



QIB (UK) plc

Annual Report

For the year ended 31 December 2021

Registered number 4656003



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Strategic Report

In reflecting upon the experience at QIB (UK) during the past 12 months, it certainly feels like a defining year in the positive development of our Bank. It gives me pleasure to report an outstanding performance in 2021 where the Bank posted a net profit after provisions and tax of £6.86m, which represented an increase of 45% year-on-year.

Below are the highlights of the financial performance during 2021:

<u>Key Performance Indicators (KPIs)</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Financing Portfolio (£m)</i>	726	594	531
<i>Cost-to-Income Ratio (%)</i>	52%	55%	56%
<i>Net Profit after Tax (£m)</i>	6.9	4.7	4.4
<i>Net Income Margin (%)</i>	2.1%	2.0%	2.1%
<i>Pre Tax Return on Capital (%)</i>	10.1%	8.1%	8.5%

As we know, COVID-19 continued to cause uncertainty during 2021, with a further lockdown in Q1 and intermittent Government guidance to work from home where possible throughout the year. Nevertheless, the economy, and in particular the real estate market, bounced back strongly as the successful vaccination programme demonstrated that we could learn to live with the pandemic. Our Bank was able to take advantage of this market activity, and as a result during the year our financing portfolio increased by 22%. This was driven by a record £210m of new business transacted. As the economic data improved, we also took the opportunity to revisit our Risk Appetite Statement which by and large returned to the pre-pandemic levels.

In accordance with the regulatory guidelines, we continued to support our clients who had been negatively impacted by the COVID-19 pandemic. Of the 22 facilities that benefitted from repayment holidays, all resumed payments in line with their contractual obligations and 11 have fully made good on their outstanding payments. Nevertheless, we continue to monitor the quality of our asset portfolio and during the past year, in co-operation with external consultants, we introduced a new Expected Credit Loss (ECL) model. We remain focussed on this area and provisions increased slightly during the year, although our NPF ratio is still low at 1.86%.

The cost of funding remained at low levels during the majority of 2021, although the increase in Bank of England Base Rate in December, the first increase since 2nd August 2018, signalled that the recent period of super low interest rates is drawing to a close. QIB (UK) remains committed to accessing reasonably priced liquidity from a variety of sources, and once again the diversified profile of our liabilities portfolio enabled us to cope with all liquidity demands. As well as the significant asset growth, this included compliance with the new Net Stable Funding Ratio. Through careful management of our maturity profile, we were well placed to comply with this NSFR when it came into force on 1st January 2022. During the year, in line with the Bank of England directive, we also successfully transitioned our asset portfolio away from LIBOR and onto Bank of England Base Rate, in line with the majority of our UK banking peer group.

A highlight of the year came when QIB (UK) was again recognised by The Banker with the award for the UK Islamic Bank of the Year 2021. This is our second such award in three 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. At the time of the announcement, Mr Bassel Gamal, Chairman of QIB (UK) and Group CEO of Qatar Islamic Bank commented;

"We are honoured to have been awarded Islamic Bank of the Year once again in Qatar as well as in the UK, another testament of our success in maintaining market leadership in Islamic banking in Qatar and beyond with the support of the board of directors and the efforts of all QIB employees."

The take up of our mobile banking service, which launched in 2020, has continued to grow and has proved extremely beneficial for our clients at a time of restricted access to the Bank premises. I am pleased to report

that to date this service has proved extremely reliable, providing easy access for client transactions and offering the Bank greater operational efficiencies. The planned Phase II upgrade, adding the capability of international payments, went ahead in May and we are now seeing almost 60% of eligible payments using this new medium.

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 2022 remain credit risk, regulatory risk and operational risk. The initiatives on climate change risk and operational resilience were at the forefront of our regulatory compliance activity during the year, and we are well placed to meet the required deadlines. At QIB (UK) we continue to maintain 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 made significant progress during 2021 based upon our balance sheet growth, leading to a 19% increase in net operating revenues year-on-year, accompanied by exceptional cost control. As a result, our cost-to-income ratio fell once again from 55% to 52%. With no dividends paid out, our capital position remains healthy, and for the first time our return on capital exceeded 10%, coming in at 10.1% up from 8.1% last year.

I am thankful for the continued guidance and support of our Chairman, Board of Directors and Shari'a Supervisory Board and during the year we welcomed Dr. Mohamad Ahmaine as a new member of the SSB.

Within the Bank, I am pleased to be able to report that the senior management team remains unchanged and there was a modest increase in staff headcount to a total of 41 by the year-end. Once again I give credit to my colleagues who have worked tirelessly throughout 2021, and their efforts have ensured that QIB (UK) has continued to operate at full capacity and provide its usual high levels of service. As we start 2022, we will continue to focus on developing our core business and 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
21st January 2022

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

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 2022 will include the continued 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 without negatively impacting any customers by the end of 2021. The Bank has also considered the regulatory requirements for the Net Stable Funding Ratio (NSFR) and implemented risk monitoring and controls accordingly. There are a number of regulatory changes that will drive further work in 2022, 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 2022.

At QIB (UK) we continue to maintain a robust risk management framework and governance structure, of which further details are available in note 27 to this report.

Financial results

The financial statements for the year ended 31 December 2021 are shown on pages 19 to 62. The profit for the year is £6,855,527 (2020: £4,743,792).

Proposed dividend

The Directors do not propose the payment of a dividend (2020: £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 8.

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 was enhanced in light of COVID-19 and 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 2023. 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 COVID-19 pandemic, and the forward looking metrics in the Bank's expected credit loss modelling have been enhanced and re-calibrated as part of a complete re-design during 2021.

As at 31 December 2021, QIB (UK) held eligible capital of £90.5m which translates to a capital surplus of £14.5m. In line with previous years, the 2021 profits will be retained to further strengthen the capital position.

ICAAP and ILAAP stress tests have improved and were run during 2021 to further support the real-time liquidity challenges faced during the COVID-19 pandemic. The Bank closes 2021 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.

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 and has introduced COVID secure measures during the pandemic.

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
21st January 2022

Statement of Directors' Responsibilities

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

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 2021

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 2021.

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 2021 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 Members of QIB (UK) PLC

Opinion

We have audited the financial statements of QIB (UK) PLC (the "Company") for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 2021 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 2021 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 2021.
- 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 ("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 twelve months to the end of January 2023 .

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Overall materiality of £0.8 million (2020: £0.9m) which represents 1% of the Company's equity (2020: 1% of the Company's regulatory capital including equity and subordinated debt as per the capital management section of note 25).

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.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Improper recognition of revenue: Income from Financing and Fees and Commissions Income</p> <p>The key risks of improper recognition of income arise from:</p> <p>(i) 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 contractual agreements should be treated under IFRS15; and</p> <p>(ii) Fees and commissions can require judgment as to the amount and timing of recognition. There is a risk that fees and commission income is not recorded in the correct accounting period or in accordance with how the underlying contractual agreements should be treated under IFRS15 or IFRS9.</p> <p>Income from financing activities is £21.4 million (2020: £19.8 million).</p> <p>Fees and commissions income is £1.6 million (2020: £1.7 million).</p> <p>Refer to the accounting policies note 4. k., note 5, and note 8 of the financial statements.</p>	<p>We performed the following procedures in response to the identified risk:</p> <ul style="list-style-type: none"> ▶ Assessed the design, and tested the operating effectiveness of key controls over income with the assistance, where required, of EY IT audit professionals ▶ For both fixed and variable components 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 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 has been recorded appropriately. ▶ For deals with amortisation of principal, we tested the appropriateness of income recognised. ▶ Performed year-end cut-off testing to identify whether income is recognised in the appropriate period. ▶ Verified to supporting evidence a sample of journal entries included have characteristics that indicated unusual or inappropriate adjustments to fees and commissions income ▶ Reviewed aged and significant debtors at year-end to identify potential fictitious or non-recoverable revenue. 	<p>We highlighted the following to the audit committee:</p> <p>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 IFRS15.</p>
<p>Credit impairments</p> <p>The determination of the allowance for expected credit losses is highly subjective.</p>	<p>We performed the following procedures in response to the identified risk:</p>	<p>We highlighted the following to the audit committee:</p>

<p>The ongoing impact of COVID-19 continues to result in uncertainty which may impact judgments and assumptions being applied as at 31 December 2021.</p> <p>Financing arrangements amount to £726 million (2020: £594 million) net of credit impairment provisions of £4 million (2020: £7 million). An impairment charge of £662 thousand (2020: £832 thousand) was taken to the Statement of Comprehensive Income.</p> <p>Refer to the strategic report pages 3 and 4, accounting policies note 4. g., and note 14 of the financial statements.</p>	<ul style="list-style-type: none"> ▶ Walked through and understood changes to the modelling process since the prior year. ▶ Assessed the design effectiveness of key controls around identifying credit events. ▶ Obtained and assessed management's expected credit loss policy under IFRS9. ▶ Engaged risk and quantitative specialists to review the methodology and model used for the ECL calculation including loan portfolio staging and post-model adjustments. ▶ Engaged economists to assist us in assessing the appropriateness of scenarios used as inputs to the ECL model, including independent analysis on forecasts using third party data. ▶ Understood and challenged assumptions in relation to the impact of COVID-19 upon macro-economic scenarios in conjunction with our economists and assessed the impact to credit risk of the utilisation of payment holidays by certain counterparties. This included: <ul style="list-style-type: none"> i. Assessed the judgment applied to the accounting for payment holidays, breaches of covenant, and the appropriateness of associated loan staging; ii. Assessed the macroeconomic scenarios applied by management and the judgment applied to overlay adjustments made to the ECL model; and iii. Assessed the impact of judgments applied to provisions where financial support or credit enhancements were applied. ▶ On a sample basis we tested credit files, arrears statistics, management's watch list and related documentation, as well as publicly available information that we judged to be relevant to assess the appropriateness and adequacy of impairment 	<p>Overall provisions were within a reasonable range.</p> <p>Our assessment of the design effectiveness of key controls around identifying credit events were that they are effective.</p> <p>Our testing of models and economic inputs indicated certain judgmental differences; however, these did not result in a material impact to the financial statements.</p> <p>Based on the procedures performed, we have concluded that credit impairments are not materially misstated and accounted for in line with IFRS9.</p>
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	<p>provisions, focusing on areas where significant estimation is involved.</p> <ul style="list-style-type: none"> ▶ Assessed management's stress testing of the expected credit loss model to validate it operates as designed through analysis of the outputs 	
<p>Recognition and valuation of deferred tax asset</p> <p>Under IAS12, 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.</p> <p>There remains risk attributable to COVID-19 and the uncertainty it places on economic forecasts and consequently on those of the Company, which is necessary to estimate the recoverability of the deferred tax asset.</p> <p>The recognised deferred tax asset is £1.8 million (2020: £1.1 million) with a charge of £0.4 million being taken to the Statement of Comprehensive Income (2020: £0.7 million).</p> <p>The unrecognised deferred tax asset is £1.0 million (2020: £1.4 million).</p> <p>Refer to the accounting policies note 4. o., and note 12 of the financial statements.</p>	<p>We performed the following procedures in response to the identified risk:</p> <ul style="list-style-type: none"> ▶ Walked through the process and controls in place over the calculation of the deferred tax asset, to obtain an understanding of the estimation uncertainty. ▶ Assessed profit forecasts used to support the recognition of the Deferred Tax Asset for indicators of possible management bias. Analysed the evidence supporting key assumptions made by management and performed, sensitivity analysis over those assumptions. To assess the reasonableness of the current profit projections we assessed the historic accuracy of forecast projections. ▶ Utilised EY Tax professionals to support us in assessing the calculations used in determining the amount of deferred tax asset is in line with the appropriate tax accounting requirements 	<p>We highlighted the following to the audit committee:</p> <p>Based on the procedures performed, we determined that the deferred tax asset is not materially misstated and accounted for in accordance with IAS12.</p>
<p>Valuation of investment property</p> <p>The Company, as a lessor, leases out a portion of its property located in London, UK. Part of the building is classified as Investment property and therefore reported at fair value.</p>	<p>We performed the following procedures in response to the identified risk:</p> <ul style="list-style-type: none"> ▶ Walked through the process and controls in place over property valuation, to obtain an understanding of the estimation uncertainty. ▶ Assessed whether indicators of possible management bias exist 	<p>We highlighted the following to the audit committee:</p> <p>As a result of the procedures performed, we concluded that the value of the investment property is reasonable and in line with IFRS9.</p>

<p>There exists valuation risk due to COVID-19 and the uncertainty it places on the valuation of property prices in London, UK.</p> <p>The value of the investment property was £10.24 million, and charge to the Statement of Comprehensive Income was £nil (2020: £nil).</p> <p>Refer to accounting policies note 4. m., and note 19 of the financial statements.</p>	<p>and assessed the potential impact of such assumptions used on the value of the Investment property.</p> <ul style="list-style-type: none"> ▶ Obtained and assessed evidence to validate the classification between investment property and property held for own use. ▶ Engaged the EY Real Estate valuation team to support us in assessing and challenging the third-party valuation report used by management to support the carrying value of the property. ▶ Assessed the external valuer's reputation and competency 	
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Our application of materiality

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

Materiality

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

We determined materiality for the Company to be £0.8 million (2020: £0.9 million) of the Company's equity, which is 1% (2020: 1% of the Company's regulatory capital including equity and subordinated debt as per the capital management section of note 25). 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.

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% (2020: 75%) of our planning materiality, namely £0.6m (2020: £0.7m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £40k (2020: £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 8, 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.

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

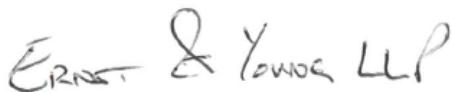
Other matters we are required to address

- We were appointed as auditors by the Company on 7 November 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 9 years, covering the years ending 31 December 2013 to 31 December 2021.
- 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.

A handwritten signature in black ink that reads "ERNST & YOUNG LLP". The letters are in all caps and have a cursive, slightly slanted appearance.

Hitesh Patel (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 January 2021

Statement of Comprehensive Income

For the year ended 31 December 2021

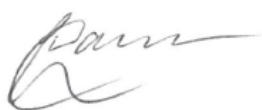
	Note	2021	2020
		£	£
Income			
Income from financing activities	5	21,439,036	19,808,578
Income from investing activities	6	1,622,287	1,807,057
Returns to banks and customers	7	<u>(7,938,424)</u>	<u>(9,690,817)</u>
Net income from financing and investing activities		<u>15,122,899</u>	<u>11,924,818</u>
Fees and commissions income	8	1,611,384	1,728,470
Fees and commissions expense		<u>(491,526)</u>	<u>(289,355)</u>
Net fees and commissions income		<u>1,119,858</u>	<u>1,439,115</u>
Net gain/(loss) on financial assets at amortised cost		25,475	149,745
Net gain/(loss) on financial assets at FVPL		95,289	-
Gain/(loss) on foreign exchange	27	83,629	206,809
Other income		<u>91,934</u>	<u>177,986</u>
Total operating income		<u>16,539,084</u>	<u>13,898,473</u>
Expenses			
Personnel expenses	9	(5,758,494)	(5,032,706)
Depreciation and amortisation	17, 18	(695,265)	(665,641)
Other expenses	10	<u>(2,192,538)</u>	<u>(1,925,466)</u>
		<u>(8,646,297)</u>	<u>(7,623,813)</u>
Profit/(loss) before provisions for impairment		7,892,787	6,274,660
Credit loss expense on financial assets	27	<u>(661,700)</u>	<u>(831,513)</u>
Profit/(loss) before taxation		<u>7,231,087</u>	<u>5,443,147</u>
Taxation	12	(375,560)	(699,355)
Profit/(loss) for the year		<u>6,855,527</u>	<u>4,743,792</u>
Other comprehensive income (that will be recycled to Profit & Loss)			
Change in fair value of cash flow hedge net of tax	16	<u>81,691</u>	<u>(27,525)</u>
Other comprehensive income		<u>81,691</u>	<u>(27,525)</u>
Total comprehensive profit/(loss) for the year		<u>6,937,218</u>	<u>4,716,267</u>

All activities are derived from continuing operations. The notes on pages 23 to 62 are an integral part of these financial statements.

Statement of Financial Position As at 31 December 2021

	Note	2021 £	2020 £
Assets			
Cash and balances with banks	13	56,338,957	41,708,029
Financing arrangements	14	726,026,105	593,879,089
Financial assets at amortised cost	15	81,553,810	67,271,228
Derivative financial instruments	16	1,429,382	94,702
Property and equipment	17	12,995,170	13,545,102
Intangible assets	18	231,069	250,722
Investment property	19	10,240,000	10,240,000
Other assets	20	4,124,393	3,926,789
Deferred tax asset	12	1,792,307	1,148,521
Total assets		894,731,193	732,064,182
Liabilities			
Due to banks	21	120,257,356	125,332,937
Due to customers	22	657,768,467	495,173,550
Other liabilities	23	22,889,306	18,567,055
Derivative financial instruments	16	1,289,353	5,107,456
Subordinated Wakala	26	13,700,000	15,950,000
Total liabilities		815,904,482	660,130,998
Equity			
Share capital	25	60,864,221	60,864,221
Cash flow hedge reserve		(202,208)	(283,898)
Retained earnings		18,164,698	11,352,861
Total equity		78,826,711	71,933,184
Total liabilities and equity		894,731,193	732,064,182

The notes on pages 23 to 62 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
21st January 2022
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity

For the year ended 31 December 2021

	Share Capital	Cash Flow Hedge	Retained Earnings	Total
	£	£	£	£
Balance at 1 January 2020	60,864,221	(256,373)	6,609,069	67,216,917
Changes in fair value of cash flow hedge foreign exchange	-	(27,525)	-	(27,525)
Profit for the year after tax	-	-	4,743,792	4,743,792
Balance at 31 December 2020	60,864,221	(283,898)	11,352,861	71,933,184
Balance at 1 January 2021	60,864,221	(283,898)	11,352,861	71,933,184
Changes in fair value of cash flow hedge foreign exchange	-	81,690	-	81,690
Movement in Deferred Tax relating to change in tax rate	-	-	(43,690)	(43,690)
-	-	-	-	-
Profit 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

The notes on pages 23 to 62 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2021

	<i>Note</i>	2021	2020
		£	£
Cash flows from operating activities			
Profit/(loss) for the year		6,855,527	4,743,792
Adjustments for:			
Depreciation	17	559,611	555,383
Amortisation	18	135,654	110,258
Taxation	12	375,560	699,355
ECL loss allowance		665,401	877,573
Net gain on financial assets at FVPL		95,289	-
(Increase)/decrease in financing arrangements		(133,182,070)	(63,502,402)
Stage 3 ECL recoveries		(3,700)	(46,061)
(Increase)/decrease in other assets		(183,119)	(146,783)
Increase/(decrease) in amounts due to banks		(5,075,581)	40,163,454
Increase/(decrease) in amounts due to customers		162,594,916	15,031,338
Increase/(decrease) in other liabilities		3,613,140	(6,738,617)
(Increase)/decrease in financial assets at amortised cost		(14,259,831)	7,544,997
(Increase)/decrease in derivative financial instruments		(5,152,783)	1,700,045
Net cash inflow/(outflow) from operating activities		17,038,014	992,332
Cash flows from investing activities			
Purchase of property and equipment	17	(37,762)	-
Purchase of intangible assets	18	(116,000)	(60,980)
Net cash outflow from investing activities		(153,762)	(60,980)
Cash flows from financing activities			
Proceeds from issuance of subordinated loans		(2,250,000)	-
Net cash outflow from investing activities		(2,250,000)	(-)
Net increase/(decrease) in cash and cash equivalents		14,634,252	931,352
Cash and cash equivalents at start of year		41,708,427	40,777,075
Cash and cash equivalents at end of year	13	56,342,679	41,708,427

The notes on pages 23 to 62 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 16th January 2022.

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 was enhanced in light of COVID-19 and 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 2023. The going concern assessment is prepared by Executive Management, reviewed by ARC and approved by the Board.

Business volumes and redemption patterns have been adjusted to take into account the COVID-19 pandemic, and the forward looking metrics in the Bank's expected credit loss modelling have been enhanced and re-calibrated as part of a complete re-design during 2021.

As at 31 December 2021, QIB (UK) held eligible capital of £90.5m which translates to a capital surplus of £14.5m. In line with previous years, the 2021 profits will be retained to further strengthen the capital position.

ICAAP and ILAAP stress tests have been improved and run during 2021 to further support the real-time liquidity challenges faced during the COVID-19 pandemic. The Bank closes 2021 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 significant increase in credit risk. 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

(iii) Expected Credit Loss (ECL)

The following judgements are made during the ECL calculation process:

- The scenario weightings used in the model (50%-30%-20% for Base-Downside-Upside) have been specified during the model development phase based on the expected severity of the selected scenarios, using both management judgement and benchmarking to relevant industry standards.
- 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.

(v) COVID-19

Management exercised their judgement in calibrating the likely future COVID-19 impact, particularly in the ECL development and scenario selection, but also in fine-tuning the going concern assessment. The past 2 years have provided numerous data points for business volumes, portfolio performance, funding variations and their subsequent impact on the Bank's profitability. Management judge future years, especially 2022, to play out somewhere between the extreme downside of Q2 2020 and the favourable bounce back of Q3 and Q4 2021. Forecasts and stress tests have been prepared around these anchor points.

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 significant increase in credit risk 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 probability of defaults (PD) 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
- Current and forecast macroeconomic variables (e.g. gross domestic product, unemployment rate, house price index) and their probability weightings

During 2021, the Bank amended its backstop assumption from 60 days to 30 days to better reflect a potential increase in credit risk. The effect of this change is that financial assets will now be considered for transfer from Stage 1 to Stage 2 by the Risk Management Committee (RMC) after being overdue for 30 days. This had no material effect on the ECL calculations.

3. Changes in accounting policies

Interest Rate Benchmark Reform

The International Accounting Standards Board (IASB) published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), in response to the ongoing reform of interest rate benchmarks around the world. It took a two-phase approach. The IBOR Phase 1 transition was applicable for annual periods beginning on or after 1 January 2020. The amendments had no impact on the Bank's activity.

The effective date of the IBOR reform Phase 2 amendments was for annual periods beginning on or after 1 January 2021, with early application permitted. IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an InterBank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR).

Early in 2021, the Bank's Asset & Liability Committee (ALCo) recommended transitioning the entire financing deal book from 3 month LIBOR to Bank of England Base Rate (BBR). This was approved by the Board in Q1 2021 and communicated to customers in Q2 2021. The conversion started with deal rollover dates towards the end of Q2 2021 and was completed early in Q4 2021, well before the Regulatory deadlines. The impact on profitability was modest with the spread between 3M LIBOR and BBR narrowing over the year, before a slight increase in anticipation of future rate rises. The Bank is pleased to offer customers a future reference rate that more closely reflects the Bank of England's policy direction, and further improves the treating customers fairly (TCF) principle in the wider Banking market.

Other Balance Sheet positions that were repriced were the subordinated debt from QIB Doha, which forms part of the Capital structure, as well as a single syndicated financing deal where QIB follows the lead Bank's pricing recommendations. In both instances, term Sonia was used to reprice these deals.

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

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

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

Financing Arrangements

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

Financial assets at amortised cost

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

Derivative financial instruments

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

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 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 significant increase in credit risk 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 income statement, 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 straight forward 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. 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.

There were a total of £410,206 payment holidays granted during the year, representing 2 Structured Real Estate facilities (£382,296) and 2 Private Banking facilities (£27,910). All payment holidays that were due to be repaid in 2021 did so. As at 31 December 2021, the Bank had a total of 11 payment holidays outstanding, totalling £1,246,907.

g. Impairment of financial assets

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

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

- Credit risk at initial recognition to credit risk at reporting date – relative increase in credit risk e.g. internal rating moved 2 notches down
- Changes in risk of default
- Adverse market changes in collateral value

- Covenant breach – covenant monitoring for profit cover in addition to collateral
- Financing-to-value breach – monitoring the ratio of a financing to the value of the property purchased
- Drop in external ratings
- Annual review of the Bank's assets

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

Staging

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

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

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

Stage 3 – Where the financial asset is credit impaired, the Bank reports an allowance based on lifetime expected credit losses and 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 debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the credit ratings and the ability of the counterparty to raise funding.

Calculation of ECL

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

$$ECL = PD \times EAD \times LGD$$

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.

The Bank measures ECL on an individual asset basis.

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

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

The Bank has amended its backstop of 60 days to the 30 days past due presumption during 2021.

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

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

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

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

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.

Due to a lack of sufficient internal default data, the Bank uses the Pluto-Tasche method to calculate through the cycle PDs using the distributions from the Bank's books. Macro-economic variables such as GDP, unemployment rate and 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. For 2021, the bank used adopted weighted average GDP, unemployment rate and HPI of 1.8%, 5.2% and 8.3% respectively. Figures for base were 50 percentile, downside 25 percentile and upside 75 percentile.

Due to ongoing market conditions, the Bank has also changed the probability weighting of the model in the year from 70% base case, 10% optimistic case and 20% pessimistic case to 50% base case, 20% optimistic case and 30% pessimistic case.

In addition, to make the LGD method more forward-looking, in 2020 the Bank switched from a single haircut method to three components: (i) haircut, (ii) index to sale and (iii) time to sale. This method was reviewed and challenged both internally and externally before it was implemented.

Sensitivity analysis was also introduced to assess the sensitivity of the model 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 Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to resell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 Statement of Comprehensive Income as they are incurred.

The occupied part of the building purchased by the Bank in March 2014 is measured using the revaluation method. Under the revaluation method, the value of the building is initially determined as cost less accumulated depreciation, which results in the carrying value. Where there is a material difference between the carrying value and the market value, the building is revalued to reflect the market value. The market value will be determined by an independent registered valuer. As at 31 December 2021, the carrying value materially reflects the market value.

Depreciation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful life of each part of an item of property and equipment. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

The current estimated useful lives are as follows:

Computer equipment	3	Years
Office equipment	5	Years
Fixtures and fittings	5	Years
Leasehold Improvements	10	Years (or the remaining lease term if shorter)
Building	50	Years

m. Investment property

The building acquired on 13 March 2014 is partially used as an investment property as three of the seven floors of the building are designated as available to lease by a third party. One floor is currently leased to a third party, whilst the other two are being actively marketed after the previous tenant vacated the property during 2020. The leased part of the building is initially measured at cost and subsequently at fair value. As under IAS 40, the leased part of the building is not subject to depreciation.

n. Intangible assets

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

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

Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of intangible assets 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 Statement of Comprehensive Income when they are due. Short-term employee benefits such as salaries, paid absences and other benefits are accounted for on an accruals basis over the period for which employees have provided services. Bonuses are recognised to the extent that there is a present obligation to employees that can be measured reliably.

q. Cash and cash equivalents

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

r. Other receivables

Trade and other receivables are stated at their 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 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
- the Bank has the right to direct how and for what purpose the identified asset is used throughout the period of use

Lease Term

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

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

Measurement and recognition of leases as lessee

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

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

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

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

All the components of the lease liability are discounted on initial recognition to reflect the present value of the payments. The discount rate used is the Bank's incremental funding rate if 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 right-of-use asset in a similar economic environment over a similar term with similar security.

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

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

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 Statement of Comprehensive Income.

5. Income from financing activities

Income from	2021 £	2020 £
Banks		
Wakala placements	194	192
Financing arrangements		
Murabaha financing	21,438,842	19,808,386
Total income from financing activities	<u>21,439,036</u>	<u>19,808,578</u>

6. Income from investing activities

	2021 £	2020 £
Returns on investments	1,622,287	1,807,057
Total income from investing activities	<u>1,622,287</u>	<u>1,756,532</u>

7. Returns to banks and customers

	2021 £	2020 £
Murabaha deposits	311,047	382,294
Wakala deposits	5,449,484	6,483,974
Notice accounts	1,396,182	1,918,118
Instant access savings accounts	22,349	19,913
Subordinated Wakala & other returns	759,362	886,518
Total returns to banks and customers	<u>7,938,424</u>	<u>9,690,817</u>

8. Fees and commissions income

	2021 £	2020 £
Property financing fees	1,509,379	1,470,648
Other fee income	102,005	257,822
Total fees and commissions income	<u>1,611,384</u>	<u>1,728,470</u>

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

9. Personnel expenses

	2021 £	2020 £
Directors' emoluments and fees	792,686	806,400
Wages and salaries	3,920,678	3,269,837
Social security costs	590,199	498,195
Pension contributions	298,318	296,940
Other staff costs	156,613	161,334
 Total personnel expenses	5,758,494	5,032,706

The aggregate of the emoluments in 2021 of the highest paid Director was £429,500 (2020: £437,000) and company pension contributions of £nil (2020: £nil) were made on their behalf.

The value of the services performed by three Doha Directors was estimated by the Board as £75,000 (2020: £75,000). This amount was not recharged to the Bank.

The number of employees at the end of the year was 41 (2020: 40) and the average number throughout the year was 40 (2020: 39).

10. Other expenses

	2021 £	2020 £
Other staff related costs	93,469	91,307
IT expenses	730,071	708,763
General and administrative costs	1,368,998	1,125,396
 Total other expenses	2,192,538	1,925,466

11. Profit/(loss) before taxation

	2021 £	2020 £
Profit/(loss) before taxation is stated after charging:		
Auditor's remuneration		
Fees payable to the Bank's auditor for the audit of financial statements	206,671	178,325
 Fees payable to the Bank's auditor for other services:		
– other services pursuant to legislation	6,367	6,242
– other services	26,962	26,433
	240,000	211,000

12. Taxation

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

	2021	2020
	£	£
Current tax expense/(credit) for period at 19%	1,069,173	814,113
Prior year adjustment	(6,138)	(9,340)
Deferred tax expense/(credit) relating to:		
Origination and reversal of temporary differences	(309,594)	(5,680)
Effect of tax rate change	(386,061)	(110,880)
Prior year adjustment	8,180	11,142
Total tax expense	375,560	699,355

(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:

	2021	2020
	£	£
Profit before tax	7,231,086	5,443,147
At standard rate of UK corporation tax of 19% (2020: 19%)	1,373,906	1,034,198
Effects of:		
Non-deductible expenses	97,243	96,845
Effect of tax rate change	(386,061)	(110,880)
Prior year adjustment	2,042	1,802
Movement in unrecognised deferred tax asset	(711,570)	(322,610)
Total tax expense	375,560	699,355

(iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 23.9% (2020: 19%). The following are the deferred tax assets calculated by the Bank and movements thereon during the current and prior reporting period.

	2021	2020
	£	£
Deferred tax asset as at 1 January	(1,148,521)	(1,031,744)
Expensed to the Statement of Comprehensive Income	(309,594)	(5,680)
Credit to Other Comprehensive Income/Reserves	43,690	(11,359)
Effect of rate change	(386,062)	(110,880)
Prior year adjustment	8,179	11,142
Deferred tax asset as at 31 December	(1,792,307)	(1,148,521)

The deferred tax asset can be analysed as follows:

Decelerating capital allowances	140,051	95,228
Other timing differences	(91,992)	(112,468)
Tax losses carried forward	(1,840,366)	(1,131,281)
	<u>(1,792,307)</u>	<u>(1,148,521)</u>

The Bank utilised tax losses of £1,875,743 in the period. In addition, it has also recognised a portion of previously unrecognised tax losses.

The recognition of a deferred tax asset of £1,792,307 (net) as at 31 December 2021 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 recognised deferred tax asset includes gross tax losses of £7,823,474, net £1,840,366 (2020: £5,954,111, net £1,131,281). In addition to the recognised deferred tax asset, the Bank has a gross unrecognised deferred tax asset of £3,817,482, net £954,370 (2020: £7,551,825, net £1,434,847) arising on tax losses. This represents a portion of the overall tax losses on which a deferred tax asset cannot be recognised due to insufficient evidence of future expected taxable profits.

13. Cash and balances with banks

	2021 £	2020 £
Cash	438,755	468,166
On demand bank deposits	55,903,923	41,240,261
Less: allowance for impairment losses	(3,721)	(398)
Total cash and balances with banks	<u>56,338,957</u>	<u>41,708,029</u>

14. Financing arrangements

	2021 £	2020 £
Murabaha financing	730,053,958	600,705,034
Other financing	13,482	22,724
Less: allowance for impairment losses	(4,041,335)	(6,848,669)
Total financing arrangements	<u>726,026,105</u>	<u>593,879,089</u>

15. Financial assets held at amortised cost

	2021 £	2020 £
Investment in Sukuk	81,563,445	67,303,614
Less: allowance for impairment losses	(9,635)	(32,386)
Total financial assets held at amortised cost	<u>81,553,810</u>	<u>67,271,228</u>

16. Derivative financial instruments

	2021 £	2020 £
Gain on fair value of forward foreign exchange contracts	1,429,382	94,702
Loss on fair value of forward foreign exchange contracts	(1,289,353)	(5,107,456)
Total derivative financial instruments	140,029	(5,012,754)

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 £140,029 represents an aggregate net position of £1,289,353 losses netted against £1,429,382 gains. The movement in the fair value of forward foreign exchange contracts is included in the Statement of Comprehensive Income. The cumulative loss-to-date is £202,208 (2020: loss of £283,898).

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 £83,629 (2020: £206,809 net gain). This is the outcome of the ineffective hedging portion and this net position is arising out of a FX total loss of £5,229,585 (2020: £1,761,017) of the hedging instruments and total gain of £5,313,214 (2020: £1,554,208) of hedged items. The total nominal value of the derivatives as at year-end was £149m (2020: £162m). 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 Bank entered into a forward foreign exchange contract to hedge its currency exposure arising from income denominated in foreign currency for 2021. Despite COVID-19, there has been no material change to the underlying hedged income as it was based on an asset with a fixed income schedule.

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
	£	£	£	£	£	£
2021	32,747,076	60,187,283	55,977,242	-	-	148,911,601
2020	13,772,229	78,154,682	70,610,120	-	-	162,537,031

17. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment/ Fixed Assets in Progress	Total
	£	£	£	£	£
Cost:					
Balance at 1 January 2021	14,269,334	93,516	2,243,214	546,176	17,152,240
Additions	-	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	<u>14,269,334</u>	<u>113,276</u>	<u>2,243,214</u>	<u>445,775</u>	<u>17,071,599</u>
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	<u>(1,991,767)</u>	<u>(94,394)</u>	<u>(1,575,945)</u>	<u>(414,323)</u>	<u>(4,076,429)</u>
Net book value at 31 December 2021	<u>12,277,567</u>	<u>18,882</u>	<u>667,269</u>	<u>31,452</u>	<u>12,995,170</u>
Cost:					
Balance at 1 January 2020	14,269,334	93,516	2,243,214	880,463	17,486,527
Transfer to intangible assets	-	-	-	(300,000)	(300,000)
Decrease in right-of-use asset	-	-	-	(34,287)	(34,287)
Balance at 31 December 2020	<u>14,269,334</u>	<u>93,516</u>	<u>2,243,214</u>	<u>546,176</u>	<u>17,152,240</u>
Depreciation:					
Balance at 1 January 2020	(1,420,717)	(84,193)	(1,133,616)	(413,228)	(3,051,754)
Depreciation charge for the year	(285,525)	(4,851)	(221,467)	(43,541)	(555,384)
Balance at 31 December 2020	<u>(1,706,242)</u>	<u>(89,044)</u>	<u>(1,355,083)</u>	<u>(456,769)</u>	<u>(3,607,138)</u>
Net book value at 31 December 2020	<u>12,563,092</u>	<u>4,472</u>	<u>888,131</u>	<u>89,407</u>	<u>13,545,102</u>

The Bank acquired 43 Grosvenor Street, London, W1K 3HL on the 13th March 2014. The floors from the lower ground up to and including the second floor are designated as own use. Floors 3, 4, and 5 are designated as an investment property. These three floors were leased to a third party from the acquisition date up to January 2016. During 2016 these floors were refurbished and marketed to prospective tenants. Floors 3 and 4 were leased out to third parties in June 2017. Floor 5 was leased out to one of these third parties in October 2018. The tenant for floors 3 and 5 vacated the property in July 2020 and these floors continue to be actively marketed to prospective tenants. The building value disclosed above reflects the floors occupied by the Bank. For the value of the remaining floors leased and the fair value, refer to note 19.

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

Right-of-use assets under IFRS 16 'Leases' for £14,226 (2020: £42,309) are included within office equipment.

18. Intangible assets

	Computer Software £	Computer Licenses £	Total £
Cost:			
Balance at 1 January 2021	584,046	383,263	967,309
Additions	116,000	-	116,000
Write offs	(-)	(1,080)	(1,080)
Balance at 31 December 2021	<u>700,046</u>	<u>382,183</u>	<u>1,082,229</u>
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	<u>(468,977)</u>	<u>(382,183)</u>	<u>(851,160)</u>
Net book value at 31 December 2021	<u>231,069</u>	<u>-</u>	<u>231,069</u>
Cost:			
Balance at 1 January 2020	223,066	383,263	606,329
Additions	60,980	-	60,980
Transfer from fixed assets in progress	300,000	-	300,000
Balance at 31 December 2020	<u>584,046</u>	<u>383,263</u>	<u>967,309</u>
Amortisation:			
Balance at 1 January 2020	(223,066)	(383,263)	(606,329)
Amortisation charge for the year	(110,258)	-	(110,258)
Balance at 31 December 2020	<u>(333,324)</u>	<u>(383,263)</u>	<u>(716,587)</u>
Net book value at 31 December 2020	<u>250,722</u>	<u>-</u>	<u>250,722</u>

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

19. Investment property

	£
Balance at 1 January 2021	10,240,000
Fair Value adjustment	-
Balance at 31 December 2021	<u>10,240,000</u>

CBRE Limited valued the building during October 2021 at £25,600,000, reflecting a value of £10,240,000 for the investment portion. Formal valuations will be conducted in alternate years with an index adjustment for years in between. This valuation represents level 2 in the fair value hierarchy. CBRE Limited's valuation was based on the following assumptions:

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

In arriving at the opinion of market value, CBRE had less regard for investment yields but focussed on sales of assets within the core Mayfair market and considered both let investments and vacant possession opportunities. They have assumed an estimated rental value (ERV) of £795,137 per annum which is based on a headline ERV of £120 per sq ft on the best office accommodation.

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

20. Other assets

	2021 £	2020 £
Income receivable	3,380,124	3,125,714
Fees receivable	60,076	374,688
VAT recoverable	75,072	32,953
Prepayments	408,791	259,217
Other receivables	200,330	134,217
Total other assets	<u>4,124,393</u>	<u>3,926,789</u>

21. Due to banks

	2021 £	2020 £
Demand	201,095	203,690
Murabaha deposits	60,492,734	94,828,120
Wakala deposits	59,563,527	30,301,127
Total due to banks	<u>120,257,356</u>	<u>125,332,937</u>

22. Due to customers

	2021 £	2020 £
Demand	49,593,200	48,078,457
Notice	127,549,368	112,058,840
Wakala deposits	480,625,899	335,036,253
Total due to customers	<u>657,768,467</u>	<u>495,173,550</u>

23. Other liabilities

	2021 £	2020 £
Returns payable	16,741,257	13,493,968
Accruals	1,730,786	1,198,910
Trade payables	80,296	22,255
Social security and income tax	279,152	158,603
Deferred Income	3,731,443	2,752,847
Allowance for impairment losses on undrawn commitments	-	353,925
Corporation Tax payable	255,282	440,658
Lease liability	14,226	42,309
Other payables	56,864	103,580
Total other liabilities	<u>22,889,306</u>	<u>18,567,055</u>

The ECL on undrawn commitments previously shown in Other liabilities is now included within the Financing arrangements' allowance of impairment losses. As at 31 December, this number would have been £3,122.

Included within Returns payable is an amount of £2,521,797 (2020: £2,483,486) 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.

24. Leases

Bank as a lessee

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

A right-of-use asset and a lease liability were recognised on the Balance Sheet on the lease commencement date. The Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the end of the lease term. The lease liability was discounted using the Bank's 2021 annual average cost of funding of 1.09% to reflect the present value of the payments.

A right-to-use asset of £14,226 has been reported within fixed assets in the statement of financial position, whereas the lease liability for the same value has been included in other liabilities.

There were cash flows of £34,330 (2020: £43,025) relating to this contract reported during the year.

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

	2021 £	2020 £
Within 1 year	14,226	28,309
After 1 year but not more than 5 Years	-	14,000
	<u>14,226</u>	<u>42,309</u>

During the year £28,568 (2020: £28,568) was recognised as an expense in the Statement of Comprehensive Income in respect of leases.

Bank as a lessor

The Bank has entered into operating leases for its investment property (see note 19). One of the tenants vacated the premises in July 2020. The remaining lease has a term of 6 months. The lessee is also required to provide a residual value guarantee on the properties.

During the year, £91,934 (2020: £173,965) rental income was recognised in the Statement of Comprehensive Income relating to this operating lease. The Bank receives the rent as net basis and there are no additional expenses associated with the lease.

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

	2021 £	2020 £
Within 1 year	48,575	97,149
After 1 year but not more than 5 Years	-	48,575
	<u>48,575</u>	<u>145,724</u>

25. Share capital

	2021 £	2020 £
Authorised		
100,000,000 Ordinary shares of £1.00 each	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1.00 each	<u>60,864,221</u>	<u>60,864,221</u>

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 2021 there was an outstanding subordinated Wakala balance payable to QIB Doha of £13,700,000 (2020: £15,950,000).

Total subordinated Wakala returns due to QIB Doha in the year were £759,362 (2020: £886,517) and returns of £34,203 (2020: £269,734) were payable as at the end of the year.

Bank lines

As at 31 December 2021, the Bank had £285,000,000 (2020: £245,000,000) of agreed inter-bank funding lines and £60,000,000 (2020: £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 2021, total demand deposits due to QIB Doha were £201,095 (2020: £203,690).

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 2021, the Bank had a balance of £43,278 with QIB Doha (2020: £42,772)

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 (2020: £nil). The amount outstanding as at 31 December 2021 is £2,521,797 (2020: £2,483,486).

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 £12,500 (2020: £nil) and returns of £12,500 (2020: £nil) were payable as at 31 December 2021.

Financing arrangements

As at 31 December 2021, financing arrangements included a total of £17,994,488 (2020: £18,429,388) and other assets of £76,032 (2020: £98,596 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 £524,983 (2020: £599,393).

Due to customers

Directors of QIB Doha and their close family members held demand bank accounts and instant access saving accounts with the Bank on an arm's length basis. As at 31 December 2021, the total of these deposits were £716,002 (2020: £1,461,425).

Key management compensation

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

	2021	2020
	£	£
Emoluments including social security costs	1,844,425	1,819,520
Company contributions to pension plans	<u>89,122</u>	<u>87,450</u>
	<u>1,933,547</u>	<u>1,906,970</u>

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
- 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

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

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

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

Elements of the framework are detailed further below.

Governance structure

QIB (UK) Board

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

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

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

The Board has a general duty to ensure that the Bank conducts business in accordance with all relevant statutory and regulatory requirements. 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
- e) an integrated system of planning and budgeting is established to ensure that the Bank can efficiently and effectively achieve its strategic objectives, in support of and in line with the strategic objectives of the shareholders
- f) the composition of the Board is periodically reviewed to ensure that its skill set is appropriate to current and future business requirements
- g) oversight of the robust implementation of the risk management framework is maintained
- h) review and approval of a suitable Risk Appetite Statement on at least an annual basis
- i) 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 risk framework. These committees are depicted below.

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

Board sub-committees

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

- Board Executive Committee;
- Board Audit & Risk Committee; and
- Board Nominations & Remuneration Committee

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 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 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 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 Chief Executive Officer, 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;
- Asset & Liability Committee; 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.
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 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
- 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
- monitoring ongoing adherence to country and counterparty limits

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

RMC is responsible for the formal assessment of any new exposures. The relationship teams are required to submit credit approval requests to Risk Management for assessment and consideration by 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.

	2021	2020
	£	£
Balances with Banks	55,900,201	41,239,863
Other financing	-	5,542
Murabaha financing	728,703,869	596,338,277
Musharaka financing	-	-
Financial assets at amortised cost	82,143,160	67,271,228
Total	866,747,230	704,854,910
Off Balance sheet:		
Undrawn Commitments	3,523,459	4,928,398
Total	3,523,459	4,928,398
Total Credit Risk	870,270,689	709,783,308

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
	£	£	£	£	£
Balances with Banks	47,559,173	43,275	8,297,753	-	55,900,201
Other financing	-	-	-	-	-
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
Balances with Banks	36,900,731	42,771	4,296,361	-	41,239,863
Other financing	5,542	-	-	-	5,542
Murabaha financing	596,338,277	-	-	-	596,338,277
Financial assets at amortised cost	-	55,407,628	-	11,863,600	67,271,228
31 December 2020	633,244,550	55,450,399	4,296,361	11,863,600	704,854,910
Off Balance sheet:					
Undrawn Commitments	4,928,398	-	-	-	4,928,398
31 December 2020	4,928,398	-	-	-	4,928,398
Total	638,172,948	55,450,399	4,296,361	11,863,600	709,783,308

Industry sectors:

	Banks	Individuals	Real Estate	Corporates	Central Governments	Total
	£	£	£	£	£	£
Balances with Banks	55,900,201	-	-	-	-	55,900,201
Other financing	-	-	-	-	-	-
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
Balances with Banks	41,239,863	-	-	-	-	41,239,863
Other financing	-	5,542	-	-	-	5,542
Murabaha financing	-	-	596,338,277	-	-	596,338,277
Financial assets at amortised cost	36,905,545	-	-	3,717,819	26,647,864	67,271,228
31 December 2020	78,145,408	5,542	596,338,277	3,717,819	26,647,864	704,854,910
Off Balance sheet:						
Undrawn Commitments	-	262,067	4,666,331	-	-	4,928,398
31 December 2020	-	262,067	4,666,331	-	-	4,928,398
Total	78,145,408	267,609	601,004,608	3,717,819	26,647,864	709,783,308

Credit quality

In 2021, the UK residential real estate sector performed well. Impacted by the third lockdown at the start of the year, H1 was driven by demand from domestic buyers. With the lifting of restrictions in early H2, international buyers returned driving sales volumes of quality London property, with a significant portion acquired by Middle Eastern investors. 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 in the post pandemic world being 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.

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

The Bank assesses this based on key indicators such as:

- Adverse movement in internal risk rating
- Contractual payments days past due
- Adverse market changes in collateral value
- Covenant breaches
- FTV breach monitoring
- Drop in external ratings
- Annual 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 loss expense on financial assets of £661,700 (2020: £831,513).

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

	2021	2020
Total ECL loss allowance as at 1 January	7,235,377	7,244,302
Additional ECL loss allowances	665,401	877,573
Stage 3 recoveries	(3,700)	(46,061)
Stage 3 write-offs	(3,842,387)	(840,437)
Total ECL loss allowance as at 31 December	4,054,691	7,235,377

In 2021, two collateralised Murabaha financings, with a gross carrying amounts totaling £4,027,584, transferred from Stage 1 to Stage 2. The ECL loss allowance for these financings increased by a total of £253,392 in the year.

One collateralised Murabaha financing, with a gross carrying amount of £1,295,793, transferred from Stage 2 to Stage 1 in the year. The ECL loss allowance for this financing decreased by £13,592 in the year.

One collateralised Murabaha financing, with a gross carrying amount of £1,806,036, remained in Stage 2 during the year whilst another, with a gross carrying amount of £1,952,485 as at 31 December 2020, was repaid during 2021.

During the year, the Bank wrote-off a Stage 3 UK corporate Murabaha financing for £3,842,845, which was offset by £457 additional funds. The Bank recovered £3,700 from two Stage 3 individual Qard Hasans.

The contractual amount outstanding on financial assets that are still subject to enforcement activity as at 31 December is £nil (2020: £1,968,056).

Credit Quality	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
	£	£	£	£	£
Balances with banks					
Gross carrying amount	55,903,923	-	-	55,903,923	41,240,261
ECL allowance	(3,722)	-	-	(3,722)	(398)
Total balances with banks	55,900,201	-	-	55,900,201	41,239,863
Financing Arrangements					
Gross carrying amount	719,077,654	5,856,639	7,810,910	732,745,203	603,192,488
ECL allowance	(746,630)	(281,223)	(3,013,482)	(4,041,335)	(6,848,669)
Total financing arrangements	718,331,025	5,575,416	4,797,428	728,703,868	596,343,819
Financial assets at amortised cost					
Gross carrying amount	82,152,794	-	-	82,152,794	67,303,614
ECL allowance	(9,634)	-	-	(9,634)	(32,386)
Total financial assets at amortised cost	82,143,160	-	-	82,143,160	67,271,228
Undrawn Commitments					
Gross carrying amount	3,427,342	-	96,118	3,523,459	5,282,323
ECL allowance	-	-	-	-	(353,925)
Total undrawn commitments	3,427,341	-	96,118	3,523,459	4,928,398

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

	Investment Grade	Standard Monitoring	Special Monitoring	Total
	£	£	£	£
Balances with Banks	55,900,201	-	-	55,900,201
Other financing	-	-	-	-
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	2,734,413	692,928	96,118	3,523,459
31 December 2021	2,734,413	692,928	96,118	3,523,459
Total	780,489,704	84,887,439	4,893,546	870,270,689
Balances with Banks	41,239,863	-	-	41,239,863
Other financing	-	-	5,542	5,542
Murabaha financing	550,465,521	38,037,438	7,835,318	596,338,277
Financial assets at amortised cost	67,271,228	-	-	67,271,228
31 December 2020	658,976,612	38,037,438	7,840,860	704,854,910
Off Balance sheet:				
Undrawn Commitments	1,718,526	3,120,663	89,209	4,928,398
31 December 2020	1,718,526	3,120,663	89,209	4,928,398
Total	660,695,138	41,158,101	7,930,069	709,783,308

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 2021, the Bank had a Stage 3, non-performing, impaired assets for which it is also undertaking special monitoring. This related to a UK corporate with a total Murabaha financing amount due of £7,797,428 (2020: £7,102,381). The total impairment provision against this asset as at 31 December is £3,000,000 (2020: £1,200,000).

Sensitivity Analysis

Due to the impact of the COVID-19 pandemic on the UK economy and the ongoing market conditions, the Bank has reassessed the key economic indicators. It has also updated the ECL methodology to incorporate Unemployment rate and House Price Index (HPI) in addition to GDP. The future GDP, unemployment and HPI growth rate has been revised and we will continue to do so quarterly. 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 2021 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)	90,293
Sensitivity testing of Retail PD model on the macro forecasts (negative economic outlook only)	23,040
Sensitivity testing of Corporate PD model on the macro forecasts (positive economic outlook only)	(68,749)
Sensitivity testing of Retail PD model on the macro forecasts (positive economic outlook only)	(15,457)

The sensitivity analysis above has been calculated by comparing the outcome of using the Bank's blended weighting (50% base case, 30% pessimistic case and 20% 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 House Price Index (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.

	2021		2020		£
	Exposure	Collateral	Exposure	Collateral	
Balances with Banks	55,900,201	-	41,239,863	-	-
Due from Banks	-	-	-	-	-
Other financing	-	-	5,542	-	-
Murabaha financing	728,703,869	1,255,588,977	596,338,276	1,274,987,289	-
Financial assets at amortised cost	82,143,160	-	67,271,228	-	-
Total Credit Risk	866,747,230	1,255,588,977	704,854,909	1,274,987,289	

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 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 foreign exchange 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	8,333,256	2,215,781	45,775,176	9,756	8,709	56,342,678
Financing arrangements	-	-	730,067,440	-	-	730,067,440
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	804,636,294	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	4,406,712	-	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	0	-	22,889,306
Cash flow reserve net of tax	-	-	32,713	-	-	32,713
31 December 2021	210,584,806	29,100,668	574,962,365	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
Assets						
Balances with Banks	4,330,953	1,742,852	35,616,388	9,659	8,575	41,708,427
Financing arrangements	-	-	600,727,758	-	-	600,727,758
Financial assets at amortised cost	67,303,614	-	-	-	-	67,303,614
Other assets	553,907	-	28,557,227	-	-	29,111,134
31 December 2020	72,188,474	1,742,852	664,901,373	9,659	8,575	738,850,933
Liabilities						
Due to Banks	85,400,850	27,004,167	12,927,920	-	-	125,332,937
Due to other financial institutions	4,522,162	-	37,553,461	-	-	42,075,623
Due to customers	114,240,149	1,688,717	337,169,061	-	-	453,097,927
Subordinated Loan	-	-	15,950,000	-	-	15,950,000
Other Liabilities	3,135,140	9,757	15,068,233	-	-	18,213,130
Cash flow reserve net of tax	-	-	(5,288)	-	-	(5,288)
31 December 2020	207,298,301	28,702,641	418,663,387	-	-	654,664,329
Net on balance sheet financial position	(135,109,827)	(26,959,789)	246,237,986	9,659	8,575	84,186,604
Forward foreign exchange contracts	135,075,774	26,945,995	-	-	-	162,021,769

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible and, as at 31 December 2021, held a £83,629 net gain from FX hedges (2020: £206,809 net gain). Every foreign currency exposure is hedged by FX forwards with similar maturity profile to eliminate any foreign currency risk. For this reason the Bank has not provided a separate foreign exchange sensitivity risk analysis.

Profit rate risk (non-trading book)

This is the 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 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 book Sukuk), 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.

	2021	2020
Parallel rate shock risk		
• ±2% rate shock	£4,049,212	£3,449,000
• Impact on regulatory capital	(4.5%)	(4.1%)

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
- 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 2021 in order to meet its regulatory and funding requirements. This includes the launch of notice accounts and fixed deposits with longer tenors.

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.

In response to COVID-19, the Bank increased its surplus cash position to ensure that sufficient funds were available to meet both contractual and unforecasted liabilities as they fell due. In anticipation of a change in customer behavior in favour of easy access deposits and accounts, the Bank revised its behavioural adjustments and increased the proportion of funds it held to facilitate customer withdrawals. Additionally, the Bank complied 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.

In order to monitor and manage liquidity and funding risks, weekly meetings including the Asset and Liability Committee members have remained throughout 2021. 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 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 £142m to £272m (2020: £130m) as at 31 December 2021.

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
Assets						
Cash and balance with Banks	56,342,678	-	-	-	-	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
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	85,227,656	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	160,458,028	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
Assets						
Cash and balance with Banks	41,708,427	-	-	-	-	41,708,427
Financing arrangements	19,144,676	46,251,487	77,253,224	417,185,894	40,892,477	600,727,758
Financial assets at amortised cost	67,303,614	-	-	-	-	67,303,614
Other Assets	2,665,100	98,686	327,438	25,911,579	108,331	29,111,134
31 December 2020	130,821,817	46,350,173	77,580,662	443,097,473	41,000,808	738,850,933
Liabilities						
Due to Banks	49,255,597	58,479,126	17,598,214	-	-	125,332,937
Due to other financial institutions	820,387	950,232	40,305,004	-	-	42,075,623
Due to customers	69,573,348	82,976,391	252,130,465	48,417,723	-	453,097,927
Subordinated Loan	-	-	-	6,950,000	9,000,000	15,950,000
Other Liabilities	733,890	3,569,838	7,007,979	6,212,318	689,105	18,213,130
Cash flow reserve net of tax	(5,288)	-	-	-	-	(5,288)
31 December 2020	120,377,934	145,975,587	317,041,662	61,580,041	9,689,105	654,664,329
Undrawn commitments	4,928,398	-	-	-	-	4,928,398
Difference	5,515,485	(99,625,414)	(239,461,000)	381,517,432	31,311,703	79,258,206

Liabilities arising from financing activities

	Balances as at 1 January 2021	Cashflows	Balances as at 31 December 2021
	£	£	£
Subordinated Loan	15,950,000	(2,250,000)	13,700,000
Total liabilities arising from financing activities	15,950,000	(2,250,000)	13,700,000

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 under the guidance of RMC.

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

In response to remote / hybrid working and the impact of inherent operational risks, the Bank has implemented additional controls. These additional controls have ensured the residual operational risk level remains within the Bank's risk appetite. Throughout the following section these additional remote working controls are highlighted.

To support the move to full / hybrid remote working, the Bank implemented formal change control requirements. All proposed changes to policies and processes were reviewed and approved by Risk. Furthermore, following changing working patterns (i.e. hybrid working) and successful implementation of interim controls and processes, changes in controls and processes / approval logs have been reviewed by the Bank to decide on whether these controls either remain in place, have been re-instated to original controls, amended to reflect hybrid working, or implemented permanently going forward. RMC and ARC have oversight of these remote working related changes.

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, phishing-vishing test and Business Continuity Planning, and is considered as part of the Bank's overall operational risk assessment.

The increased use of home working was facilitated by the Bank's resilient IT infrastructure. Prior to the lockdown, a number of staff were able to remote work securely. A number of additional controls have now also been undertaken to prevent and manage cyberattacks. Firewalls have been upgraded, email security enhanced and staff training brought forward.

The Bank's insurance brokers have also been updated with regard to policy and procedures changes and appropriate Insurance cover has been taken to provide for remote working.

The PRA defines Operational Resilience as 'the ability of firms, FMI's and the sector as a whole to prevent, respond to, recover and learn from operational disruptions'. The SMF24 is the responsible individual within the Bank for the resilience of operations.

The Bank's operational resilience programme is undergoing further enhancement and when completed will consist of:

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

The COVID-19 pandemic tested the Bank's operational resilience, however it has demonstrated it can remain operational even in the most challenging period as seen in 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 remote working arrangements.

Climate change risk

The Bank has established a Climate Change Risk Policy which sets out how the management of climate change risk is implemented into the wider Risk Management Framework. 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.

The ongoing work that will deliver the appropriate framework is summed up in the following:

1. Risk Management:

- The impact of climate change risk against the traditional risk types has shown no impact in the short term, with the exception of credit risk where the financial impact has been measured (as per the following point) but it is immaterial.
- The Bank has identified and assessed the financial risks from climate change in its real estate finance portfolio, broken down into transition risks and physical risks.
- The output from the assessment will also feed into the Board Risk Appetite Statement and the strategy to include appropriate longer term metrics for climate change related risk. The first Climate Change Risk metrics will be included from March when the RAS is next approved by the Board.
- Exposure to climate change risk will be evidenced in risk management policies and MI to Executive and Board Committees.
- The Bank's Pillar III document will provide disclosure of how the Bank integrates climate change related financial risks into the governance and risk management processes.
- New 'Green' products are being implemented in 2022. The front Office Heads will be leading on initiatives to offer new 'green' products and will also review existing products for potential enhancements.
- The Bank is measuring its carbon emissions and will be setting short and long term ambitions to move to 'Net Zero'.

2. Governance:

- The Corporate Governance Policy has been updated to include how climate risks with roles and responsibilities will be managed at Board and Executive level.
- The Board directors, with their long-term stewardship duties, are a crucial element in the governance of climate change related risks and opportunities. The Bank will ensure that the Board has the right knowledge and tools to discharge this duty in relation to climate change which included initial training from an external specialist in late 2021.
- The bank-wide 2022 training plan includes a number of elements relating to climate change risk.
- The Board will ensure that adequate resources and sufficient expertise are devoted to managing climate change risk.
- Individuals or committees designated with accountability will be sufficiently qualified or trained in climate change risk.

3. Scenario Analysis:

- Development of scenario analysis to assess the financial impact of identified physical and transition risk scenarios has been completed with the assistance of an external firm specialising in data analysis relating to UK real estate.
- The physical risks identified as impacting the real estate financing portfolio:
 - i. Flood: wetter winters and more concentrated rainfall events will increase flooding
 - ii. Subsidence: drier summers will increase subsidence on shrink/swell clay

- iii. Coastal Erosion: increased storm surge and rising sea levels will increase rate of erosion
- The transition risk identified as impacting the portfolio:
 - i. Energy Efficiency Policy Change: F and G rated properties maybe required to undergo expensive remediation
- The 36 different scenarios cover each of the above risks at 5 year periods out to 2050, and then 10 yearly to 2080, for the 4 Representative Concentration Pathway (RCP) levels, adopted by the IPCC for its fifth Assessment Report (AR5) in 2014 as set out below.

RCP levels	Emissions scenario illustration	Increase in temp by 2100
RCP 2.6	Significant global reduction	0.9 – 2.3°C
RCP 4.5	All countries implement Paris Accord	1.7 – 3.2°C
RCP 6.0	All signatories implement Paris Accord	2.0 – 3.7°C
RCP 8.5	Business as usual	3.2 – 5.4°C

- The most relevant scenario analyses on capital will be included as part of the Bank's next ICAAP.
- Output will inform strategy setting so that the Bank can align the business to the adjustment to a climate impacted and lower carbon operating environment.

Shari'a compliance risk

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

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/PEPs. 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).
- 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 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
31 December 2020	£	£	£	£
Derivative financial instruments at fair value through profit and loss	-	94,702	-	94,702
Investment property at fair value through profit and loss	-	10,240,000	-	10,240,000
Total Assets	-	10,334,702	-	10,334,702
Derivative financial instruments at fair value through profit and loss	-	5,107,456	-	5,107,456
Total Liabilities	-	5,107,456	-	5,107,456

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 2021.

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 obtained 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 2021 are set out below.

	<i>UK</i>	<i>Total</i>
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income	£16,539,084	£16,539,084
d) Average number of employees	40	40
e) Profit before tax	£7,231,087	£7,231,087
f) Corporation tax paid	£1,248,412	£1,248,412
g) Public subsidies received	-	-