (2021: 10.24 million), and charge to the Statement of Comprehensive Income was £0.9 million (2021: £nil). On 1 August 2022 the Bank transferred 5th floor of the building to owner occupied property resulting in the reduction of investment property by £1.67m.** **Refer to accounting policies note 4. m., and note 19 of the financial statements.**	We performed the following procedures in response to the identified risk: ► Walked through the process and controls in place, to obtain understanding of the estimation uncertainty. ► Assessed whether indicators of possible management bias exist and assessed the potential impact of such assumptions used on the value of the Investment property. ► Obtained and assessed evidence that corroborated the classification split between investment property and property held for own use. ► Assessed the assumptions and judgements made by management in reclassifications from investment property to office building, ► We involved EY Real Estate valuation team in order to support us in assessing and challenging the third-party valuation report. ► Assessed the external valuer's *reputation and competences*	We highlighted the following to the audit and risk committee: As a result of the procedures performed, we concluded that the value of the investment property is reasonable and in line with IFRS 13.

Our application of materiality

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

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

We determined materiality for the Company to be £0.9 million (2021: £0.8 million), which is 1% (2021: 1%) of Company's total equity. Our expectation is that the main users of the financial statements, such as the Prudential Regulation Authority and the immediate and ultimate controlling party, view capital preservation as a key consideration.

During the course of our audit, we reassessed initial materiality and did not note any changes due to reassessment.

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £0.7m (2021: £0.6m). We have set performance materiality at this percentage as the Company does not have a history of material misstatements and based on our risk assessment procedures, we understand that the control environment of the Company continues to be strong.

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £44k (2021: £44k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company 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 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company 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 Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company 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 Company'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 Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the Company, 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. Our procedures involved 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 Company requires specialised 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.

- The Company is authorised to provide banking, mortgage and home finance, investments and other activities and is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

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

Other matters we are required to address

- Following the recommendation from the Audit and Risk Committee we were appointed by the Company on 7 December 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering the years ending 31 December 2013 to 31 December 2022.

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

- The audit opinion is consistent with the audit results 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.

DocuSigned by:
Ernst & Young LLP
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Hitesh Patel (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 January 2023 | 4:00:48 GMT

Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022	2021
		£	£
Income			
Income from financing activities	5	**31,605,685**	21,439,036
Income from investing activities	6	**2,535,344**	1,622,287
Returns to banks and customers	7	**(14,860,836)**	(7,938,424)
Net income from financing and investing activities		**19,280,193**	15,122,899
Fees and commissions income	8	**1,842,222**	1,611,384
Fees and commissions expense		**(556,172)**	(491,526)
Net fees and commissions income		**1,286,050**	1,119,858
Net gain/(loss) on financial assets at amortised cost		**-**	25,475
Gain/(loss) on foreign exchange	27	**248,560**	83,629
Other income		**124,170**	187,223
FV loss on investment property	19	**(905,000)**	-
Total operating income		**20,033,973**	16,539,084
Expenses			
Personnel expenses	9	**(6,410,143)**	(5,758,494)
Depreciation and amortisation	17,18	**(692,789)**	(695,265)
Other expenses	10	**(2,558,521)**	(2,192,538)
		(9,661,453)	(8,646,297)
Profit/(loss) before provisions for impairment		**10,372,520**	7,892,787
Credit reversal/(loss) expense on financial assets	27	**638,445**	(661,700)
Profit/(loss) before taxation		**11,010,965**	7,231,087
Taxation	12	**(1,318,592)**	(375,560)
Profit/(loss) for the year		**9,692,373**	6,855,527
Other comprehensive income (that will be recycled to Profit & Loss)			
Change in fair value of cash flow hedge	16	**(107,358)**	81,691
Other comprehensive income		**(107,358)**	81,691
Total comprehensive profit/(loss) for the year		**9,585,015**	6,937,218

All activities are derived from continuing operations.
The notes on pages 26 to 64 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2022

	Note	2022 £	2021 £
Assets			
Cash and balances with banks	13	**59,103,924**	56,338,957
Financing arrangements	14	**777,848,982**	726,026,105
Financial assets at amortised cost	15	**149,784,049**	81,553,810
Derivative financial instruments	16	**989,055**	1,429,382
Property and equipment	17	**14,126,933**	12,995,170
Intangible assets	18	**72,221**	231,069
Investment property	19	**7,665,000**	10,240,000
Other assets	20	**7,105,411**	4,124,393
Deferred tax asset	12	**2,212,189**	1,792,307
Total assets		**1,018,907,764**	894,731,193
Liabilities			
Due to banks	21	**105,266,168**	120,257,356
Due to customers	22	**780,208,856**	657,768,467
Other liabilities	23	**29,976,993**	22,889,306
Derivative financial instruments	16	**1,345,231**	1,289,353
Subordinated Wakala	26	**13,700,000**	13,700,000
Total liabilities		**930,497,248**	815,904,482
Equity			
Share capital	25	**60,864,221**	60,864,221
Cash flow hedge reserve		**(309,566)**	(202,208)
Retained earnings		**27,855,861**	18,164,698
Total equity		**88,410,516**	78,826,711
Total liabilities and equity		**1,018,907,764**	894,731,193

The notes on pages 26 to 64 are an integral part of these financial statements. These financial statements were approved by the Board of Directors and were signed on its behalf by

Ludwig Krause
Chief Financial Officer
19 January 2023
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity

For the year ended 31 December 2022

	Share Capital £	Cash Flow Hedge £	Retained Earnings £	Total £
Balance at 1 January 2021	60,864,221	(283,898)	11,352,861	71,933,184
Changes in FV of cash flow hedge	-	81,691	-	81,691
Movement in Deferred Tax relating to change in tax rate	-	-	(43,690)	(43,690)
Profit / (Loss) for the year after tax	-	-	6,855,527	6,855,527
Balance at 31 December 2021	**60,864,221**	**(202,208)**	**18,164,698**	**78,826,711**
Balance at 1 January 2022	60,864,221	(202,208)	18,164,698	78,826,711
Changes in FV of cash flow hedge	-	(107,358)	-	(107,358)
Movement in Deferred Tax relating to change in tax rate	-	-	(1,210)	(1,210)
Profit / (Loss) for the year after tax	-	-	9,692,373	9,692,373
Balance at 31 December 2022	**60,864,221**	**(309,566)**	**27,855,861**	**88,410,516**

The notes on pages 26 to 64 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2022

	Note	2022	2021
		£	£
Cash flow from operating activities			
Profit for the year		**9,692,373**	6,855,527
Adjustments for:			
Depreciation	*17*	**533,941**	559,611
Amortisation	*18*	**158,848**	135,654
Taxation	*12*	**1,318,592**	375,560
FV loss on investment property		**905,000**	-
ECL loss allowance		**585,529**	665,401
Net gain on financial assets at FVPL		**-**	95,289
Increase in financing arrangements		**(51,177,541)**	(133,182,070)
Stage 3 ECL recoveries		**(1,223,974)**	(3,700)
Increase in other assets		**(2,981,020)**	(183,119)
Decrease in amounts due to banks		**(14,991,188)**	(5,075,581)
Increase in amounts due to customers		**122,440,389**	162,594,916
Increase in other liabilities		**5,356,669**	3,613,140
Increase in financial assets at amortised cost		**(68,236,950)**	(14,259,831)
(Increase)/decrease in derivative financial instruments		**388,846**	(5,152,783)
Net cash inflow from operating activities		**2,769,514**	17,038,014
Cash flows from investing activities			
Purchase of property, plant and equipment	*17*	**(4,369)**	(37,762)
Purchase of intangible assets	*18*	**-**	(116,000)
Net cash outflow from investing activities		**(4,369)**	(153,762)
Cash flows from financing activities			
Repayment of subordinated loans		**-**	(2,250,000)
Net cash outflow from financing activities		**-**	(2,250,000)
Net increase (decrease) in cash and cash equivalents		**2,765,145**	14,634,252
Cash and cash equivalents at start of year		**56,342,679**	41,708,427
Cash and cash equivalents at end of year	*13*	**59,107,824**	56,342,679

The notes on pages 26 to 64 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements were approved by the Board on the 19 January 2023.

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

b. Basis of measurement

The financial statements have been prepared under the historical cost convention, except for the investment property and derivative financial instruments which are held at fair value through profit and loss.

c. Functional and presentation currency

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

d. 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. This annual review and report includes detailed analysis of capital, liquidity, business forecasts and expected credit losses.

This review covers the going concern for the twelve-month period to the end of January 2024. The going concern assessment is prepared by Executive Management, reviewed by the Board Audit and Risk Committee (ARC) and approved by the QIB (UK) Board.

Business volumes and redemption patterns have been adjusted to take into account the current economic downturn and rising rate environment, and the forward looking metrics in the Bank's expected credit loss modelling have been enhanced and re-calibrated.

As at 31 December 2022, QIB (UK) held eligible capital of £100m which translates to a capital surplus of £16m. In line with previous years, the 2022 profits will be retained to further strengthen the capital position.

ICAAP and ILAAP stress tests have improved and were run during 2022 to further support the real-time liquidity challenges faced during the COVID-19 pandemic. The Bank closes 2022 with a more diversified liability base, across a range on tenors, and a strong liquidity coverage ratio.

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.

e. Use of judgement

The preparation of financial statements requires management to make judgement and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The following are the critical judgements that directors made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

i. *Recognition of deferred tax asset*

Deferred income tax assets are recognised for tax loss carried-forward 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.

ii. Significant Increase in Credit Risk (SICR)

IFRS 9 does not define what constitutes a SICR. In assessing whether the credit risk of an asset has changed, the Bank takes into account qualitative and quantitative, reasonable and supportable forward-looking information such as:

- Credit risk from initial recognition to reporting date (the relative increase in credit risk);
- Increase in the a transaction's days past due;
- Adverse market changes in collateral values;
- Covenant breaches – covenant monitoring for profit cover in addition to collateral;
- Financings-to-value (FTV) breach monitoring;
- Adverse changes in external credit ratings;
- Annual review of the Bank's assets; and

iii. Expected Credit Loss (ECL)

The following judgements are made during the ECL calculation process:

- The scenario weightings used in the model are 50%-25%-25% for Base-Downside-Upside scenario respectively (2021: 50%-30%-20%); and
- A Time to Sale judgement is required to reflect the point in time (following a default) at which the sale of the collateral actually takes place.

iv. Investment property valuation

The Fair Value of the investment property is based on an independent valuation provided by a professional commercial property specialist, using their judgement based on observable prices and rental demand in prime central London.

f. Use of 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. Actual results may differ from these estimates.

The following are the critical estimates when preparing the financial statements:

i. Provisions for impairment of financial assets

The measurement of impairment losses under IFRS 9 requires to estimate the amount and timing of future cash flows, collateral values and the assessment of a SICR as described above.
The Bank's ECL calculations are driven by the following assumptions:

- The ECL model, including the formulas and choice of inputs;
- The Bank's internal grading system which assigns probabilities of default (PDs) to individual risk grades;
- Loss given default (LGD) floor and haircut at sale;
- Maximum loss on disposal as a percentage of collateral's Fair Value (i.e. haircut);
- Days past due (DPD);
- Type of real estate collateral; and
- Current and forecast macroeconomic variables (e.g. gross domestic product, unemployment rate, house price index) and their probability weightings.

During 2022, the Bank amended the way through-the-cycle PDs (TTC PDs) are estimated, the macroeconomic forecasts and their probability weighting as these are used to estimate point in time PDs (PIT PDs). The effect of these changes had no material effect on the ECL calculations.

3. Changes in accounting policies

There are no IFRS or IFRIC intrepretations that are effective for the first ime for the financial year beginning on or after 1 January 2022 that have a material impact on the Bank.

Further, none of the future amendments to accounting standards, nor interpretations, are 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) **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.

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

v) **Sukuk** is a Shari'a compliant bond.

b. Measurement categories of financial assets and liabilities
The Bank applies IFRS 9 'Financial Instruments: Recognition and Measurement'.

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

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

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

Financial liabilities are measured at amortised cost.

All financial instruments are recognised on the trade date, that is, the date on which there is a commitment to buy or sell the financial instrument. The resulting assets and liabilities are initially recorded at fair value, and all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value, on the basis of the Bank'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: financial 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: financial instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the same instrument, and that have contractual cash flows that are solely payments of principal and profit, are subsequently measured at FVTOCI; and
- FVTPL - All other financial instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

Financing Arrangements

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

Financial assets at amortised cost

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

Derivative financial instruments

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

For the purpose of hedge accounting, hedges are classified as *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 IFRS 9.

Under a 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 Other comprehensive Income (OCI) remain separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

c. Reclassification of financial assets

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

d. Derecognition of financial assets and liabilities

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

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

e. Forborne and modified financial assets

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

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

Forbearance is generally considered a qualitative indicator of a SICR and may indicate that an exposure is credit-impaired/in default. Any impairment is measured using the original effective yield rate (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 Statement of Comprehensive Income, together with the impairment losses.

f. COVID-19 related mortgage payment holidays

In line with the FCA Mortgages and Coronavirus - Payment Deferral Guidance, the Bank provided support for customers impacted by COVID-19. Customers determined to be eligible were permitted to request mortgage payment holidays (MPH) for due profit, plus any applicable amortisation element. The repayment of an MPH was deemed as a continuation of the customer's existing facility and therefore accounted for as a non-substantial facility modification. The granting of a MPH does not have a negative impact on the customer's credit profile.

When considering a request, a number of points were viewed to determine eligibility. These included whether the information being provided was credible and related to COVID-19, the main reasons they were unable to make/sustain payments and if the customer had a history of late or missed payments.

For customers who were deemed eligible for a MPH, two options were made available.

- Option 1 represented a straightforward holiday for up to 2 quarter's worth of profit and amortisation, with payment being made at the next due date; This effectively meant that the customer would be required to pay the scheduled instalment and deferred MPH element (plus accrued profit thereon) at the same time. This would be the appropriate option in the instance that a customer was merely suffering logistical issues, such as problems in remitting funds to the Bank because of banking closures in the Middle East; and

- Option 2 allowed for a longer deferred repayment period at an agreed point in the future, up to the facility maturity date, with profit continuing to accrue during this period. In this case, the impact of COVID-19 on the customer's longer term cash flow was considered to agree an appropriate repayment period.

All payment holidays that were due to be repaid in 2022 did so. As at 31 December 2022, the Bank had a total of one payment holiday outstanding for £15,547.

g. Impairment of financial assets

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

The Bank assesses whether there has been a SICR based on key indicators described before.

Both lifetime ECL and 12-month ECL 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 the yield is calculated on the gross carrying amount of the financial asset before adjusting for ECL;

- Stage 2 – Where there has been a SICR since origination, the Bank reports an allowance based on lifetime ECL but the yield continues to be recognised on a gross basis; and

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

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

Calculation of ECL

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 the counterparty, to the amount outstanding at default, after realising any collateral.

IFRS 9 does not define what constitutes a default. However, the Bank considers the following as constituting an event of default:

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

This 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 PD which affects both the measurement of ECLs and the identification of a SICR.

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 (WAPD) is then calculated and used to determine whether credit risk has significantly increased

COVID-19

The offer or acceptance of a COVID-19 related MPH payment deferral does not itself represent a SICR event, unless the customer or facility is considered to have experienced a SICR based on other available information. Internal credit risk ratings have been assessed for the exposures that have been impacted by COVID-19 in both the Private Banking and Structured Real Estate business areas, to determine if any changes in the customer's circumstances was sufficient to constitute a SICR.

Other inputs

Due to a lack of sufficient internal default data, the Bank uses the Pluto-Tasche method to calculate TTC PDs using a long average distribution of the Bank' portfolio observed in the Bank's books. UK Macro-economic variables such as GDP, unemployment rate and house price index (HPI) are then incorporated to produce the final PD data, as macro-economic variables best reflect the risk faced by the Bank's portfolio.

Actual monthly and quarterly macroeconomic figures are incorporated into the ECL model and a forecast is derived for future periods. To calculate the ECL the figures are then segregated into percentiles; 50-0-100 for the Base-Downside-Upside scenarios respectively (2021: 50-25-75). For 2022, the bank adopted a weighted average GDP, unemployment rate and HPI of 4.3% (2021: 1.8%), 3.7% (2021: 5.2%) and 8.3% (2021: 8.3%) respectively.

Due to both ongoing market conditions and the revised model inputs, the Bank has also changed the probability weighting of the model from 50% base case, 20% optimistic case and 30% pessimistic case to 50% base case, 25% optimistic case and 25% pessimistic case.

Sensitivity analysis was also introduced to assess the ECL under different scenarios.

h. Impairment of undrawn commitments

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

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

i. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the SoCI.

The recoverable amount of an asset is the greater of its value-in-use (VIU) and its Fair Value Less Cost to Sale (FVLCS). In assessing VIU, 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.

j. 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.

k. Fees and commissions

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

l. Property and equipment

Items of property and equipment, excluding the building, are measured at cost less accumulated depreciation and impairment losses. 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 SoCI as they are incurred.

The owner-occupied part of the building purchased by the Bank in March 2014 is measured using the cost model. Historically the Bank has erroneously disclosed the adoption of the revaluation model when measuring the value of the owner-occupied portion of the building as it has always used the cost model.The use of the cost model is deemed reasonable for the owner-occupied portion of the building as the future economic benefits that are associated with this portion will regularly flow to the Bank throughout the remaining life of the building.

The adoption of the revaluation model for the owner-occupied portion of the building would create a revaluation surplus and would increase by £1.53m the net book value attributed to property, other comprehensive income and therefore shareholders' equity.

Depreciation is recognised in the SoCI 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

m. Investment property

The building acquired in March 2014 is partially used as an investment property and two out of the seven floors (2021: three out of the seven) are currently 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. The Fair Value is determined by an independent registered valuer.

n. Intangible assets

Acquired software and computer licenses are stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the 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 SoCI as incurred.
Amortisation is recognised in the SoCI on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The current estimated useful lives are as follows:

Software	3 years
Computer licenses	3 years

o. Taxation

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

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

Deferred tax is provided in full using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that there is convincing evidence that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

p. Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the SoCI when they are due. Short-term employee benefits such as salaries, paid absences and other benefits are accounted for on an accruals basis over the period for which employees have provided services. Bonuses are recognised to the extent that there is a present obligation to employees that can be measured reliably.

q. Cash and cash equivalents

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

r. Other receivables

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

s. Leased assets

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

In determining whether a contract is a lease, the Bank assesses whether the contract meets the following evaluations:

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

Lease Term

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

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

Measurement and recognition of leases as lessee

The Bank recognises a RoU asset and a lease liability on the Statement of Financial Position (SoFP) on the lease commencement date. The RoU asset is measured at cost, which is the sum of the initial measurement of the lessee liability, any initial direct costs incurred, an estimate of the costs of removal at the end of the lease and any lease payments made in advance of the commencement date, less any incentives received.

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

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

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

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

Subsequent to initial measurement, the liability will be reduced for payments made and increased for profit. It is re-measured to reflect any reassessment or modification. The corresponding adjustment is made to the RoU asset in SoFP, or SoCI if the RoU asset's carrying amount is already reduced to zero.

The RoU asset has been reported within fixed assets in the SoFP, whereas the lease liabilities have been included in other liabilities.

t. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate as at that date. Foreign currency differences arising on translation are recognised in the SoCI.

5. Income from financing activities

Income from	**2022** **£**	2021 £
Banks		
Wakala placements	**10,596**	194
Financing arrangements		
Murabaha financing	**31,595,089**	21,438,842
Total income from financing activities	**31,605,685**	21,439,036

6. Income from investing activities

	2022 **£**	2021 £
Returns on investments	**2,535,344**	1,622,287
Total income from investing activities	**2,535,344**	1,622,287

7. Returns to banks and customers

	2022 £	2021 £
Murabaha deposits	**294,238**	311,047
Wakala deposits	**10,965,432**	5,449,484
Notice accounts	**2,623,385**	1,396,182
Instant access savings accounts	**29,063**	22,349
Subordinated Wakala & other returns	**948,718**	759,362
Total returns to banks and customers	**14,860,836**	7,938,424

8. Fees and commissions income

	2022 £	2021 £
Property financing fees	**1,748,102**	1,509,379
Other fee income	**94,120**	102,005
Total fees and commissions income	**1,842,222**	1,611,384

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

9. Personnel expense

	2022 £	2021 £
Directors' emoluments and fees	**935,411**	792,686
Wages and salaries	**4,321,864**	3,920,678
Social security costs	**689,561**	590,199
Pension contributions	**299,357**	298,318
Other staff costs	**163,950**	156,613
Total personnel expenses	**6,410,143**	5,758,494

The aggregate of the emoluments in 2022 of the highest paid Director was £502,000 (2021: £429,500) and company pension contributions of £nil (2021: £nil) were made on their behalf.

The value of the services performed by three Doha Directors was estimated by the Board as £75,000 (2021: £75,000). This amount was not recharged to the Bank.

The number of employees at the end of the year was 42 (2021: 41) and the average number throughout the year was 42 (2021: 40).

10. Other expenses

	2022 £	2021 £
Other staff related costs	**267,050**	93,469
IT expenses	**754,972**	730,071
General and administrative costs	**1,536,499**	1,368,998
Total other expenses	**2,558,521**	2,192,538

11. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging:	2022 £	2021 £
Auditor's remuneration		
Fees payable to the Bank's auditor for the audit of financial statements	**236,000**	206,671
Fees payable to the Bank's auditor for other services:		
– other services pursuant to legislation	**7,000**	6,367
– other services	**31,358**	26,962
	274,358	240,000

12. Taxation

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

	2022 £	2021 £
Current tax expense/(credit) for period at 19%	**1,739,684**	1,069,173
Prior year adjustment	**(1,211)**	(6,138)
Deferred tax expense/(credit) relating to:		
Origination and reversal of temporary differences	**(276,876)**	(309,594)
Effect of tax rate change	**(145,092)**	(386,061)
Prior year adjustment	**2,087**	8,180
Total tax expense	**1,318,592**	375,560

ii) Reconciliation of the total tax charge

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

	2022 £	2021 £
Profit before tax	**11,010,965**	7,231,086
At standard rate of UK corporation tax of 19% (2021: 19%)	**2,092,083**	1,373,906
Effects of:		
Non-deductible expenses	**96,450**	97,243
Effect of tax rate change	**(145,092)**	(386,061)
Prior year adjustment	**876**	2,042
Movement in unrecognised deferred tax asset	**(725,725)**	(711,570)
Total tax expense	**1,318,592**	375,560

iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 25% (2021: 23.9%). The following are the deferred tax assets calculated by the Bank and movements thereon during the current and prior reporting period.

	2022 £	2021 £
Deferred tax asset as at 1 January	**(1,792,307)**	(1,148,521)
Expensed to the Statement of Comprehensive Income	**(276,876)**	(309,594)
Credit to Other Comprehensive Income/Reserves	**-**	43,690
Effect of rate change	**(145,092)**	(386,062)
Prior year adjustment	**2,087**	8,179
Deferred tax asset as at 31 December	**(2,212,189)**	(1,792,307)

The deferred tax asset can be analysed as follows:

	2022 £	2021 £
Decelerating capital allowances	**148,543**	140,051
Other timing differences	**(270,826)**	(91,992)
Tax losses carried forward	**(2,089,906)**	(1,840,366)
	(2,212,189)	(1,792,307)

On 17th October 2022, the Chancellor of the Exchequer confirmed that in line with the previously enacted legislation the UK corporation tax rate will increase to 25% from 1 April 2023. In line with the requirements of IAS 12, these enacted tax rates have been used to determine the deferred tax balances at 31st December 2022.

The recognition of a deferred tax asset of £2,212,189 (net) as at 31 December 2022 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.

The Company utilised tax losses of £3,052,078 in the period. The Company has now recognised all of the previously unrecognised tax losses. In 2021, there was unrecognised deferred tax on £3,817,482 of losses due to insufficient evidence of future expected taxable profits. There is sufficient evidence of future expected taxable profits in 2022 and therefore the tax losses have been recognised in full in 2022.

13. Cash and balances with banks

	2022 £	2021 £
Cash	**520,443**	438,755
On demand bank deposits	**58,587,381**	55,903,923
Less: allowance for impairment losses	**(3,900)**	(3,721)
Total cash and balances with banks	**59,103,924**	**56,338,957**

14. Financing arrangements

	2022 £	2021 £
Murabaha financing	**779,455,473**	730,053,958
Other financing	**7,500**	13,482
Less: allowance for impairment losses	**(1,613,991)**	(4,041,335)
Total financing arrangements	**777,848,982**	**726,026,105**

15. Financial assets held at amortised cost

	2022 £	2021 £
Investment in Sukuk	**139,800,395**	81,563,445
Investment in Alternative Liquidity Fund	**10,000,000**	-
Less: allowance for impairment losses	**(16,346)**	(9,635)
Total financial assets held at amortised cost	**149,784,049**	81,553,810

16. Derivative financial instruments

	2022 £	2021 £
Gain on fair value of forward foreign exchange contracts	**989,055**	1,429,382
Loss on fair value of forward foreign exchange contracts	**(1,345,231)**	(1,289,353)
Total derivative financial instruments	**(356,176)**	140,029

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 (£356,176) represents an aggregate net position of £1,345,231 losses netted against £989,055 gains. The (£107,358) movement in the fair value of forward foreign exchange contracts is included in the SoCI. The cumulative loss-to-date is £309,566 (2021: loss of £202,208).

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 £179,653 (2021: £83,629 net gain). This is the outcome of the ineffective hedging portion and this net position is arising out of a total gain of £524,592 (2021: £5,229,585 loss) of the hedged items and FX total loss of £344,939 (2021: £5,313,214 gain) of hedging instruments. In addition, there was other FX income of £68,908 (2021: £nil) during the year.

The total nominal value of the derivatives as at year-end was £124m (2021: £149m). The instruments are there to hedge the liabilities that are in foreign currencies (mainly in USD) 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. All derivatives are Shari'a compliant.

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
2022	54,856,054	42,404,693	26,963,424	-	-	124,224,171
2021	32,747,076	60,187,283	55,977,242	-	-	148,911,601

17. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment	Total
	£	£	£	£	£
Cost:					
Balance at 1 January 2022	**14,269,334**	**113,276**	**2,243,214**	**445,775**	**17,071,599**
Additions	**1,670,000**	**4,369**	-	-	**1,674,369**
Write offs	-	-	-	-	-
Decrease in right-of-use asset	-	-	-	**(8,665)**	**(8,665)**
Balance at 31 December 2022	**15,939,334**	**117,645**	**2,243,214**	**437,110**	**18,737,303**
Depreciation:					
Balance at 1 January 2022	**(1,991,767)**	**(94,394)**	**(1,575,945)**	**(414,323)**	**(4,076,429)**
Depreciation charge for the year	**(301,933)**	**(7,533)**	**(220,862)**	**(3,613)**	**(533,941)**
Write offs	-	-	-	-	-
Balance at 31 December 2022	**(2,293,700)**	**(101,927)**	**(1,796,807)**	**(417,936)**	**(4,610,370)**
Net book value at 31 December 2022	**13,645,634**	**15,718**	**446,407**	**19,174**	**14,126,933**
Cost:					
Balance at 1 January 2021	14,269,334	93,516	2,243,214	546,176	17,152,240
Transfer to intangible assets	-	19,760	-	18,002	37,762
Write offs	-	-	-	(90,320)	(90,320)
Decrease in right-of-use asset	-	-	-	(28,083)	(28,083)
Balance at 31 December 2021	14,269,334	113,276	2,243,214	445,775	17,071,599
Depreciation:					
Balance at 1 January 2021	(1,706,242)	(89,044)	(1,355,083)	(456,769)	(3,607,138)
Depreciation charge for the year	(285,525)	(5,350)	(220,862)	(47,874)	(559,611)
Write offs	-	-	-	90,320	90,320
Balance at 31 December 2021	(1,991,767)	(94,394)	(1,575,945)	(414,323)	(4,076,429)
Net book value at 31 December 2021	**12,277,567**	**18,882**	**667,269**	**31,452**	**12,995,170**

The Bank acquired 43 Grosvenor Street, London, W1K 3HL on the 13th March 2014. Initially, the floors from the lower ground up to and including the second floor were designated as own use, whilst floors 3, 4, and 5 were designated as an investment property. In July 2020, the tenant for floors 3 and 5 vacated the property and these floors were actively marketed to prospective tenants. On 1st August 2022, the Bank redesignated the 5th floor as own use and a new tenancy agreement was signed for the 3rd floor in September 2022. The 2022 building value disclosed above reflects the five floors now occupied by the Bank. This includes a £1,670,000 increase for the 5th floor.For the value of the remaining floors leased and the fair value, refer to note 19.

During 2021, the Bank wrote off assets that had been subject to disposal and held no future economic benefit from its use. No assets were written off in 2022.

Right-of-use assets under IFRS 16 'Leases' for £5,561 (2021: £14,226) are included within office equipment.

18. Intangible assets

	Computer Software	Computer Licenses	Total
	£	£	£
Cost:			
Balance at 1 January 2022	**700,046**	**382,183**	**1,082,229**
Additions	-	-	-
Write offs	-	-	-
Balance at 31 December 2022	**700,046**	**382,183**	**1,082,229**
Amortisation:			
Balance at 1 January 2022	**(468,977)**	**(382,183)**	**(851,160)**
Amortisation charge for the year	**(158,848)**	-	**(158,848)**
Write offs	-	-	-
Balance at 31 December 2022	**(627,825)**	**(382,183)**	**(1,010,008)**
Net book value at 31 December 2022	**72,221**	-	**72,221**
Cost:			
Balance at 1 January 2021	584,046	383,263	967,309
Additions	116,000	-	116,000
Transfer from fixed assets in progress	-	(1,080)	(1,080)
Balance at 31 December 2021	700,046	382,183	1,082,229
Amortisation:			
Balance at 1 January 2021	(333,324)	(383,263)	(716,586)
Amortisation charge for the year	(135,654)	-	(135,654)
Write offs	-	1,080	1,080
Balance at 31 December 2021	(468,977)	(382,183)	(851,160)
Net book value at 31 December 2021	231,069	-	231,069

During 2021, the Bank wrote off assets that had been subject to disposal and held no future economic benefit from its use. No assets were written off in 2022.

19. Investment property

	£
Balance at 1 January 2022	**10,240,000**
Redesignation of 5th Floor	**(1,670,000)**
Fair Value adjustment	**(905,000)**
Balance at 31 December 2022	**7,665,000**

CBRE Limited valued the building during October 2021 at £25,600,000, reflecting a value of £10,240,000 for the investment portion. On 1st August 2022, the Bank redesignated the 5th floor as own use, decreasing the Fair value of the investment portion to £8,570,000. CBRE Limited revalued the building during November 2022 at £22,900,000, reflecting a value of £7,665,000 for the investment portion.

Formal valuations will be conducted every year. This valuation represents level 2 in the fair value hierarchy. CBRE Limited's valuation was based on the following assumptions:

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

In arriving at the opinion of market value, CBRE had less regard for investment yields but focussed on sales of assets within the core Mayfair market and considered both let investments and vacant possession opportunities. They have assumed an estimated rental value (ERV) of £796,650 per annum which is based on a headline ERV of £130 per sq ft on the best office accommodation.

Having regard to the above, and the general tone of capital values in Mayfair, in their opinion the market value is £22,900,000 which equates to circa £2,500 per sq. ft.

20. Other assets

	2022	2021
	£	£
Income receivable	**6,285,273**	3,380,124
Fees receivable	**30,960**	60,076
VAT recoverable	**46,269**	75,072
Prepayments	**539,420**	408,791
Other receivables	**203,489**	200,330
Total other assets	**7,105,411**	4,124,393

21. Due to banks

	2022	2021
	£	£
Demand	**218,233**	201,095
Murabaha deposits	**8,618,200**	60,492,734
Wakala deposits	**96,429,735**	59,563,527
Total due to banks	**105,266,168**	120,257,356

22. Due to customers

	2022	2021
	£	£
Demand	**57,258,665**	49,593,200
Notice	**171,211,775**	127,549,368
Wakala deposits	**551,738,416**	480,625,899
Total due to customers	**780,208,856**	657,768,467

23. Other liabilities

	2022 £	2021 £
Returns payable	**22,083,343**	16,741,257
Accruals	**2,230,608**	1,730,786
Trade payables	**40,398**	80,296
Social security and income tax	**187,508**	279,152
Deferred Income	**4,275,344**	3,731,443
Corporation Tax payable	**970,889**	255,282
Lease liability	**5,561**	14,226
Other payables	**183,342**	56,864
Total other liabilities	**29,976,993**	22,889,306

Included within Returns payable is an amount of £2,808,456 (2021: £2,521,797) for guarantee fees payable to QIB Doha. See Note 26 Related party transactions.

The Accruals balance includes an amount for discretionary bonuses which is an estimated amount pending approval.

As at 31 December 2022, HSBC has provided a guarantee amounting to £3,500,000 to a third party on behalf of the Bank.

24. Leases

Bank as a lessee

A new 36 month lease was signed in June 2022, in relation to an IT rental lease commencing in August 2022 with an annual rental of £2,153. The lease contract is for fixed payments only, with no variable payments, termination penalties or exercisable options.

A Right-of-Use (RoU) asset and a lease liability were recognised on the Statemnet of Financial Position (SoFP) on the lease commencement date. The Bank depreciates the RoU asset on a straight-line basis from the lease commencement date to the end of the lease term. The lease liability was discounted using the Bank's 2022 annual average cost of funding of 1.65% to reflect the present value of the future rental payments.

A RoU asset of £5,561 has been reported within fixed assets in the SoFP, whereas the lease liability for the same value has been included in other liabilities.

There were cash flows of £1,026 (2021: £34,330) relating to this contract reported during the year.

Future discounted rental payments on the RoU asset as at 31 December 2022 are as follows:

	2022 £	2021 £
Within 1 year	**2,144**	14,226
After 1 year but not more than 5 Years	**3,417**	-
	5,561	14,226

During the year £20,098 (2021: £28,568) was recognised as an expense in the SoCI in respect of leases.

Bank as a lessor

The Bank has entered into operating leases for its investment property (see note 19). One of the tenants vacated the premises in July 2020 and the remaining lease had a term of 6 months at the end of 2021. This lease was renewed for 3 years in July 2022 and a new 5 year tenancy agreement, with a 3 year break clause, was signed for the 5th floor in September 2022.

During the year, £121,890 (2021: £91,934) rental income was recognised in the Statement of Comprehensive Income relating to these operating leases. The Bank receives the rent as net basis and there are no additional expenses associated with the lease.

Future minimum rentals receivables under operating leases as at 31 December 2022 are as follows:

	2022	2021
	£	£
Within 1 year	**151,286**	48,575
After 1 year but not more than 5 Years	**278,237**	-
	429,523	48,575

25. Share capital

	2022	2021
	£	£
Authorised		
100,000,000 Ordinary shares of £1.00 each	**100,000,000**	100,000,000
Allotted, called up and fully paid		
Ordinary shares of £1.00 each	**60,864,221**	60,864,221

26. Related party transactions

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

All other related parties are related by virtue of QIB Doha ownership or common non-executive directors, unless otherwise stated below.

Subordinated Wakala from related party
As at 31 December 2022 there was an outstanding subordinated Wakala balance payable to QIB Doha of £13,700,000 (2021: £13,700,000).

Total subordinated Wakala returns due to QIB Doha in the year were £948,718 (2021: £759,362) and returns of £365,163 (2021: £34,203) were payable as at the end of the year.

Bank lines
As at 31 December 2022, the Bank had £320,000,000 (2021: £285,000,000) of agreed inter-bank funding lines and £60,000,000 (2021: £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 2022, total demand deposits due to QIB Doha were £218,233 (2021: £201,095).

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 2022, the Bank had a balance of £34,372 with QIB Doha (2021: £43,278).

Guarantee fees
To support the Bank's ability to seek external funding, QIB Doha occasionally provide a guarantee to external financiers. In return, QIB Doha charge the Bank guarantee fees. During the year, there were no guarantee fees of this nature payable to Doha (2021: £nil). The amount outstanding as at 31 December 2022 is £2,808,456 (2021: £2,521,797).

During the year, QIB Doha also provided guarantees for financing arrangements and charged the Bank guarantee fees in return. The guarantee fees due to QIB Doha in the year were £77,500 (2021: £12,500) and returns of £nil (2021: £12,500) were payable as at 31 December 2022.

Financing arrangements
As at 31 December 2022, financing arrangements included a total of £9,323,388 (2021: £17,994,488) and other assets of £91,061 (2021: £76,032) relating to real estate secured financing transactions made with Directors of QIB Doha and their close family members, on an arm's length basis. Total returns due to the Bank in the year were £566,047 (2021: £524,983).

Due to customers
Directors of QIB Doha and their close family members held demand bank accounts, instant access saving accounts and term deposits with the Bank on an arm's length basis. As at 31 December 2022, the total of these deposits were £1,273,025 (2021: £716,002).

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

	2022	2021
	£	£
Emoluments including social security costs	**2,243,481**	1,844,425
Company contributions to pension plans	**73,341**	89,122
	2,316,822	1,933,547

27. Financial risk management

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

- Business risk;
- Capital adequacy;
- Credit risk;
- Market risk (including profit rate risk);
- Operational risk (including reputational risk, Shari'a compliance risk and operational resilience);
- Climate change risk;
- Liquidity risk;

- Group risk;
- Conduct risk; and
- Financial crime.

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 (RMF)

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

The key components of the Bank's RMF include:

- Risk identification;
- Risk measurement and assessment;
- Risk mitigation;
- Risk reporting and monitoring; and
- Risk governance.

Elements of the framework are detailed further below.

Governance structure

QIB (UK) Board

The QIB (UK) Board ('the Board') is the statutory board of directors of the Bank. It has authority to act on behalf of the Bank in all matters in accordance with the Memorandum and the Articles of Association of the Bank. The Board is responsible for the process of risk management and will form its own opinion on the effectiveness of the process. The Board provides oversight and takes responsibility for strategic leadership of the Bank, within a framework of good corporate governance and prudent and effective controls which enable risk to be assessed and managed. The Board, working with the Bank's Management Committee (ManCo), 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. The general duty includes specific responsibilities for ensuring that:

a) the Bank complies at all times with its statutory duties under the Companies Act 2006 as subsequently amended;
b) the Bank conducts its business at all times in conformity with Shari'a principles, subject to guidance provided by the independent SSB;
c) a clear strategy is developed by senior management and reviewed and challenged before adoption by the Board;
d) the Bank has an effective system of internal control and management of business risks, and it is conducted in accordance with the PRA/FCA principles for businesses;
e) adequate records are maintained;

f) a sufficient capital base is maintained to support the development of the Bank's business and to meet regulatory capital requirements at all times;
g) the Bank's Compliance and Risk function, and internal and external auditors are capable of and provided with sufficient support in the undertaking of their duties;
h) 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;
i) the composition of the Board is periodically reviewed to ensure that its skill set is appropriate to current and future business requirements;
j) oversight of the robust implementation of the RMF is maintained;
k) review and approval of a suitable Risk Appetite Statement (RAS) on at least an annual basis;
l) staff undergo annual risk and compliance training, are encouraged to and supported when undertaking relevant professional qualifications, and the continuous professional development of Senior management functions (SMF) and certified staff is monitored; and
m) a risk aware and risk responsible culture is promoted.

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

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

Board sub-committees

The Board has established a governance framework of Board Sub-Committees as set out in their respective terms of reference:

- Board Executive Committee (ExCo);
- Board Audit & Risk Committee (ARC); and
- Board Nominations & Remuneration Committee (RemCo).

The Board will perform an annual self-appraisal of its performance and that of its members, and will also annually solicit views from each Board and Management Sub-Committee before formally appraising their performance and making any necessary changes to their Terms of Reference, Standing Agenda and Membership. In 2022 a thorough Board effectiveness review was carried out by an external specialist firm.

In addition to the above, the Board and Management will consult with, and be guided by, the independent Shari'a Supervisory Board ('SSB'). However, as an independent, consultative body the SSB does not form part of the Bank's Corporate Governance Structure and is subject to its own Terms of Reference.

Board Executive Committee (ExCo)
Board ExCo has a specific role in relation to the review (and subsequent rejection, recommendation or approval as appropriate) of new credit exposures that are within its delegated authority, in accordance with the agreed delegated credit authority limit structure. Its principal purpose is to preserve the independence of the members of the Board Audit and Risk Committee (ARC) 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. ARC has specific delegated authority for the establishment, approval and periodic review of all policies and procedures adopted by the Bank as part of the risk management and control framework.

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

Shari'a Supervisory Board (SSB)
SSB is an independent body whose expenses are defrayed by the Bank. SSB's primary function is to review the proposed products and services of the Bank, to ensure that they are fully compliant and in accordance with the rules and principles of Shari'a.

Executive Management Committee (ManCo)
The QIB (UK) Board has authorised the Chief Executive Officer (CEO) to establish an executive management committee drawn from the executives of the Company as a Management Committee (ManCo) responsible for daily oversight and management of the Bank.

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

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

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

- Risk Management Committee (RMC);
- Asset & Liability Committee (ALCo); and
- Product and Pricing Committee.

The roles and responsibilities of each of these committees in regards to the risk management framework are covered below.

Risk Management Committee (RMC)
RMC has been established to provide support and advice directly to ManCo and indirectly to the Board in regards to risk governance.

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

1. It is responsible for establishing and overseeing a robust risk management framework and to advise ManCo, ARC and ultimately the Board, on all areas of risk management, the current risk exposures and future risk strategy, including capital and liquidity management; and

2. It has authority delegated from the Board, through ManCo, to make assessments, decisions and recommendations regarding the review and approval of proposed investments or credit risk exposures, in accordance with the delegated credit authority limit structure.

RMC is chaired by the Chief Risk Officer (CRO) and is primarily a second line committee, although it may also request that individuals from the first line provide input and/or attend meetings as required. In its wider role, RMC typically meets monthly and has the responsibility for the oversight of all risks to which the Bank is exposed. Where the review and approval of investments and credit decisions is required, RMC convenes on an ad-hoc basis.

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 (P&PC) 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 the potential impact to the product portfolio and the P&L impact. This committee is chaired by the CEO.

Material risks

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

Business risk

Business risk can be defined as any risk to the Bank arising from changes in its business, including the risk that the Bank may not be able to carry out its business plan and its desired strategy, resulting in reduced profits or potential failure. Financial performance and key metrics, as well as external macroeconomics, are significant areas the Bank will monitor in addition to risks arising from a deviation to the proposed business plan.

There are controls throughout the Bank in regard to business risk. The strategy of the Bank is set by the QIB (UK) Board and is closely monitored by ManCo and the Sub-Management Committees. The Board Committees also maintain close oversight over business risks, within their specific remits, and there is detailed reporting across a range of indicators by both the Finance and the Risk functions to management and through the committee/governance structure.

Capital adequacy

The Bank's strategy is currently one of growth in real estate financing, which carries with it the requirement for capital to increase to meet both internal and regulatory capital requirements. There is the risk that in the process, capital may not grow as quickly as is needed and actual capital held falls below that which is required based on assets held. This could be as a result of a fall in income relative to fixed costs, increased impairments or changes in the macro-economic environment impacting business activity.

The Bank, as part of its ICAAP, has thoroughly assessed the risks of its business, evaluating each identified risk individually to ensure that the Bank maintains adequate capital for its size, nature and complexity of business under normal and stressed situations.

Capital adequacy will be assessed and monitored on an ongoing basis, to ensure that the assessment of risks and calculation of capital requirement remain current to the Bank.

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; and

- Tier 2 capital, which includes qualifying subordinated Wakala deposits.

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

Credit risk

Credit risk is considered a material risk for the Bank and can be defined as a loss arising from a counterparty failing to fulfil contractual arrangements. This risk would occur if a counterparty fails to meet financing owed to the Bank due to inability to repay or refusal to repay. The Bank manages credit risk through a clearly defined Credit & Investment Policy and deal related approval process, and metrics have been set to guide and monitor this risk. Furthermore, the Bank actively manages its credit exposures with continuous interaction between the first and second lines of defense, and will act promptly if credit performance deteriorates, or is expected to deteriorate, due to economic or sector-specific weaknesses.

Management of credit risk

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

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

- reviewing credit and underwriting proposals, providing clear recommendation to the appropriate committee;

- reviewing and recommending exceptions to delegated limits, where appropriate;

- reviewing, monitoring and taking action as appropriate, for any non-performing credit facilities; and

- monitoring ongoing adherence to country and counterparty limits.

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

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

Credit risk exposures as at 31 December are shown below.

	2022	2021
	£	£
On Balance sheet:		
Balances with Banks	58,583,480	55,900,201
Murabaha financing	783,073,152	728,703,869
Financial assets at amortised cost	150,714,519	82,143,160
Total	**992,371,151**	**866,747,230**
Off Balance sheet:		
Undrawn Commitments	13,352,494	3,523,459
Total	**13,352,494**	**3,523,459**
Total Credit Risk	**1,005,723,645**	**870,270,689**

The credit exposures shown above are the maximum credit exposure and include accrued profit.

Concentration of risks of financial assets with credit risk exposure

The following tables provide additional analysis of the Bank's credit exposures, detailing the concentration by geographical location and the industry type of counterparties. For geographical sector, the 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	Asia	Total
	£	£	£	£	£
On Balance sheet					
Balances with Banks	52,952,271	34,369	5,596,840	-	58,583,480
Murabaha financing	783,073,152	-	-	-	783,073,152
Financial assets at amortised cost	25,481,145	111,690,636	-	13,542,738	150,714,519
31 December 2022	**861,506,568**	**111,725,005**	**5,596,840**	**13,542,738**	**992,371,151**
Off Balance sheet					
Undrawn Commitments	13,352,494	-	-	-	13,352,494
31 December 2022	**13,352,494**	-	-	-	**13,352,494**
Total	874,859,062	111,725,005	5,596,840	13,542,738	1,005,723,645
On Balance sheet					
Balances with Banks	47,559,173	43,275	8,297,753	-	55,900,201
Murabaha financing	728,703,869	-	-	-	728,703,869
Financial assets at amortised cost	2,002,331	68,024,892	-	12,115,937	82,143,160
31 December 2021	**778,265,373**	**68,068,167**	**8,297,753**	**12,115,937**	**866,747,230**
Off Balance sheet:					
Undrawn Commitments	3,523,459	-	-	-	3,523,459
31 December 2021	**3,523,459**	-	-	-	**3,523,459**
Total	781,788,832	68,068,167	8,297,753	12,115,937	870,270,689

Industry sectors

	Banks	Individuals	Real Estate	Corporates	Central Governments	Total
	£	£	£	£	£	£
On Balance sheet:						
Balances with Banks	58,583,480	-	-	-	-	58,583,480
Murabaha financing	-	-	783,073,152	-	-	783,073,152
Financial assets at amortised cost	90,739,334	-	-	-	59,975,185	150,714,519
31 December 2022	149,322,814	-	783,073,152	-	59,975,185	992,371,151
Off Balance sheet:						
Undrawn Commitments	-	-	13,352,494	-	-	13,352,494
31 December 2022	-	-	13,352,494	-	-	13,352,494
Total	149,322,814	-	796,425,646	-	59,975,185	1,005,723,645
Balances with Banks	55,900,201	-	-	-	-	55,900,201
Murabaha financing	-	-	728,703,869	-	-	728,703,869
Financial assets at amortised cost	49,189,684	-	-	3,748,138	29,205,338	82,143,160
31 December 2021	105,089,885	-	728,703,869	3,748,138	29,205,338	866,747,230
Off Balance sheet:						
Undrawn Commitments	-	135,331	3,388,128	-	-	3,523,459
31 December 2021	-	135,331	3,388,128	-	-	3,523,459
Total	105,089,885	135,331	732,091,997	3,748,138	29,205,338	870,270,689

Credit quality

In the first half of 2022, the UK residential real estate sector continued to perform well. Further to the Russian invasion of Ukraine, and the rising global inflation, the UK saw significant bank base rate rises. This saw a slow in UK house price growth with falls forecast for 2023. Prime central London has seen a modest price decline and slight fall in transaction volumes, however international buyers continue to invest. The commercial real estate sector faced ongoing challenges, although pent up demand from investors saw strong activity in some sectors and caution in others. Underlying asset quality and their demand are the key drivers for investor appetite. 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. Given the dynamics of the UK real estate sector, the portfolio was subject to greater scrutiny with regular reviews undertaken between the first and second line. The RMC reviews comprehensive MI covering the Banks credit and investment exposures. Given that real estate finance is the Bank's core business, the real estate finance portfolio is analysed to identify vulnerabilities. On a regular basis the value of the underlying security is assessed against the latest Land Registry House Price Index (HPI) data. Where a potential significant devaluation in underlying security is identified, the RMC considers any mitigating actions required. The portfolio is also stressed for other risks, such as a sharp increase in the Bank of England base rate. The output is reviewed at RMC.

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

The Bank assesses this based on key indicators such as:

- Adverse movement in internal risk rating;
- Contractual payments days past due;
- Adverse market changes in collateral value;
- Covenant breaches;
- FTV breach monitoring;

- Drop in external ratings; and
- Annual credit review.

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

During the year, the Bank incurred a credit gain on financial assets of £638,445 (2021: £661,700 loss).

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

	2022	2021
Total ECL loss allowance as at 1 January	**4,054,691**	7,235,377
Additional ECL loss allowances	**585,528**	665,401
Stage 3 recoveries	**(1,223,974)**	(3,700)
Stage 3 write-offs	**(1,782,008)**	(3,842,387)
Total ECL loss allowance as at 31 December	**1,634,237**	4,054,691

In 2022, two collateralised Murabaha financings, with a gross carrying amounts totaling £21,430,453, transferred from Stage 1 to Stage 2. The ECL loss allowance for these financings increased by a total of £595,543 in the year.

One collateralised Murabaha financing, with a gross carrying amount of £1,810,899, transferred from Stage 2 to Stage 1 in the year. The ECL loss allowance for this financing decreased by £12,850 in the year.

One collateralised Murabaha financing, with a gross carrying amount of £1,738,224, remained in Stage 2 during the year whilst another, with a gross carrying amount of £2,304,821 as at 31 December 2021, was repaid during 2022.

During the year, the Bank recovered £4,505 from two Stage 3 individual Qard Hasans and wrote off £1,477. The Bank also recovered £1,219,469 from a Stage 3 Murabaha financing during the year and wrote off £1,780,531.

The contractual amount outstanding on financial assets that are still subject to enforcement activity as at 31 December is £nil (2021: £ nil).

	Stage 1 £	Stage 2 £	Stage 3 £	2022 Total £	2021 Total £
Balances with banks					
Gross carrying amount	58,587,380	-	-	**58,587,380**	55,903,923
ECL allowance	(3,900)	-	-	**(3,900)**	(3,722)
Total balances with banks	58,583,480	-	-	**58,583,480**	55,900,201
Due from banks					
Gross carrying amount	-	-	-	-	-
ECL allowance	-	-	-	-	-
Total due from banks	-	-	-	-	-
Financing Arrangements					
Gross carrying amount	761,510,966	23,168,677	7,500	**784,687,143**	732,745,203
ECL allowance	(890,540)	(715,951)	(7,500)	**(1,613,991)**	(4,041,335)
Total financing arrangements	760,620,426	22,452,726	-	**783,073,152**	728,703,868
Financial assets at amortised cost					
Gross carrying amount	150,730,865	-	-	**150,730,865**	82,152,794
ECL allowance	(16,346)	-	-	**(16,346)**	(9,634)
Total financial assets at amortised cost	150,714,519	-	-	**150,714,519**	82,143,160
Undrawn Commitments					
Gross carrying amount	13,352,494	-	-	**13,352,494**	3,523,459
ECL allowance	-	-	-	-	-
Total undrawn commitments	13,352,494	-	-	**13,352,494**	3,523,459

The credit exposures shown above are the maximum credit exposure and include accrued profit.

	Investment Grade £	Standard Monitoring £	Special Monitoring £	Total £
Balances with Banks	58,583,480	-	-	**58,583,480**
Murabaha financing	719,124,267	63,948,885	-	**783,073,152**
Financial assets at amortised cost	150,714,519	-	-	**150,714,519**
31 December 2022	**928,422,266**	**63,948,885**	-	**992,371,151**
Off Balance sheet:				
Undrawn Commitments	889,213	12,463,281	-	**13,352,494**
31 December 2022	**889,213**	**12,463,281**	-	**13,352,494**
Total	**929,311,479**	**76,412,166**	-	**1,005,723,645**
Balances with Banks	55,900,201	-	-	55,900,201
Murabaha financing	639,711,930	84,194,511	4,797,428	728,703,869
Financial assets at amortised cost	82,143,160	-	-	82,143,160
31 December 2021	**777,755,291**	**84,194,511**	**4,797,428**	**866,747,230**
Off Balance sheet:				
Undrawn Commitments	2,240,038	1,187,303	96,118	3,523,459
31 December 2021	**2,240,038**	**1,187,303**	**96,118**	**3,523,459**
Total	**779,995,329**	**85,381,814**	**4,893,546**	**870,270,689**

Investment grade (R1 – R4) refers to external rating of BBB- and above. Special monitoring refers to all the assets that are under review by RMC 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 2022, the Bank had one Stage 3 (non-performing/impaired) asset.

Sensitivity Analysis

Due to the impact of the COVID-19 pandemic on the UK economy and the ongoing market conditions, the Bank reassessed the key economic indicators and updated the ECL methodology to incorporate Unemployment rate and House Price Index (HPI) in addition to GDP. The forecast GDP, unemployment rates and HPI growth rate are revised on a quarterly basis. However, the majority of the Bank's clients are resilient to UK macroeconomic factors as they are High Net Worth Individuals residing overseas, albeit with collateralised UK properties.

The UK Government has taken various actions to moderate the impact of the pandemic on the wider economy, and the Bank of England base rates have been revised upwards to respond to the rise in inflation.

Results from the latest sensitivity calculation reflect the differences in different economic scenarios.

Using 31 December 2022 ECL results, the model performance assessment is as follows:

Risk Factor performance	Sensitivity
Sensitivity testing of Corporate PD model on the macro forecasts (negative economic outlook only)	766,678
Sensitivity testing of Retail PD model on the macro forecasts (negative economic outlook only)	76,049
Sensitivity testing of Corporate PD model on the macro forecasts (positive economic outlook only)	(446,950)
Sensitivity testing of Retail PD model on the macro forecasts (positive economic outlook only)	(58,250)

The sensitivity analysis above has been calculated by comparing the outcome of using the Bank's blended weighting (50% base case, 25% pessimistic case and 25% optimistic case) versus either a 100% pessimistic case scenario or a 100% optimistic case scenario.

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 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 regularly against HPI data. Where the Bank identifies potential adverse movement in the values of its underlying security, it can call for a third party valuation and/or increase its capital charge for the associated facility to manage this risk.

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

	2022		2021	
	Exposure	Collateral	Exposure	Collateral
	£	£	£	£
Balances with Banks	58,583,480	-	55,900,201	-
Other financing	-	-	-	-
Murabaha financing	783,073,152	1,423,007,003	728,703,869	1,255,588,977
Financial assets at amortised cost	150,714,519	-	82,143,160	-
Total Credit Risk	**992,371,151**	**1,423,007,003**	**866,747,230**	**1,255,588,977**

Market risk

Market risk is defined as the risk of losses arising from adverse changes in the value of positions, as a result of movements in prices across foreign exchange, commodity, debt and rate markets
The Bank does not have material exposure to market risk or any trading book assets as it is not the nature of a Shari'a compliant bank to engage in speculative market trading. The Bank does however accept market risk to some degree by holding Sukuk, and the Board's strategic view of market risk is therefore to accept it only on the basis of asset and liability management and for liquidity purposes, and not in pursuit of trading profits.

The market risk within the Bank is managed in accordance with the PRA Rule Book.

The market risk definition can be further broken down into the sub-risk types shown below.

Foreign Exchange risk

This is the sensitivity of financial positions to adverse movements in foreign exchange rates. Foreign Exchange (FX) 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 (i.e. FX currency swaps) or through foreign currency commission payments and receipts. The Bank utilises a combination of FX spot, outright and forward contracts to manage this risk. Furthermore, early warning indicators (EWI) have been set to monitor movements in the currency pairs that the Bank is exposed to, in order to prompt management discussion during times of increased volatility.

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

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Balances with Banks	5,630,358	3,186,711	50,080,893	2,763	207,100	59,107,825
Financing arrangements	-	-	779,482,973	-	-	779,482,973
Financial assets at amortised cost	124,343,037	-	25,457,358	-	-	149,800,395
Other Assets	906,903	-	30,274,852	-	-	31,181,755
31 December 2022	**130,880,298**	**3,186,711**	**885,276,076**	**2,763**	**207,100**	**1,019,552,948**
Liabilities						
Due to Banks	51,516,675	11,829,958	18,927,919	-	22,991,616	105,266,168
Due to other financial institutions	12,853,622	-	32,659,369	-	-	45,512,991
Due to customers	110,884,052	3,121,737	620,690,073	3	-	734,695,865
Subordinated Loan	-	-	13,700,000	-	-	13,700,000
Other Liabilities	3,983,022	27,365	25,966,606	-	-	29,976,993
Cash flow reserve net of tax	-	-	(75,855)	-	-	(75,855)
31 December 2022	**179,237,371**	**14,979,060**	**711,868,112**	**3**	**22,991,616**	**929,076,162**
Net on balance sheet financial position	**(48,357,073)**	**(11,792,349)**	**173,407,964**	**2,760**	**(22,784,516)**	**90,476,786**
Forward foreign exchange contracts	48,350,375	11,772,631	-	-	22,991,815	83,114,621
Assets						
Balances with Banks	8,333,256	2,215,781	45,775,176	9,756	8,709	56,342,678
Financing arrangements	-	-	730,087,440	-	-	730,087,440
Financial assets at amortised cost	81,563,445	-	-	-	-	81,563,445
Other assets	589,260	-	28,793,678	-	-	29,382,938
31 December 2021	**90,485,961**	**2,215,781**	**804,656,294**	**9,756**	**8,709**	**897,356,501**
Liabilities						
Due to Banks	74,118,448	26,910,988	19,227,920	-	-	120,257,356
Due to other financial institutions	4,408,712	-	22,556,443	-	-	26,963,155
Due to customers	128,940,638	2,184,838	499,679,833	2	-	630,805,311
Subordinated Loan	-	-	13,700,000	-	-	13,700,000
Other Liabilities	3,119,008	4,842	19,765,456	-	-	22,889,306
Cash flow reserve net of tax	-	-	32,713	-	-	32,713
31 December 2021	**210,584,806**	**29,100,668**	**574,982,365**	**2**	**-**	**814,647,841**
Net on balance sheet financial position	**(120,098,845)**	**(26,884,887)**	**229,673,929**	**9,754**	**8,709**	**82,708,660**
Forward foreign exchange contracts	122,054,962	26,856,640	-	-	-	148,911,602

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible and, as at 31 December 2022, held a £179,653 net gain from FX hedges (2021: £83,629 net gain). Every foreign currency exposure is hedged by FX forwards with similar maturity profile to eliminate any foreign currency risk. For this reason the Bank has not provided a separate foreign exchange sensitivity risk analysis.

Profit rate risk in the banking book (non-trading book)

This is the sensitivity of financial positions to adverse movements in market interest rates. The risk is largely owing to the mismatching of assets and liabilities (with respect to maturity/re-pricing profile) in tandem with shifting market rates across various tenors of the yield curve. This risk impacts the Bank's Balance Sheet positions which need to be regularly re-priced and can be subject to varying levels of volatility. Profit rate risk also affects the Bank's funding costs, whereby a change in market rates can positively or negatively affect the cost of funding.

The Bank monitors profit rate risk movement at monthly ALCo meetings and is controlled by Treasury as part of the Bank's asset and liability management. The Treasury department reports to ALCo once a month on the sensitivity of a 2% parallel shift in the yield and its impact on the Bank. Treasury, Finance, Risk and ALCo continuously monitor profit rate risk in the banking book (PRRBB) and if this increases, the Bank will look to regularise the position through various management actions. The Bank also has a profit rate EWI's to monitor a 25bp movement in any rolling 5 day period in the 6 month Overnight Indexed Swap curve.

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

Parallel rate shock risk	**2022**	2021
• ±2% rate shock	£7,997,720	£4,049,212
• Impact on regulatory capital	(8.0%)	(4.5%)

Liquidity risk

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

- Maintain adequate liquidity at all times in order to meet obligations as they fall due;
- Maintain a portfolio of regulatory and Shari'a compliant high quality, unencumbered assets as a Liquid Asset Buffer (LAB), which can be liquidated at short notice;
- Complete an ILAAP proportionate to the nature, scale and complexity of its business at least annually or more frequently if required;
- Appropriately manage any mismatch between the tenor of its assets and liabilities;
- Build and maintain a diversified deposit/funding base that is within the Bank's Risk Appetite;
- Conduct regular and broad-based stress testing;
- Implement liquidity contingency funding plans;
- Have adequate systems and controls for monitoring, measuring and managing liquidity on a daily basis;
- Ensure sufficient senior management oversight; and
- Maintain clear lines of communication with the Regulator and to notify them of any breaches of its guidelines as soon as they occur.

Liquidity Risk is primarily managed by Treasury and Finance, with oversight from the Risk department as well as the ALCo, RMC and ARC. Sources of liquidity risk include unforeseen withdrawal of deposits, restricted access to new funding with appropriate maturity and profit characteristics, inability to liquidate marketable assets in a timely manner with an acceptable risk of capital loss, unpredicted non-payment of financing obligations and a sudden increase in demand for financings.

The Bank has a Liquidity Risk Management Framework (LRMF) that is used to communicate the strategy for managing and monitoring liquidity risk within the Bank. This framework enables the Bank to identify, measure, manage and monitor liquidity and funding risk both intraday and over appropriate range of time horizons, so as to ensure it maintains adequate levels of liquidity buffers and an appropriate funding profile.

The Bank seeks to mitigate risk by implementing sound systems and controls, through robust corporate governance arrangements. The LRMF and stress testing programme have required involvement of the executive and senior management representatives in formulating and implementing the strategy, and have been subject to challenge and review at all relevant levels, including the Board. The Bank has also taken into consideration the Principles for Sound Liquidity Management and Supervision dated September 2008 issued by the Basel Committee on Banking Supervision when constructing the Bank's LRMF.

The Bank's on-line retail savings product was launched in 2018. The infrastructure supporting the product, both in the outsourced supplier and internally within QIB (UK), have been tested and proven through the cycle, including the maturity of a range of products with different tenors The Bank expanded its product range in 2022 in order to meet its regulatory and funding requirements. This includes the addition of an additional online platform through which the Bank offers retail savings products.

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
Assets						
Cash and balance with Banks	59,107,825	-	-	-	-	59,107,825
Financing arrangements	25,527,381	48,640,808	73,539,104	572,233,891	59,521,809	779,462,973
Financial assets at amortised cost	149,800,395	-	-	-	-	149,800,395
Other Assets	3,403,069	248,103	1,554,430	25,552,188	423,965	31,181,755
31 December 2022	**237,838,650**	**48,888,911**	**75,093,534**	**597,786,079**	**59,945,774**	**1,019,552,948**
Liabilities						
Due to Banks	13,445,973	80,885,556	10,954,639	-	-	105,266,168
Due to other financial institutions	9,591,546	1,281,998	34,639,447	-	-	45,512,991
Due to customers	145,219,225	95,768,962	386,065,021	107,612,657	-	734,695,865
Subordinated Loan	-	-	-	6,700,000	7,000,000	13,700,000
Other Liabilities	792,768	1,658,996	17,959,652	8,241,046	1,324,531	29,976,993
Cash flow reserve net of tax	(75,855)	-	-	-	-	(75,856)
31 December 2022	**168,973,657**	**179,605,512**	**449,618,769**	**122,553,703**	**8,324,531**	**929,076,162**
Undrawn commitments	13,352,494	-	-	-	-	13,352,494
Difference	**55,512,499**	**(130,716,601)**	**(374,525,225)**	**475,232,376**	**51,621,243**	**77,124,292**
Assets						
Cash and balance with Banks	56,342,878	-	-	-	-	56,342,678
Financing arrangements	14,313,322	42,408,671	103,451,702	518,291,511	51,602,234	730,067,440
Financial assets at amortised cost	81,563,445	-	-	-	-	81,563,445
Financial assets available for sale	-	-	-	-	-	-
Other Assets	2,701,978	98,879	985,903	25,434,270	161,908	29,382,938
31 December 2021	**154,921,423**	**42,507,550**	**104,437,605**	**543,725,781**	**51,764,142**	**897,356,501**
Liabilities						
Due to Banks	41,508,444	67,187,277	11,561,635	-	-	120,257,356
Due to other financial institutions	1,082,940	1,003,894	24,876,321	-	-	26,963,155
Due to customers	85,227,856	91,420,085	338,373,073	115,578,085	206,412	630,805,311
Subordinated Loan	-	-	-	6,700,000	7,000,000	13,700,000
Other Liabilities	531,551	846,772	13,435,846	7,048,807	1,026,330	22,889,306
Cash flow reserve net of tax	32,713	-	-	-	-	32,713
31 December 2021	**128,383,304**	**160,468,028**	**388,246,875**	**129,326,892**	**8,232,742**	**814,647,841**
Undrawn commitments	3,523,459	-	-	-	-	3,523,459
Difference	**23,014,660**	**(117,950,478)**	**(283,809,270)**	**414,398,889**	**43,531,400**	**79,185,201**

The Bank continues to hold a surplus cash position ensuring that sufficient funds were available to meet both contractual and unforecasted liabilities as they fell due. The Bank continues to comply with the Regulator's more lenient approach to granting fixed deposit withdrawal requests by holding additional funds in order to facilitate such requests which were assessed on a case-by-case basis.

Given the ongoing inflationary pressures on the economy and the rising base rate ALCo continues to meet on a weekly basis. This has meant liquidity levels have remained above regulatory requirements and funding has been managed without the need to adopt any of the Bank's contingency funding options.

Through its increased access to the mainstream UK retail savings market, the Bank has been able to acquire additional long term deposits of over 1 year or longer in tenor in order to increase the Bank's long term cash position. These deposits have replaced less stable deposits during another uncertain year for liquidity. Mainstream retail savings deposits increased by £92m to £364m (2021: £272m) as at 31 December 2022.

Liabilities arising from financing activities

	Balances as at 1 January 2022	Cashflows	Balances as at 31 December 2022
	£	£	£
Subordinated Loan	13,700,000	-	13,700,000
Total liabilities arising from financing activities	**13,700,000**	**-**	**13,700,000**

Total subordinated Wakala returns due to QIB Doha in the year were £948,718 (2021: £759,362) and returns of £365,163 (2021: £34,203) were payable as at 31 December 2022.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of the definition includes legal risk, reputational risk and for QIB (UK) also includes Shari'a compliance risk. It is the responsibility of all staff to manage the operational risk inherent in their roles and responsibilities and overall ownership sits with the Chief Operating Officer (COO). Operational risk is managed within the Bank through a number of processes based on the Three Lines of Defence model. These include risk and control self-assessments (RCSAs), risk event monitoring, internal audits and controls testing. All of these processes help the Bank to identify, assess, measure and mitigate risks, whilst ensuring the correct control landscapes are in place and are effective.

To help control and mitigate potential operational risks, the Bank ensures its control environment, including a RCSA process, Risk Incident Report log and operational Risk Appetite monitoring, is maintained at all times and remains appropriate to support business objectives. When undertaking RCSAs, staff have been required to specifically consider home working risks. This process helps to identify additional risks and ensure the appropriate controls are in place. Ultimately, the Risk Register will cover the operational risks associated with all staff remote working.

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 which follows RMC guidance.

The Board retains ultimate responsibility for oversight of risk management and control in the Bank. This includes setting a clear RAS and, whilst the Board approves the strategy and policy documents, it delegates part of this responsibility to ARC. At a management 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:

1. The first line of defence are the front-line business units and support functions who have prime responsibility for risk. They are responsible for identifying, measuring, controlling and monitoring risk within their areas of accountability. They are required to establish effective control frameworks for their

business in compliance with the risk policy hierarchy, and are required to act within the Risk Appetite parameters set by the Board. They are responsible for the development and review of some policies, with input from the second line. For each material risk they should identify, assess, measure, monitor and report.

2. The second line of defence is the oversight management committees and risk control functions of Risk Management (including the CRO) and Compliance. They act as independent functions providing oversight of, and challenge to, the effectiveness of risk management arrangements and control frameworks in the business i.e. assessing the first line of defence's monitoring of risk management. The second line of defence will ensure appropriate risk policies are in place and are maintained and reviewed accordingly. The Risk function also collates aggregated risk management information for senior management and the Board and provides analysis of data and trends. For each material risk they advise, challenge, control and escalate. Furthermore, they 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.

3. The third line of defence contains the independent assurance functions, namely Internal Audit. The role of this function is designed to make a valuable and objective assurance assessment on the effectiveness of controls and processes. This helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. For each material risk they review, identify gaps, escalate breaches and recommend enhancements.

The Bank's Risk Register provides details on the top and medium priority risks derived from Incident Reports, RCSA results (where residual risk is considered medium or high priority). The Risk Register has a clear action plan/mitigation steps, owner and timeline to resolve and is presented through the appropriate governance committee.

The Compliance team ensures that all aspects of regulatory risk impacting the Bank are appropriately reviewed and managed. The Bank does not have a dedicated in-house legal function but uses professional legal firms for all matters requiring legal advice. The Compliance team undertakes tests as part of its annual Compliance Monitoring Plan (CMP). The CMP has been expanded to include controls and procedures specifically implemented in relation to remote / hybrid working. These tests have covered social distancing requirements, email security, treating customers fairly, data protection and clear desk requirements to list a few.

Reports from Internal Audit are reviewed by ARC, which is also responsible for reviewing and approving the annual internal audit plan. To provide the Board with assurance, an audit was carried out in relation to the measures undertaken in response to remote / hybrid working. The outcome of the audit was satisfactory and provided a handful of recommendations that have been implemented.

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

Cyber risk, which is assessed as part of the operational risk framework, is the risk of any financial loss, disruption or damage as a result of cyber-attacks, security breaches, unauthorised 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 and Business Continuity Planning, and is considered as part of the Bank's overall operational risk assessment.

The PRA defines Operational Resilience as 'the ability of firms, FMIs and the sector as a whole to prevent, respond to, recover and learn from operational disruptions'. An operationally resilient firm is considered one which:

- Prioritises the things that matter - by understanding the services it delivers to an external end user or participant and determining which are the most important given the propensity to pose an intolerable risk to the regulator's objectives. The firm should also understand the critical dependencies to deliver the service.

- States clear standards for operational resilience: by defining the maximum tolerable level of disruption to an important business service, expressed by reference to specific outcomes and metrics.

- Invests to build resilience: by testing its ability to remain within its impact tolerances and identifying where vulnerabilities need to be addressed, while being prepared to invest to build resilience.

The Bank's Operational Risk Assessment provides details of the Important Business Services (IBS), IBS dependencies, impact tolerances, testing plan and results. The SMF24 is the responsible individual within the Bank for the resilience of operations.

The COVID-19 pandemic tested the Bank's operational resilience, however it demonstrated that it could remain operational even in the most challenging period as seen during 2020/21. Our customers had ongoing access to products and services with very limited disruption.
During the year, no complaints were received from clients, specifically in relation to the Bank's hybrid working arrangements.

Sustainability and climate change risk

The Bank is preparing to issue its first Sustainability Report covering 2022. Within the Bank's environmental, social, and corporate governance (ESG) framework it has established a Climate Change Risk Policy, which sets out how the management of climate change risk is implemented into the wider RMF. The Bank remains committed to implementing its long term plan. The CRO (SMF4) has been given responsibility for identifying and managing financial risks from climate change and ensuring the implementation.

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.

Group risk

As part of the wider QIB Group, QIB (UK) is indirectly exposed to the risks that any other parts of the Group are exposed to, primarily leading to a reputational risk to the Bank. There is also a more direct risk associated with the loss of referred business primarily from Qatar, should there be a reduction in the Group's ability to make such referrals. Also, there would be a significant impact should the QIB Group experience difficulties and suffer a reduction in its credit ratings or, in extreme circumstances, fail. The Bank has assessed group risks under Pillar 2B in its ICAAP, and assesses capital adequacy using the stress testing approach.

Conduct risk

The Bank has zero appetite for deliberate breaches of conduct rules and regulations, as well as breaches caused by a failure to follow governance processes or have adequate systems and controls in place. The Bank practices a no blame culture and promotes transparency and openness, which is essential in order to prevent such situations occurring or to address them when they do occur, and will take the necessary steps to ensure that it has appropriate procedures in place for handling customer complaints fairly, effectively and promptly to a resolution.

Financial crime

Given the Bank's customer base is predominantly from the Middle East, there are a large number of clients that are classified as high risk/politically exposed persons (PEPs). While the Bank can get comfortable with higher risk PEP customers from its core Gulf Cooperation Council (GCC) markets, it does not have appetite to on board PEPs from outside of the GCC. Accordingly, the Bank has strong controls and mitigates to identify and control this risk and does everything to prevent supporting transactions or activities relating to financial crime or terrorism.

28. Fair value of financial assets and liabilities

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

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the 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); and

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

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.
The fair value of forward currency exchange contracts was determined using quoted forward exchange rates matching the maturity of the contracts.

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

	Level 1	Level 2	Level 3	Total
31 December 2022	£	£	£	£
Derivative financial instruments at fair value through profit and loss	-	989,055	-	989,055
Investment property at fair value through profit and loss	-	7,665,000	-	7,665,000
Total Assets	-	**8,654,055**	-	**8,654,055**
Derivative financial instruments at fair value through profit and loss	-	1,345,231	-	1,345,231
Total Liabilities	-	**1,345,231**	-	**1,345,231**

	Level 1	Level 2	Level 3	Total
31 December 2021	£	£	£	£
Derivative financial instruments at fair value through profit and loss	-	1,429,382	-	1,429,382
Investment property at fair value through profit and loss	-	10,240,000	-	10,240,000
Total Assets	-	**11,669,382**	-	**11,669,382**
Derivative financial instruments at fair value through profit and loss	-	1,289,353	-	1,289,353
Total Liabilities	-	**1,289,353**	-	**1,289,353**

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

29. Events after the balance sheet date

There were no events between the balance sheet date and the date when the financial statements were signed, which would have had any material impact on the financial results for the year ended 31 December 2022.

30. Immediate and ultimate controlling party

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

31. Capital Requirements Directive IV ('CRD IV') – country by country reporting

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

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

The Bank falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2022 are set out below.

	UK	*Total*
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income	£20,033,973	£20,033,973
d) Average number of employees	42	42
e) Profit before tax	£11,010,965	£11,010,965
f) Corporation tax paid	£1,024,076	£1,024,076
g) Public subsidies received	-	-