Pillar 3 Disclosures

31 December 2020

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1. Executive Summary

QIB (UK) plc (the ‘Bank’) is a wholly owned subsidiary of Qatar Islamic Bank S.A.Q.

It 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 authorised by the Prudential Regulation Authority (‘PRA’) and regulated by the Financial Conduct Authority (‘FCA’) and the PRA.

As at 31 December 2020, the Bank’s key metrics were:

	31/12/20	31/12/19
Available Capital (£'000s)		
Total Risk Weighted Assets (RWA)	418,084	375,285
Common Equity Tier 1	72,249	68,279
Total Capital	85,440	80,129
Capital Ratios as a percentage of RWA		
Common Equity Tier 1 Ratio	17.28%	18.19%
Tier 1 Ratio	17.28%	18.19%
Total Capital Ratio	20.44%	21.35%
Leverage Ratio		
Leverage Ratio Exposure (£'000s)	733,305	682,874
Leverage Ratio	9.85%	10.00%
Liquidity Coverage Ratio		
Total Liquid buffer (£'000s)	68,358	74,002
Net Liquidity Outflow (£'000s)	28,318	10,823
Liquidity Coverage Ratio	242.03%	683.74%
Profit/(Loss) after taxation (£'000s)	4,744	4,427

2. Background

2.1 Introduction

The European Union (‘EU’) Capital Requirements Directive (‘CRD’) came into effect on 1 January 2007, introducing consistent capital adequacy standards to govern the level of capital banks must hold to protect their depositors and shareholders. The EU implemented the Basel III proposals on 1 January 2014 through the Capital Requirements Regulation (‘CRR’) and CRD (together referred to as ‘CRD IV’). This is enforced in the UK by the PRA and FCA.

The rules include disclosure requirements known as ‘Pillar 3’ which apply to banks, building societies and investment banks. These disclosures require institutions to disclose key information regarding risk exposures, risk management processes, corporate governance and remuneration.

The Basel Committee on Banking Supervision introduced the Basel framework with the primary goal of promoting the safety and soundness of the financial system. The framework consists of the following three pillars:

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

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

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

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

In January 2018, the EBA published guidelines on transitional arrangements for mitigating the impact of the introduction of IFRS 9 on Own Funds.

This document sets out the Bank's 2020 Pillar 3 disclosures, in accordance with the rules laid out under CRR Part Eight and subsequent guidelines.

2.2 Scope of application

As of 31 December 2020, the Bank had no active subsidiaries or joint ventures. All banking activities are reflected in the Bank's balance sheet.

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

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

This Pillar 3 disclosure document is based on the Bank's Annual Report and Accounts for the year ended 31 December 2020 and is consistent with its accounting policies.

2.3 Frequency of disclosure

The Bank's Board of Directors (the 'Board'), after due consideration of the size and complexity of the Bank, does not feel it is necessary to produce Pillar 3 disclosures any more frequently than annually, unless there is a material change in the business plan or permissions from the regulator.

2.4 Means of disclosure

This document has been published on the Bank's website.

2.5 Verification

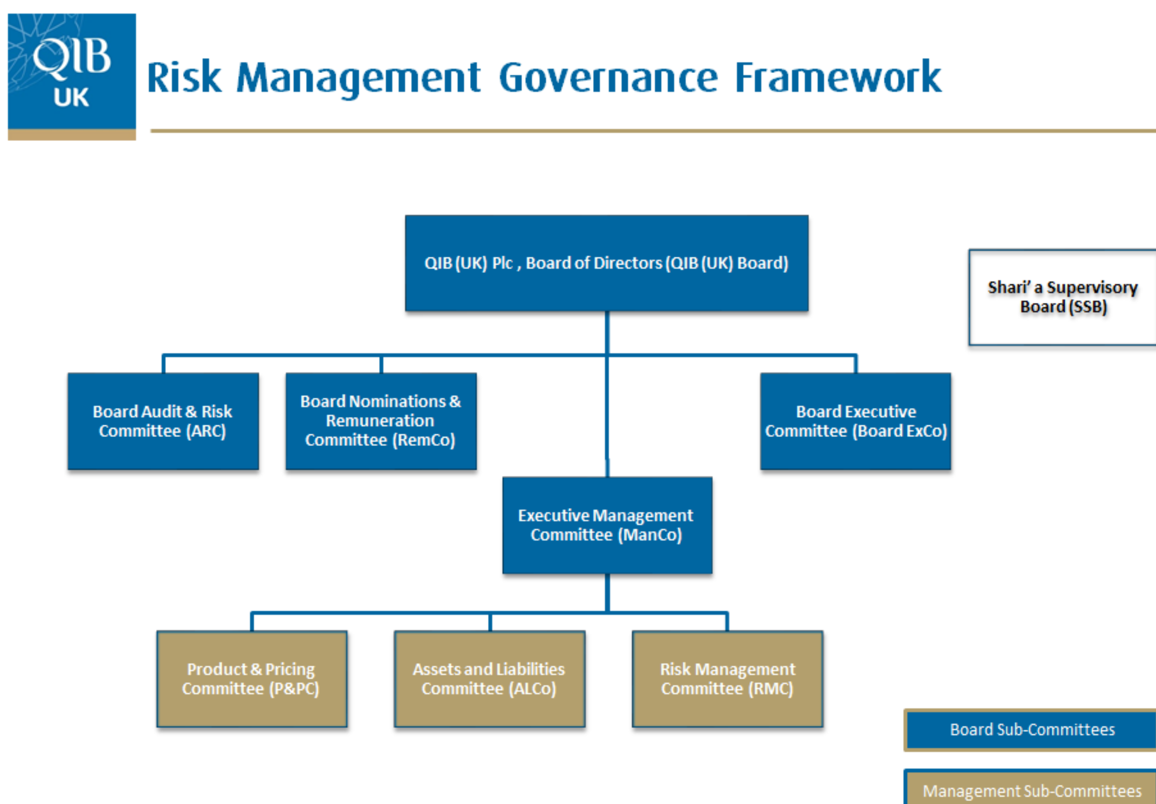
These disclosures have been reviewed and approved by the Board on 28th April 2021. They have been internally verified by management but are not subject to an external audit.

3. Risk Governance

3.1 Risk governance structure

The Board has responsibility for the overall governance and risk management of the Bank. There are a number of board and management level committees which have delegated authority for specific aspects of the Bank's Risk Management Framework ('RMF'). The key roles and responsibilities of these committees are set out in this section.

All key committees are governed by formal terms of reference which are reviewed and updated on a regular basis. Minutes are prepared for all key committee meetings. The alignment of responsibilities across committees for aspects of the RMF is an important component of the Bank's risk governance arrangements. The diagram below sets out the Bank's overall committee structure:



<u>Board of Directors ('the Board')</u>

The Board has overall responsibility for establishing and maintaining an adequate RMF. The Board review the risk profile of the Bank on a regular basis, taking into account the macro environment and ensuring an appropriately robust Risk Appetite Statement ('RAS') is in place. The Board will remain cognisant of the wider QIB Group concentration and country limits and will ensure that the Bank is suitably aligned. The Board delegates part of its authority to various sub-committees and members of senior management, in order to ensure effective execution of the risk framework.

The Board has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite. It is also responsible for ensuring that capital and liquidity resources are sufficient to meet the Bank's business objectives, without taking undue risk. The Board closely oversees the Bank's activities through comprehensive board reports, including financial results, operational reports, risk reports, budgets, forecasts and reviews of the main risks set out in the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') reports. The Board approves financing and investment proposals and credit

facilities above board committees' and management committees' delegated authority, in accordance with the Bank's agreed delegated credit authority limit structure.

The Board is comprised of five non-executive directors, two of whom are independent, and two executive directors. The Board has a general duty to ensure that the Bank conducts business in accordance with all relevant statutory and regulatory requirements and meets a minimum of four times per year.

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.

Board Executive Committee ('Board 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. As Board ExCo's activities are focused on credit decisions, these are done by email as required.

Audit & Risk Committee ('ARC')

ARC is constituted to ensure that executive management have established and maintain an effective system of internal controls on behalf of the Board. This committee monitors the internal control environment, including a focus on enterprise-wide risks and compliance. It also reviews the Bank's aggregate credit risk exposures and concentration risk. It is also responsible for providing a channel of communication between the Board, executive management, Risk and Compliance functions and Internal and External Audit.

ARC has specific delegated authority for the establishment, approval and periodic review of all risk related policies adopted by the Bank as part of the risk management and control framework. The Internal Audit function reports directly to the Chair of ARC, with a dotted reporting line to the Chief Executive Officer ('CEO'). ARC approves the terms of appointment and receives reports from the external auditors. ARC meets a minimum of four times per year.

Board Nomination and 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 executives and ensuring compliance with regulatory requirements. It is also responsible for considering and determining the Bank's remuneration policy, reviewing its adequacy and effectiveness, and ensuring that it complies with the Remuneration Code. RemCo meets a minimum of twice per year or as required.

Management Committee ('ManCo')

In addition to the above board sub-committees, the Board has established the Executive Management Committee ('ManCo') from the executives of the Bank, as a management committee with responsibility for the day-to-day oversight and management of the Bank.

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. ManCo will also facilitate the desired risk culture across the Bank's staff and operations.

ManCo meets a minimum of twice per month and has established management sub-committees to assist and enable it to facilitate and embed the governance framework into the daily operations of the Bank.

Risk Management Committee ('RMC')

RMC has been established to provide support and advice directly to ManCo, and indirectly to the Board with regard to risk governance. RMC is the primary risk management committee and it 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 risk management.

2. It has authority delegated from the Board, through ManCo, to make assessments, decisions, and recommendations regarding the review and approval of 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, liquidity, 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 establishment of effective controls and methodologies to ensure that the Bank has sufficient liquidity at all times. ALCo meets a minimum of once per month and is chaired by the CEO.

Product and Pricing Committee ('P&PC')

The Product and Pricing Committee is a management sub-committee established and empowered by, and reporting to, ManCo. The committee operates to ensure all new and existing products and associated documentation, including policies, procedures and customer communications, are fully compliant with prevailing regulation and the Bank's Conduct Risk Policy. The committee meets quarterly, or more often if required and is chaired by the CEO.

4. Risk management objectives and framework

4.1 Risk management objectives

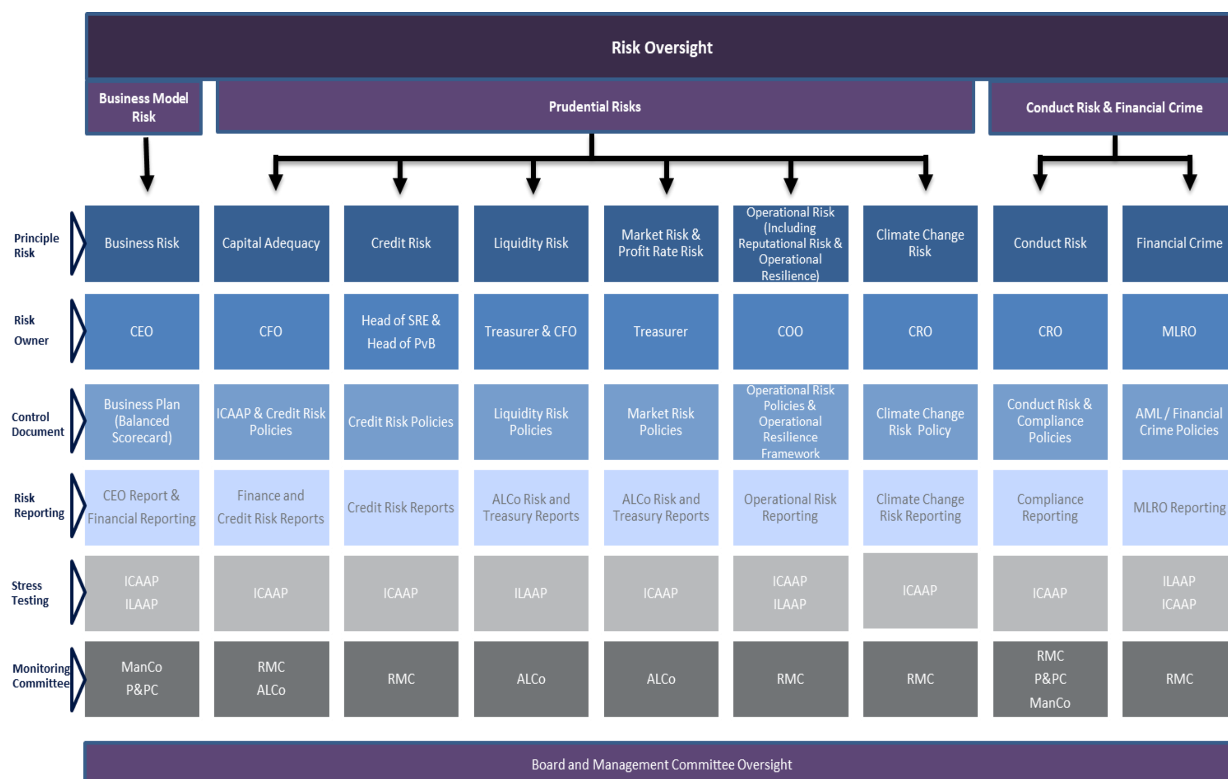
Effective risk management is a core objective for the Bank to ensure that it continually maintains sufficient capital and liquidity through effective controls. The Bank seeks to act ethically and reputably, taking into account the interests of all its stakeholders which include clients, staff, regulators and shareholders.

The Bank's risk and control framework is designed to ensure that:

- risks are identified, assessed, controlled, monitored and reported;
- the Bank's risk appetite is defined and Risk policies aligned;
- processes, systems and controls are in place to monitor and mitigate risk; and
- the Bank continuously reviews the risk environment to ensure that it identifies future risks and remains compliant with changes in legislation.

4.2 Risk Management Framework

The Bank maintains a robust and appropriate Risk Management Framework (‘RMF’) in order to identify, manage and monitor the risks the Bank is exposed to ensuring alignment with the Board approved Risk Appetite Statement. The RMF and chart below outlines the key risks for the Bank and governance structure essential to manage and monitor each risk type. Each principle risk will have a detailed documented policy and be overseen by a robust governance process.



To support the RMF, the Bank operates a ‘three lines of defence’ model:

- 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.

- 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.

- 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.

4.3 Principal risks

Due to the nature of its business, the Bank faces the following principal risks:

i. *Business risk:* any risk to the Bank arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

ii. *Capital Adequacy*: risk that the Bank breaches capital adequacy requirements.

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

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

v. *Market risk*: risk of losses arising from adverse changes in the value of positions arising from movements in market prices across commodity, credit, equity, foreign exchange and profit rate risk factors.

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

vii. *Conduct risk*: risk of failure to deliver fair customer outcomes, the remediation of customer detriment or a failure to preserve market integrity.

viii. *Financial Crime*: any kind of criminal conduct relating to money or to financial services or markets, including any offence involving fraud or dishonesty, misconduct in, or misuse of information relating to, a financial market, handling the proceeds of crime or the financing of terrorism.

The Bank will also continue to monitor Brexit and any potential impact on the business and the real estate markets it is exposed to.

There are a number of regulatory changes that will drive additional work in 2021. Preparations have been made for the cessation of LIBOR for new transactions by the end of Q1. The phase out of LIBOR for existing facilities by the end of Q3 will require some additional transitional work. The Bank is also monitoring its Net Stable Funding Ratio (NSFR) and will implement it in line with regulatory guidelines.

The PRA has particularly highlighted the need for all banks to consider climate change risk and operational resilience, and we expect that these two regulatory risks will feature prominently during the coming months.

The Bank's RMF is designed to ensure that each risk is identified, managed, monitored and overseen through a robust governance structure.

4.4 Business risk

Business risk can be defined as any risk to the Bank arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. Financial performance and capital adequacy are key areas that the Bank will monitor, as well as risks arising from a deviation to the proposed business plan.

There are controls throughout the Bank in regards to business risk. The strategy of the Bank is set by the Board and is closely monitored by ManCo and 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.

4.5 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 this process capital may not grow as quickly as is needed, and that actual capital held falls below that which is required based on assets held. This could be the 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.

4.6 Credit risk

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

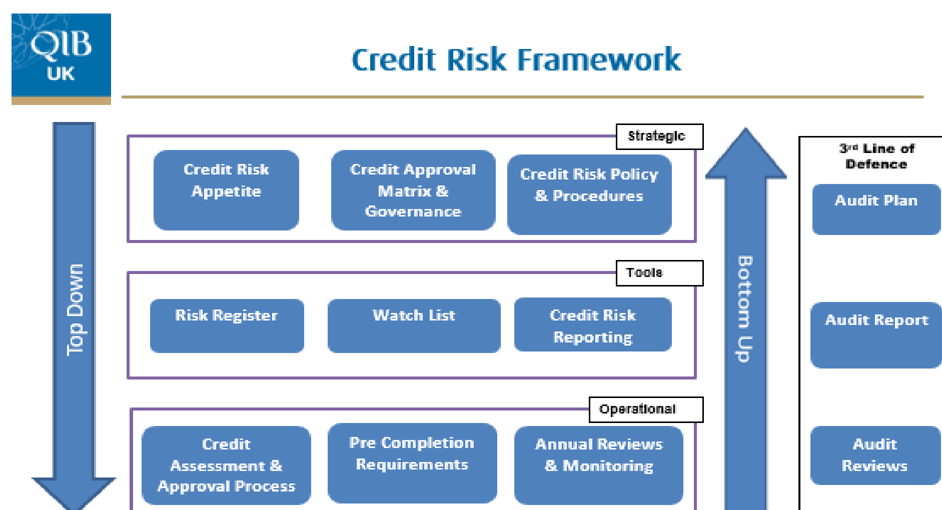
The Bank does not trade in financial instruments, other than for liquidity management purposes. It does not sell payment protection insurance policies or act as an insurance intermediary.

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

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

In response to the COVID-19 pandemic, the Board implemented an interim credit risk appetite. This has applied more conservative conditions including lower FTVs, higher cash collateral requirements, personal guarantees etc. This prudent approach has not impeded the Bank's ability to underwrite good quality real estate transactions.

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



Credit risk: Real Estate

The Bank specialises in real estate financing.

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

The Bank has conservative policies on security cover, typically extending finance of no more than 65% of the property value. It undertakes a full valuation of all properties which act as security. Valuation reports are produced by an experienced panel of qualified external valuers.

Each proposal is reviewed, subject to an internal credit rating assessment by the relationship team, before being reviewed by an independent credit risk manager and submitted with a recommendation through Risk Committee governance.

Credit risk: Treasury

Credit risk arises from Treasury assets where the Bank has acquired securities, such as Sukuk, or placed cash deposits with other financial institutions. The credit risk of these assets is low, as the Bank limits its investments to high quality counterparties/issuers. The counterparties tend to be externally rated by External Credit Assessment Institutions (ECAI), and subject to regular assessment with action taken where required.

No assets are held for speculative purposes, nor are any actively traded for profit. Certain liquid assets are held as part of the Bank's liquidity buffer and the Bank will periodically realise a proportion of the assets in its LAB portfolio through repo or outright sale to the market, in order to test its access to the market, the effectiveness of its processes for monetisation, the availability of the assets, and to minimise the risk of negative signalling during a period of actual stress..

Cash-related credit risk is controlled through a policy which limits the maximum exposure to any one entity. These limits are reviewed and approved by the Board after consultation with the Bank's parent, Qatar Islamic Bank S.A.Q, to ensure credit risk to financial institutions is conservatively spread.

As part of its liquidity buffer, the Bank holds a portfolio of high quality Sukuk. These are highly liquid, highly rated and accepted by the regulator as a component of the Bank's statutory core liquidity. As at 31 December 2020, the Bank held a market value of £66 million level 1 assets (0% risk weighted) and £3.8 million level 2B assets (50% risk weighted).

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

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

RMC is responsible for the formal assessment of any new exposures. Business lines are required to submit credit approval requests to the Risk Management department using the standardised Bank credit application template. The Credit Risk Manager undertakes an initial credit analysis and 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 2020 are shown below. These are the maximum credit exposure and net after taking into account the impact of any collateral held and include accrued profit.

	2020	2019
	£	£
Balances with Banks	**41,239,863**	40,286,140
Other financing	**5,542**	12,667
Murabaha financing	**596,338,277**	533,451,245
Musharaka financing	**-**	-
Financial assets at amortised cost	**67,271,228**	74,814,453
Total	**704,854,910**	648,564,505
Off Balance sheet:		
Undrawn Commitments	**4,928,398**	13,634,308
Total	**4,928,398**	13,634,308
Total Credit Risk	**709,783,308**	662,198,812

Concentration of risks of financial assets with credit risk exposure

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

Geographical sectors:

	Europe	Middle East	USA	Asia	Total
	£	£	£	£	£
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**
Balances with Banks	34,545,533	39,324	5,701,284	-	40,286,140
Other financing	12,667	-	-	-	12,667
Murabaha financing	533,451,245	-	-	-	533,451,245
Financial assets at amortised cost	-	59,509,962	-	15,304,490	74,814,453
31 December 2019	**568,009,445**	**59,549,286**	**5,701,284**	**15,304,490**	**648,564,505**
Off Balance sheet:					
Undrawn Commitments	13,634,308	-	-	-	13,634,308
31 December 2019	**13,634,308**	**-**	**-**	**-**	**13,634,308**
Total	**581,643,753**	**59,549,286**	**5,701,284**	**15,304,490**	**662,198,812**

Industry sectors:

	Banks	Individuals	Real Estate	Corporates	Central Governments	Total
	£	£	£	£	£	£
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**
Balances with Banks	40,286,140	-	-	-	-	40,286,140
Other financing	-	12,667	-	-	-	12,667
Murabaha financing	-	-	533,451,245	-	-	533,451,245
Financial assets at amortised cost	44,210,853	-	-	3,891,008	26,712,590	74,814,453
31 December 2019	**84,496,994**	**12,667**	**533,451,245**	**3,891,008**	**26,712,590**	**648,564,505**
Off Balance sheet:						
Undrawn Commitments	-	623,152	13,011,156	-	-	13,634,308
31 December 2019	-	**623,152**	**13,011,156**	-	-	**13,634,308**
Total	**84,496,994**	**635,819**	**546,462,401**	**3,891,008**	**26,712,590**	**662,198,812**

Counterparty credit risk

Counterparty credit risk can be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Bank uses forward foreign exchange contracts with its parent company to hedge exposures on foreign exchange risk. These are measured using the original exposure method. The derivative credit exposure value as at 31 December 2020 is £3,240,435 (2019: £3,250,741).

The Bank does not have any legally enforceable netting agreements or collateral arrangements for these contracts.

Credit quality

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

Credit quality is assessed using techniques that use information from the major External Credit Assessment Institutions ('ECAI'), together with specific financial data, to determine internal risk ratings which are on a rating scale of 1-10 (with 1 being the highest). ECAI ratings are used for the exposures to Banks and Sukuk investments (financial assets at amortised cost). For Murabaha financings, the Bank uses its internal rating methodology. The internal ratings are mapped to the ECAI and regulators' credit risk ratings.

The Bank has detailed in its Credit & Investment Policy and IFRS 9 Policy and procedures, the relevant guidance on how to monitor impairment events that could lead to losses in its asset portfolio. Furthermore, the Bank's financial statements provide details of the Bank's IFRS 9 staging methodology and definitions.

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

During the year, the Bank incurred a credit loss on financial assets of £831,513 (2019: £563,480).

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

	2020	2019
Total ECL loss allowance as at 1 January	**7,244,302**	**6,680,822**
Additional ECL loss allowances	877,573	620,430
Stage 3 recoveries	(46,061)	(56,950)
Stage 3 write-offs	(840,437)	0
Total ECL loss allowance as at 31 December	**7,235,377**	**7,244,302**

In 2020, one collateralised Murabaha financing, with a gross carrying amount totaling £7,102,381, transferred from Stage 2 to Stage 3. The ECL loss allowance for this financing increased by £222,636 in the year.

Three collateralised Murabaha financings, with a gross carrying amount totaling £5,100,718, remained in Stage 2 during the year.

During the year, the Bank recovered £39,361 from a Stage 3 UK corporate Mudaraba financing and wrote off the remaining £840,437. A further £6,700 was recovered 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 2020 is £1,968,056 (2019: £nil).

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

Credit Quality					
	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	£	£	£	£	£
Balances with banks					
Gross carrying amount	41,240,261	-	-	41,240,261	40,286,513
ECL allowance	(398)	-	-	(398)	(373)
Total balances with banks	41,239,863	-	-	41,239,863	40,286,140
Financing Arrangements					
Gross carrying amount	587,129,363	5,100,718	10,962,407	603,192,488	540,528,261
ECL allowance	(1,707,802)	(80,840)	(5,060,027)	(6,848,669)	(7,064,349)
Total financing arrangements	585,421,561	5,019,878	5,902,380	596,343,819	533,463,912
Financial assets at amortised cost					
Gross carrying amount	67,303,614	-	-	67,303,614	74,848,611
ECL allowance	(32,386)	-	-	(32,386)	(34,158)
Total financial assets at amortised cost	67,271,228	-	-	67,271,228	74,814,453
Undrawn Commitments					
Gross carrying amount	5,058,761	-	223,562	5,282,323	13,779,730
ECL allowance	(219,572)	-	(134,353)	(353,925)	(145,423)
Total undrawn commitments	4,839,189	-	89,209	4,928,398	13,634,308

The following table analyses the Bank's credit exposures by credit risk rating grades. 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.

	Investment Grade	Standard Monitoring	Special Monitoring	Total
	£	£	£	£
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**
Balances with Banks	40,286,140	-	-	40,286,140
Other financing	-	-	12,667	12,667
Murabaha financing	497,928,326	26,797,193	8,725,726	533,451,245
Financial assets at amortised cost	74,814,453	-	-	74,814,453
31 December 2019	**613,028,919**	**26,797,193**	**8,738,393**	**648,564,505**
Off Balance sheet:				
Undrawn Commitments	3,199,339	9,974,940	460,030	13,634,308
31 December 2019	**3,199,339**	**9,974,940**	460,030	**13,634,308**
Total	**616,228,257**	**36,772,133**	**9,198,422**	**662,198,812**

As at 31 December 2020, the Bank had the following Stage 3, non-performing, impaired assets for which it is also undertaking special monitoring:

1) A UK corporate with a total Murabaha financing amount due of £7,102,381 (2019: £6,843,479). The total impairment provision against this asset as at 31 December is £1,200,000 (2019: £977,364).

2) A UK corporate with a total Murabaha financing amount due of £3,842,843 (2019: £3,842,843). The total impairment provision against this asset as at 31 December is £3,842,843 (2019: £3,842,843).

3) A UK individual with a total Qard Hasan financing amount due of £12,655 (2019: £18,155). The total impairment provision against this asset as at 31 December is £12,655 (2019: £18,155).

4) A UK individual with a total Qard Hasan financing amount due of £4,527 (2019: £5,727). The total impairment provision against this asset as at 31 December is £4,527 (2019: £5,727).

Sensitivity Analysis

Due to the impact of the COVID-19 pandemic on the UK economy, the Bank has reassessed the key economic indicator 'GDP' in its ECL model. As a consequence, the expected GDP growth rate over the next few years has been revised downwards, given the slowdown of the UK economy. Unemployment rates and corporate performance follow a similar trend, though our customer base is mainly resilient to UK macroeconomic factors due to being mostly High Net Worth Individuals residing overseas, albeit with collateralised UK properties.

The UK Government has taken actions to stifle the impact of a negative GDP on the wider economy, for instance in the form of furlough, payment holidays and low interest rates. The Bank of England base rates have also been revised downwards for the short term, as part of the governmental response. Long-term expectations remain unchanged. The Bank has revised its ECL model to include more elements like time to sale and index to sale of properties, to ensure that the model responds accurately to the market. Sensitivity calculations have also been introduced to consider the differences between different economic scenarios.

Using 31 December 2020 ECL results, the model performance assessment is as follows:

Model performance impact assessment as at 31 Dec 20	
Risk Factor performance	**Sensitivity**
Sensitivity testing of Corporate PD model on the macro forecasts (**negative economic outlook only**)	**3,352,461**
Sensitivity testing of Retail PD model on the macro forecasts (**negative economic outlook only**)	**1,323,489**
Sensitivity testing of Corporate PD model on the macro forecasts (**positive economic outlook only**)	**(1,258,753)**
Sensitivity testing of Retail PD model on the macro forecasts (**positive economic outlook only**)	**(82,857)**

The sensitivity analysis above has been calculated by comparing the outcome of using the Bank's blended weighting (70% base case, 20% pessimistic case and 10% optimistic case) versus either a 100% pessimistic case scenario or a 100% optimistic case scenario.

Credit risk collateral and mitigation

In accordance with SYSC 15.1.32, and in line with the Bank's risk appetite, any new proposal from the business unit must incorporate the taking of collateral (typically real estate assets or personal guarantees) in order to provide appropriate credit risk mitigation.

The Risk Management department as the second line of defence, must as part of their assessment ensure that the credit application contains the appropriate level of credit risk mitigation and collateral, in accordance with the Risk Appetite Statement, and make comment within the overall risk summary for RMC or Board ExCo.

As per the Credit & Investment Policy, 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. Transactions are collateralised against residential and commercial properties, predominantly in prime central London. A property valuation is performed at origination and in the event of a change in risk, which is monitored monthly.
To mitigate the credit risk, typically the Bank will also look to take a personal guarantee (if an SPV), mortgage debenture and share pledges (limited value, but useful for control purposes).

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

	2020		2019	
	Exposure	**Collateral**	Exposure	Collateral
	£	**£**	£	£
Balances with Banks	41,239,863	-	40,286,140	-
Due from Banks	-	-	-	-
Other financing	5,542	-	12,667	-
Murabaha financing	596,338,276	1,274,987,289	533,451,245	929,332,266
Financial assets at amortised cost	67,271,228	-	74,814,453	-
Total Credit Risk	**704,854,909**	**1,274,987,289**	**648,564,505**	**929,332,266**

Wrong-way risk

Wrong-way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated to the credit quality of that counterparty. The bank has no exposure to wrong-way risk.

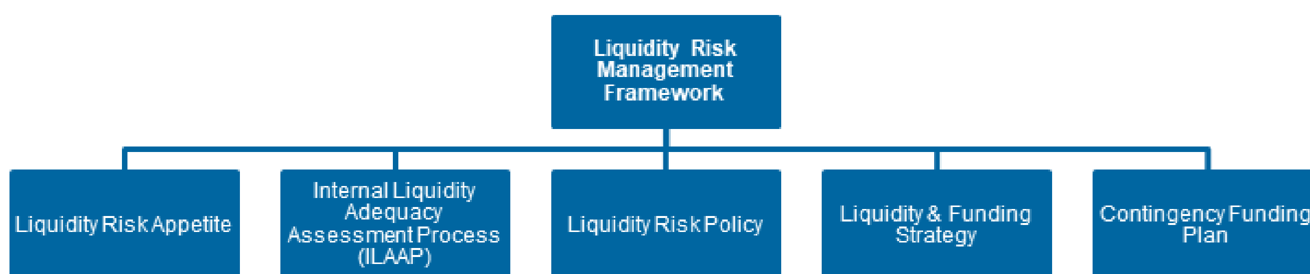
4.7 Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to finance its assets and/or meet its liabilities as they fall due, or will only be able to meet them at an uneconomic price. 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.

The Bank manages its liquidity profile to ensure that it maintains adequate levels of liquidity resources to meet all regulatory requirements, a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks to support the daily and budgeted business requirements. Liquidity risk is primarily managed by Treasury and Finance, with oversight from the Risk department as well as ALCo, RMC and ARC.

The ILAAP requires the Bank to consider all material liquidity risks in detail and documents the Bank's analysis of each key liquidity risk driver, with monitoring metrics set against each key liquidity risk. Through the ILAAP process, the Bank has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks, and appropriate risk measures have been agreed to monitor this on an on-going basis. Liquidity risks are specifically considered by ALCo each month and by ARC and the Board on a quarterly basis.

The Bank has a Liquidity Risk Management Framework ('LRMF'), illustrated in the chart below, 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 over an appropriate set of time horizons, including intraday, so as to ensure it maintains adequate levels of liquidity buffers and an appropriate funding profile. The Bank seeks to mitigate risk by implementing sound systems and controls, through robust corporate governance arrangements. The LRMF and stress testing programme have required involvement from 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.



In order to manage the Bank's liquidity risk, 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 base that is within the Bank's risk appetite;
- conduct regular and broad-based stress testing;
- implement liquidity contingency funding plans;
- have adequate systems and controls for monitoring, measuring and managing liquidity on a daily basis;
- ensure sufficient senior management oversight; and
- maintain clear lines of communication with the regulator and to notify them of any breaches of its guidelines as soon as they occur.

Key liquidity risk drivers

The Bank's key liquidity risk drivers have been identified as:

Retail funding risk

The Bank's business plan is to steadily increase the value of retail deposits it holds. The overall level of retail funding risk is tracked through the monthly ALCo management information pack and regulatory reporting submissions. In order to drive a higher level of retail deposits, particularly noting the requirements under the Net Stable Funding Ratio, the Bank has successfully implemented a partnership with Raisin UK, an online retail deposit marketplace for UK savers. The Bank is able to adjust its products, tenors and rates to attract a desired value of deposits, whilst managing its overall cost of funding. This, in addition to its deposit offering to HNWI through the Private Banking department, will subsequently lead to material improvements in the Bank's long-term retail funding base. This has become a well-established and reliable source of funding for the Bank. Given Raisin is the Bank's main source of outsourcing risk for the Bank, it is subject to enhanced and regular risk monitoring.

The Bank's retail funding profile includes HNWI current and savings accounts, fixed deposits and retail savings deposits. Retail funding risk would arise from withdrawal requests of funds held in current and savings accounts as well as an increased withdrawal rate from these individuals on maturity.

The Bank maintains very conservative liquidity reserves against retail funding risk and a proportion of the deposits are protected by the Financial Services Compensation Scheme ('FSCS'). As at 31st December 2020, the insured amount provided by the FSCS is £85,000 for each depositor.

Wholesale funding

The Bank does not have any wholesale secured funding facilities. All funding from the wholesale markets are on an unsecured basis. Wholesale funding risk is the risk that funds from wholesale depositors are withdrawn on maturity. Wholesale deposits are deployed to support the Bank's general asset book and to diversify the Bank's source of funding, though Treasury are aware of the risk of withdrawal on maturity, which is reflected in the Bank's daily liquidity monitoring. The Bank benefits from substantial stable funding lines from its parent and wider wholesale entities. These are tracked closely and maturity profiles are spread in order to mitigate risk.

Funding tenor risk

Funding tenor risk arises from vulnerabilities within the term structure due to internal, external or contractual events. Funding tenor risk can arise for the Bank as a result of mismatches in the maturity profile of the Bank's financing book, where the maturity term of assets may differ from that of its funding liabilities. The Bank actively monitors its maturity mismatch by allocating assets/liabilities into individual time bands and setting appropriate monitoring metrics. This is further demonstrated as part of the Bank's liquidity metric monitoring and daily calculation of Liquidity Coverage Ratio positions.

Risk of deterioration in Bank's credit rating

The Bank is unrated and is wholly-owned by its parent, Qatar Islamic Bank S.A.Q., currently rated at investment grade (A) by Fitch, (A-) by S&P and (A1) by Moody's. A decline in the parent's rating would not significantly affect the retail/HNWI element of the Bank's funding base, but could impact the Bank's wholesale funding base. The Bank monitors the parent's rating and would reassure its Treasury counterparties should there be any concerns over a potential downgrade.

Intraday liquidity risk

This is the risk that the Bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment or settlement obligation at the time expected, thereby affecting its own liquidity position and that of other parties. The Bank must therefore ensure that it retains sufficient intraday liquidity at all times. The Treasury department actively manage and monitor the Bank's liquidity position to ensure that the Bank is able to meet its payment and settlement obligations on a timely basis. The Bank mitigates this risk by holding a buffer of funds across its nostro accounts to satisfy large customer withdrawal requests, as well as maintaining unsecured borrowing lines with its counterparties.

Payment systems

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

Pipeline financing commitments

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

Details of the Bank's net liquid assets are summarised in 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.

Risk governance was enhanced to manage the rapidly changing environment, with ad-hoc Board and ARC meetings being held. In order to monitor and manage liquidity and funding risks, weekly meetings have been established including the Asset and Liability Committee members. 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 and mitigated the risk of cash outflows at maturity, during an uncertain year for liquidity. Mainstream retail savings deposits increased by £76m to £130m (2019: £55m) as at 31 December 2020.

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
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
Assets						
Cash and balance with Banks	40,777,074	-	-	-	-	40,777,074
Financing arrangements	2,871,282	24,260,658	88,259,005	346,441,268	76,226,818	538,059,031
Financial assets at amortised cost	74,848,611					74,848,611
Other Assets	2,342,519			27,067,406		29,409,925
31 December 2019	120,839,486	24,260,658	88,259,005	373,508,674	76,226,818	683,094,641
Liabilities						
Due to Banks	19,808,151	55,553,160	9,808,171	-	-	85,169,482
Due to other financial institutions	589,948	1,379,466	40,093,728	378,358	-	42,441,500
Due to customers	73,386,981	92,109,760	257,942,028	14,261,943	-	437,700,712
Subordinated Loan	-	-	-	-	15,950,000	15,950,000
Other Liabilities	6,635,025	3,116,585	8,062,110	5,541,795	780,100	24,135,614
Cash flow reserve net of tax	22,238	-	-	-	-	22,238
31 December 2019	100,442,343	152,158,970	315,906,038	20,182,095	16,730,100	605,419,546
Undrawn commitments	13,634,308					13,634,308
Difference	6,762,836	(127,898,313)	(227,647,033)	353,326,578	59,496,718	64,040,787

4.8 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 market prices across commodity, foreign exchange, 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 therefore does not engage in proprietary trading activities or hold positions in assets or equity which are actively traded. The Bank does however accept market risk to some degree by holding a portfolio of liquid assets (Sukuk) which are used for liquidity buffer purposes. These securities are exposed to market price movements should any of the securities be sold. Daily prices are obtained and market values reported to ensure that the Bank is aware of any material diminution in value.

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.

Market risk is largely related to Treasury's activities and is managed by the Bank's Treasury department in line with limits established and monitored by RMC and ALCo. Limits are set by the RMC and approved periodically by the Board.

Foreign exchange risk is managed by Treasury, in line with limits established and monitored by RMC and ALCo, by ensuring open foreign exchange positions are minimised through the use of Shari'a compliant hedging techniques.

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

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

Parallel rate shock risk	**2020**	2019
• ±2% rate shock	**£3,449,000**	£4,714,656
• Impact on regulatory capital	**(4.1%)**	(5.9%)

4.9 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 the 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 an executive level, risk is managed by the executive management team, reporting to the Bank's CEO.

The Bank's Risk Register provides details on the high and medium priority risks derived from incident reports and RCSA results. The Risk Register has a clear action plan/mitigation steps, owner and timeline to resolve and present 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 COVID-19. 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 COVID-19. 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 & disaster recovery facility based in Basildon. This 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 the COVID-19 pandemic restrictions, the Bank moved all staff to remote home working. This has impacted the inherent operational risks, and therefore required the Bank to implement additional COVID-19 related controls. These additional controls have ensured the residual operational risk level remains within the Bank's risk appetite. Throughout the following section these additional COVID-19 controls are highlighted.

To support the move to full home working, the Bank implemented formal change control requirements. All proposed changes to policies and processes were reviewed and approved by Risk. To support the change from hard copy documents to digital, secure electronic signatures have been implemented. RMC and ARC have oversight of these COVID-19 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, fishing-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. To extend this to all staff, the purchase of additional firewall and VPN licenses was required. A number of additional controls were undertaken to prevent and manage cyberattacks. Firewalls were upgraded, email security enhanced and staff training brought forward. The headcount in IT/IT Security has also increased from 2 FTE to 3 FTE.

Prior to moving all staff to remote working, the Bank's insurance brokers were informed and updated with regard to policy and procedures changes. Insurance cover was reviewed and additional cover was taken to provide for the additional equipment being used by staff from their homes.

Operational resilience, which refers to 'the ability of firms, Financial Market Infrastructures (FMIs) and the sector as a whole to prevent, respond to, recover and learn from operational disruptions' is also a key area the Bank is working on implementing in 2021. 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:

1. Defining a framework to achieve operational resilience.
2. Embedding operational resilience in the governance structure.
3. Ensuring effective capacity management.
4. Strengthening the management of own risk.
5. Enhancing resilience capability and agility.
6. 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. Our customers had ongoing access to products and services with very limited disruption. For a brief period during the initial lockdown, the Bank did not offer its Private Banking cash desk service. Cash services were still available at the Bank's ATM located in the building and other ATMs. In reality, there was very little demand for cash as the majority of the Bank's clients had returned overseas and the use of cash was discouraged due to the risk of COVID-19 transmission.

The real estate markets were operationally impacted with real estate agents unable to visit occupied properties to carry out valuations. While some client's transactions were delayed by their valuers, the clients themselves were prepared to wait given the uncertainty. Accordingly the Bank's transaction pipeline saw the time taken from credit approval to drawdown increasing materially. Given that the legal documentation used in real estate finance requires wet ink signatures, management put in place a contingency procedure to execute signing.

During the year, no complaints were received from clients specifically in relation to the Bank's COVID-19 arrangements.

The operational risk charge for the Bank under Pillar 1 is calculated using the basic indicator approach, whereby a 15% multiplier is applied to the 3 year historical average of net income. The total operational risk exposure amount under this approach was £25 million for 2020 (2019: £23m).

The following diagram sets out the Bank's operational risk framework:

4.10 Climate Change Risk

Given the impact of the COVID-19 pandemic, the PRA has extended the deadline for fully embedding their expectations on climate change risk to the end of 2021. The Bank remains committed to implementing its high level plan. The CRO (SMF4) has been given responsibility for identifying and managing financial risks from climate change. The project work will deliver the appropriate framework and the streams will cover the following:

1. Risk Management:

- Identification and assessment of the financial risks from climate change; broken down into transition risks and physical risks.
- The output from the assessment will also feed into the Board Risk Appetite Statement and the strategy to include appropriate longer term metrics for climate related risk.
- Exposure to climate change risk will be evidenced in risk management policies and Management Information to Executive and Board Committees.
- The Bank's Pillar III document will provide disclosure of how the Bank integrates climate related financial risks into the governance and risk management processes.

2. Governance:

- Further to identifying the climate risks inherent in the Bank's business model, clear roles and responsibilities will be established at Board and Executive level.
- The Board directors, with their long-term stewardship duties, are a crucial element in the governance of climate 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.
- 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 impact of identified physical and transition risk scenarios.
- Scenario analysis will be run to assess the impact on capital and liquidity requirements as part of the Bank's ICAAP and ILAAP.
- Output will inform strategy setting so that the Bank can align the business to the adjustment to a climate impacted and lower carbon operating environment.

4.11 Conduct risk

Conduct risk is the risk of loss to the Bank resulting from its failure to deliver fair customer outcomes, the remediation of customer detriment or a failure to preserve market integrity. 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 Board and management place significant importance on ethical conduct for all activities of the Bank. The Bank 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.

Conduct Risk Management for the Bank ensures that we do the right thing for our customers, whilst promoting good behaviours across all aspects of our organisation, and develop a culture in which it is clear that there is no room for misconduct.

The Bank has no appetite to breach any aspect of this conduct risk definition and operate a zero tolerance stance to any situations in which staff demonstrate actions that contravene this key requirement. The Bank adopts a measurable policy and KPI's are produced on a periodic basis with oversight from ARC.

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

4.12 Financial Crime / Money laundering risk

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.

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

4.13 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, and assesses capital adequacy using the stress testing approach.

4.14 Risk Appetite Statement

The Bank recognises that its long term sustainability depends upon the delivery of its strategic objectives and relationships with its key stakeholders. The Bank's foundation in Islamic principles and resultant requirements for Shari'a compliance ensures certain high risk activities are not undertaken by the Bank, although pre-determined acceptable levels of risk are accepted in pursuit of its vision and strategic goals. Risks are accepted subject to a good understanding of the potential benefits and adverse impacts before proceeding, and unacceptable risks are mitigated through control measures as required. The Board will set the overall risk appetite for the Bank. As such, the Board and management of the Bank will regard the risk appetite in both strategic and operational decision making. Qatar Islamic Bank S.A.Q's and the Bank's strategic aim is to employ a prudent risk appetite in order to safeguard its assets and ensure that it remains a stable bank.

The overarching risk appetite of the Bank is set in terms of the following objectives:

1) To protect its shareholders and the UK financial system from harm or loss.
2) To maintain Shari'a compliance at all times.

3) To ensure sufficient capital and liquidity is held commensurate with its risk profile and in line with prudential regulatory requirements.
4) To ensure full compliance with conduct rules and regulations including financial crime.
5) To develop and maintain a portfolio of high quality income producing assets whilst achieving an appropriate risk versus reward performance.
6) To actively identify, assess, measure and mitigate risks, whilst ensuring the correct control landscapes are in place and are effective in order to maintain sound risk management and internal control systems.

The Bank has a clearly defined risk appetite designed to meet the risk management objectives. This is regularly reviewed to ensure it remains fit for purpose and exposures are monitored and reported regularly. The risk appetite is set by the Board, with the advice of ARC, and implemented by ManCo.

The following sets out the Bank's overarching appetite levels for each of the key risks for the Bank:

Principle Risk	Inherent Risk	Residual Risk / Risk Appetite	Context
Business Risk	Medium	Low	The Board have set a low risk appetite for Business risk as the Bank operates a simple business model and the Business Plan is discussed and agreed by the Board prior to the start of each year. Financial performance and key metrics as well as external macroeconomic factors are significant areas the Bank will monitor in addition to risks arising from a deviation to the proposed business plan.
Capital Adequacy	Medium	Medium	The Bank recognises that its capital surplus will reduce in line with its growth strategy and accepts a tight margin owing to parental support if required. The Bank, as part of its ICAAP has thoroughly assessed the risks of its business, evaluating each identified risk individually to ensure the Bank maintains adequate capital for its size, nature and complexity of business under normal and stressed situations.
Credit Risk	Medium	Low	The Bank manages credit risk through a clearly defined credit approval process and metrics have been set to guide and monitor this process. The Bank's credit exposures are largely secured on Real Estate, with key focus on HNWI clientele. The Bank does not carry out speculative trading and invests largely in highly rated Sukuk which are held for LAB purposes.
Liquidity Risk	Medium	Medium	The Bank accepts it has an increased funding concentration risk which subsequently results in high Liquidity Coverage Ratio volatility. It is the Bank's aim to gradually reduce its exposure amongst a number of its key depositors and build a varied and stable source of funding streams. The Bank also accepts it has limited access to funding sources unlike a conventional bank due to being a shari'a principle based institution.
Market Risk	Low	Low	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 and derivative-based market trading.
Operational Risk	Medium	Medium	Although the Bank has taken material steps to strengthen the Operational Risk Framework, it recognises that they remain a small Bank with a number of manual processes and heightened key man risk.

Conduct Risk	Low	Low	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	High	Low	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 / PEP's. 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.

4.15 Risk oversight, monitoring and reporting

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

All staff within the Bank are responsible for reporting any risk incidents/potential risk incidents that could result in a loss for the Bank. The events are escalated in accordance with criteria set out in the Bank's Operational Risk Policy. The respective business unit is responsible for investigating the root cause of an event, considering mitigating actions where appropriate or recommending the acceptance of the underlying risk. The Risk Management Committee reviews the operational risk events and issues on a monthly basis and ARC does the same on a quarterly basis.

The Bank's Risk Register provides details of risks derived from incident reports and RCSA results. The Risk Register will have a clear action plan/mitigation steps, owner and timeline to resolve and be presented through the appropriate governance committee.

The Bank's CRO also presents a discussion paper at the monthly Risk Management Committee meeting setting out the Bank's top 5 'key risks' impacting the Bank. These are derived using a 'top down' approach, considering the residual risk (probability and impact) that the Bank is exposed to. The primary objective of the paper is to ensure that senior management are regularly challenging themselves on the top key risks associated with the Bank, whether they are comfortable to accept such risks, or if necessary actions are required in order to reduce the residual risk further. The top key risks are incorporated into the Risk dashboards and presented at the quarterly ARC and board meetings.

Risk exposures are monitored against the defined appetite/tolerances, with new risks and changes in risks reported at the appropriate management committee with explanations and reasons. The results of this monitoring will be reported to the appropriate board level committee.

This will permit the Board to gain assurance that risks within the Bank are being appropriately managed and reported. The reports will also allow the board level committees to review and assess whether the defined risk appetite/tolerance remains appropriate, particularly as strategic objectives are progressed and the Bank's risk profile changes.

External audits also provide assurance to the Board that risks material to the financial statements are managed and reported upon accurately.

5. Capital resources

5.1 Capital summary

As at 31 December 2020, the Bank's capital base was made up of £72.2 million of Tier 1 capital and £16.0 million of Tier 2 capital, of which £13.2 million is eligible for Own Funds.

Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA's regulatory document GENPRU 2.2.83 R and audited reserves.

Tier 2 capital consists of subordinated Wakala notes from the Bank's parent, Qatar Islamic Bank S.A.Q.

5.2 Own Funds

The Own Funds Disclosure template is presented in the following table:

Own Funds		
	2020	2019
	£	£
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments	**60,864,221**	60,864,221
Retained earnings	**11,074,250**	6,330,458
Accumulated other comprehensive income (and reserves)	**-5,288**	22,238
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**71,933,183**	67,216,917
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets	**-250,722**	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**-1,148,521**	-1,031,743
Fair value reserves related to gains or losses on cash flow hedges	**0**	0
Negative amounts resulting from the calculation of expected loss amounts	**1,715,223**	2,093,896
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**315,980**	1,062,153
Common Equity Tier 1 (CET1) capital	**72,249,163**	68,279,070
Additional Tier 1 (AT1) capital: instruments		
Capital instruments	**0**	0
Additional Tier 1 (AT1) capital	**0**	0
Tier 1 Capital	**72,249,163**	68,279,070
Tier 2 (T2) capital: instruments and provisions		
Capital instruments	**15,950,000**	15,950,000
Credit risk adjustments	**2,759,444**	4,100,368
Tier 2 (T2) capital	**13,190,556**	11,849,632
Total capital	**85,439,719**	80,128,702
Total risk weighted assets	**418,084,188**	375,285,265
Capital ratios and buffers		
Common Equity Tier 1 (as % RWA)	17.28%	18.19%
Tier 1 (as % of total risk exposure amount)	17.28%	18.19%
Total capital (as % RWA)	20.44%	21.35%
Institution specific buffer requirement	7.00%	8.00%
of which: capital conservation buffer requirement	2.50%	2.50%
of which: countercyclical buffer requirement	0.00%	0.99%
Common Equity Tier 1 available to meet buffers (as % RWA)	4.66%	5.56%

5.3 Capital Instruments – features and terms

Tier 1 – Equity share capital

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

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

Tier 2 – Subordinated Wakala (capital)

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

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

6. Compliance with CRD IV and Capital Adequacy

6.1 Capital Requirements Framework

As a CRR firm (i.e. a UK Bank that is subject to the EU Capital Requirements Regulation), the Bank is required to maintain adequate financial resources, both as to amount and quality, to ensure that there is no significant risk that it is unable to meet its liabilities as they fall due.

The Bank undertakes a comprehensive formal assessment of its capital adequacy by completing an ICAAP at least on an annual basis, and additionally when considered necessary in the light of changes in market or Bank specific circumstances, including strategic decisions in respect of the product set offered by the Bank. The objective of this process is to provide a periodic assessment of the Bank's risk profile, its risk management and governance framework, and of the level of capital that the Board believes the Bank should hold to reflect those risks, under normal market conditions and under a range of severe but plausible stressed scenarios.

The ICAAP is subject to rigorous review and challenge by both the Bank's management team and the Board. The report is submitted to the Bank's prudential regulator on request, who will periodically revisit the capital requirements for the Bank in the light of the most recent ICAAP and the regulator's own supervisory processes.

In order to protect the solvency of the Bank, the Bank holds internal capital resources to absorb unexpected losses. The capital held is determined by the regulator's guidance. The Capital Framework as applicable to the Bank's business model is described below.

6.2 Pillar 1

Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk. The Bank has elected to use the standardised approach for credit risk and the basic indicator approach for operational risk. Under the Basel III framework, the Bank's Pillar 1 capital requirement is based on 8% of its risk-weighted assets ('RWAs'). The Bank uses external credit ratings from External Credit Assessment Institutions to determine the appropriate risk weights for its exposures to rated institutions, in particular Treasury counterparties and Sukuk investments. Where two ratings are provided, the lower of the two is used. Where three ratings are given the middle rating is used. The Bank uses internal ratings for all unrated exposures.

The Bank's exposures, capital requirements and risk weighted assets within each exposure class at 31 December 2020 were:

Minimum Capital Requirement			
	Exposure value (£)	**RWA (£)**	**Pillar 1 Capital Requirement (£)**
Central government or central banks	27,001,803	0	0
Multilateral development banks	37,079,821	0	0
Institutions	41,197,293	8,239,459	659,157
Corporate	7,172,500	3,653,050	292,244
Retail	5,508	4,131	330
Secured by mortgages on immovable property	553,325,110	284,974,756	22,797,981
Exposures in default	0	0	0
Items associated with particular high risk	47,086,039	70,629,059	5,650,324
Other items	24,956,832	24,956,832	1,996,547
Credit and Counterparty Risk Minimum Capital Requirement	**737,824,906**	**392,457,287**	**31,396,583**
Credit and Counterparty Credit Risk (Standardised)	737,824,906	392,457,287	31,396,583
Market Risk	25,950	25,950	2,076
Credit Valuation Adjustment (Simplified Method)	3,160,758	736,463	58,917
Operational Risk (Basic Indicator Approach)	24,864,488	24,864,488	1,989,159
Pillar 1 Capital Resources Requirement	**765,876,102**	**418,084,188**	**33,446,735**

6.3 Pillar 2

As part of the Pillar 2 approach to capital adequacy, the Board must consider all material risks which the Bank faces and determine whether additional capital is needed to provide additional protection to depositors and

financing customers, and ensure that the Bank is sufficiently well capitalised to withstand under a range of severe but plausible stressed scenarios.

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

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

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

The Bank produces regular reports on the current and forecast level of capital, including under severe but plausible stress scenarios, to the Board and ARC. The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported; any material deviation from the forecast and risk profile of the Bank will require the ICAAP to be updated. The principal risks considered in the ICAAP are detailed in Section 4.

Pillar 2a requirements are designed to capture the firm specific risks that are not covered by the Pillar 1 minimum capital requirements. As part of the Supervisory Review and Evaluation Process ('SREP'), the PRA reviewed the Bank's ICAAP and advised of its additional capital requirement under Pillar 2A by setting a firm specific Total Capital Requirement ('TCR').

6.4 Capital buffers

In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be drawn upon in stressed conditions.

The Capital Conservation Buffer ('CCB')

The CCB is designed to ensure that the Bank builds up capital buffers during non-stressed periods that can be drawn upon if required. As at 31 December 2020, a CCB of 2.5% is required to be maintained above the minimum capital requirement and must be comprised of CET1 capital.

The Countercyclical Capital Buffer ('CCyB')

The CCYB is intended to protect the banking sector against losses that could be caused by cyclical systemic risks. It requires the Bank to add capital during periods when credit is growing rapidly, so that the buffer can later be reduced when the financial cycle turns.

The buffer required is calculated as the weighted average of all buffers in effect for the jurisdictions to which the Bank has a credit exposure.

The CCyB for the UK is set by the Financial Policy Committee ('FPC') of the Bank of England. The UK CCyB rate was 0% as at 31 December 2020.

The following table shows the geographical distribution of credit exposures relevant to the calculation of the CCyB:

Countercyclical capital buffer				
	Credit Exposure value (£)	**Own funds requirement (£)**	**Own funds requirements weights**	**Countercyclical capital buffer rate**
UK	625,507,089	30,455,870	0.99%	0.00%
Saudi Arabia	3,755,693	150,228	0.00%	0.00%
Qatar	3,283,207	131,328	0.00%	0.00%
Total	**632,545,989**	**30,737,426**		

Amount of institution specific countercyclical capital buffer	
Total risk exposure amount (£)	418,084,188
Institution specific countercyclical buffer rate	0.00%
Institution specific countercyclical buffer requirement (£)	10,452,105

6.5 Capital adequacy

As at 31st December 2020, and throughout the year, the Bank's capital adequacy was well in excess of the minimum required by the regulators at all times.

7. Remuneration code

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

This requires the Bank to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities. Firms must maintain a record of material risk-takers (staff whose activities may have a material impact on the firm's risk profile) and take reasonable steps to ensure they understand the implications of the Remuneration Code. The disclosure requirements of Pillar 3 are defined by the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11 as at 31 December 2020.

7.1 Overview of approach to remuneration

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

These principles are:

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

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

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

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

The Bank's Remuneration Policy, which is reviewed annually and any changes approved by RemCo, focuses on ensuring sound and effective risk management through:

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

7.2 Governance and decision making

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

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

7.3 Material risk-takers and control functions

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

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

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

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

All employees, including senior management and executive directors, receive a fixed remuneration package. The Bank operates a discretionary non-contractual annual bonus, which is not guaranteed and is not a permanent part of salary and may vary from year to year in amount and any performance related adjustments.

7.4 Aggregate remuneration data

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

Staff Remuneration	Average Number of Employees 2020	Fixed'	Variable''	Total
Approved Persons	5	£917,850	£237,500	£1,155,350
Management Committee and risk-takers	11	£1,251,640	£223,819	£1,475,459
Total		£2,169,490	£461,319	£2,630,809

'Fixed remuneration comprises of: salary, pension, bonus guarantees

''Variable pay comprises of: performance based bonus, severance

8. Other disclosure requirements

8.1 Asset encumbrance

Asset encumbrance refers to the pledging or use of an asset as a means to secure, collateralise or credit-enhance any on balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

The Bank does not participate in asset encumbrance. In accordance with Article 432, the Bank is therefore not required to report Template B 'Collateral Received' or Template C 'Encumbered assets/collateral received and associated liabilities'.

Template A-Assets				
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	-		726,914,417	
Loans on demand	-		41,239,863	
Equity instruments	-	-	-	-
Debt securities	-	-	67,820,859	67,853,245
Loans and advances other than loans on demand	-	-	595,780,741	
Other assets	-		22,072,954	

8.2 Leverage Ratio

The Leverage Ratio is calculated as Tier 1 Capital/total exposures, defined as:

- Tier 1 capital: defined according to CRD IV on an end point basis (assuming the full impact of CRD IV requirements on Tier 1 Capital.
- Total exposures: total on and off balance sheet exposures (subject to credit conversion factors) as defined in the Delegated Act amending CRR article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

As at 31 December 2020, the Bank's Leverage Ratio was 9.85% (2019: 10.00%), demonstrating a low appetite for excessive leverage. The Bank is not within scope of the PRA's Leverage Regime as its retail deposits are less than £50 billion.

The following tables provide more details in accordance with Commission Implementing Regulation (EU) 2016/200:

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	
	Applicable Amounts
Total assets as per published financial statements	**732,064,182**
Adjustments for derivative financial instruments	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5,282,323
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-1,399,243
Other adjustments	-2,642,044
Total leverage ratio exposure	**733,305,218**

Table LRCom: Leverage ratio common disclosure	
	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives)	
On-balance sheet exposures (excluding derivatives)	732,063,300
Asset Amounts deducted in determining Tier 1 Capital	-1,399,243
Total on-balance sheet exposures (excluding derivatives)	**730,664,057**
Derivative Exposures	
Exposure determined under Original Exposure Method	0
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	5,282,323
(Adjustments for conversion to credit equivalent amounts)	-2,641,162
Other off-balance sheet exposures	**2,641,162**
Capital and total exposures	
Tier 1 capital	72,249,163
Total leverage ratio exposures	733,305,218
Leverage ratio	
Leverage ratio	**9.85%**

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives)	
	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives), of which:	**732,063,300**
Banking book exposures, of which:	-
Exposures treated as sovereigns	64,081,624
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	41,197,293
Secured by mortgages of immovable properties	597,857,025
Retail exposures	5,508
Corporate	3,932,064
Exposures in default	-
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	24,989,786

8.3 Application of transitional arrangements for IFRS 9

On 1 January 2018, IFRS 9 transitional capital arrangements were implemented by Regulation (EU) 2017/2395. The Bank elected to apply the transitional arrangements.

The following template IFRS9 –FL from the EBA guideline (EBA/GL/2018/01) provides a comparison of the Bank's Available Capital, Own Funds and Capital Ratios with and without the application of the IFRS 9 transitional arrangements.

	31/12/20	31/12/19
Available Capital (£'000s)		
CET1 Capital	**72,249**	68,279
CET1 Capital as if IFRS 9 transitional arrangements had not been applied	***70,534***	*66,185*
Tier 1 Capital	**72,249**	68,279
Tier 1 Capital as if IFRS 9 transitional arrangements had not been applied	***70,534***	*66,185*
Total Capital	**85,440**	80,129
Total Capital as if IFRS 9 transitional arrangements had not been applied	***83,688***	*77,998*
Risk-weighted Assets (£'000s)		
Total Risk-Weighted Assets	**418,084**	375,285
Total Risk-Weighted Assets as if IFRS 9 transitional arrangements had not been applie	***416,916***	*374,118*
Capital Ratios as a percentage of RWA		
Common Equity Tier 1 Ratio	**17.28%**	18.19%
Common Equity Tier 1 Ratio as if IFRS 9 transitional arrangements had not been applie	***16.92%***	*17.69%*
Tier 1 Ratio	**17.28%**	18.19%
Tier 1 Ratio as if IFRS 9 transitional arrangements had not been applied	***16.92%***	*17.69%*
Total Capital Ratio	**20.44%**	21.35%
Total Capital Ratio as if IFRS 9 transitional arrangements had not been applied	***20.07%***	*20.85%*
Leverage Ratio		
Leverage Ratio Exposure (£'000s)	**733,305**	682,874
Leverage Ratio Exposure (£'000s) as if IFRS 9 transitional arrangements had not been c	***733,485***	*680,902*
Leverage Ratio	**9.85%**	10.00%
Leverage Ratio as if IFRS 9 transitional arrangements had not been applied	***9.62%***	*9.72%*

8.4 Board of Directors

The Board is comprised of five non-executive directors, two of whom are independent, and two executive directors.

Name	Appointment	Membership	Experience	Directorship Executive[1]	Directorship Non Executive[1]
Mr B Gamal (Chair)	26 July 2013	ExCo RemCo	Group CEO of Qatar Islamic Bank with more than 30 years' of international banking and finance experience.	Nil	1
Mr G Hemani	05 August 2014	ARC	CFO at Qatar Islamic Bank, Chartered Accountant, CFA and FRM, holding over 25 years' of experience in banking and finance	Nil	1
Mr R Sanghvi	24 January 2016	ExCo RemCo	30 years' experience in Risk, Corporate Banking and Corporate Finance, a Chartered Accountant and holds CISA.	Nil	1
Mr D Thomas*	15 January 2013	ARC RemCo	International career banker spending over 30 years with Lloyds Bank, moving in 2007 to an iNED for financial companies.	Nil	1
Ms M Ismail*	01 January 2016	ARC RemCo	Named in Fortune List of Most Influential Women in International Finance, 25+ years' of international banking experience.	1	3
Mr D Steele-Bodger	01 September 2016	ExCo	CEO of QIB (UK), holding over 30 years' banking experience, both UK and overseas, specialising in Private Banking sector.	1	1
Mr L Krause	18 April 2019		CFO and COO of QIB (UK), a Chartered Accountant qualifying with PWC, holding 25+ years' of extensive experience in financial services.	1	Nil

ExCo - Board Executive Committee
ARC - Board Audit and Risk Committee
RemCo – Board Nominations and Remuneration Committee

[1]excludes group and overseas companies
*Independent Non-Executive Directors

Appointment of executive and non-executive directors

The sole shareholder, Qatar Islamic Bank SAQ, will appoint and remove all directors at its discretion, through the mechanism of a formal Shareholder Resolution. To this end, they will ensure that the members of the Board includes at least three non-executive directors, including the Chair, and at least two independent non-executive directors.

Appointments will be made by ensuring that the Board members have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Remuneration

Remuneration of the Board members will be set individually. Only independent non-executive directors will receive payment for serving on the Board. Executive directors are expected to serve as part of the terms of their service. Fees for other non-executives will be decided case by case if they are not otherwise employed by the QIB Group.

The terms of these contracts will be proposed by RemCo directly to the shareholder in the case of the Chair; and to the Chair for approval by the shareholder in the case of the other non-executive directors.

Remuneration of the executive directors will be according to the terms of their employment contracts, as drafted by RemCo, and approved by the non-executive members of the Board.

Board diversity

The Bank is committed to its diversity on the Board and to the principle of equal opportunity in employment. It is the Bank's primary responsibility to meet the objective of not discriminating in the course of employment, not to induce or attempt to induce others to practise unlawful discrimination and not to treat anyone less favourably because of a protected characteristic.

The Bank will select and promote on the basis of aptitude, skill and ability whilst meeting the needs of the business.

9. Board declaration

The Board is responsible for reviewing the effectiveness of the Bank's risk management arrangements and systems of financial and internal control. These are designed to identify, assess, monitor, reported and mitigate where possible risks.

The Board considers that it has in place adequate systems and controls with regard to the Bank's profile and strategy, and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.