

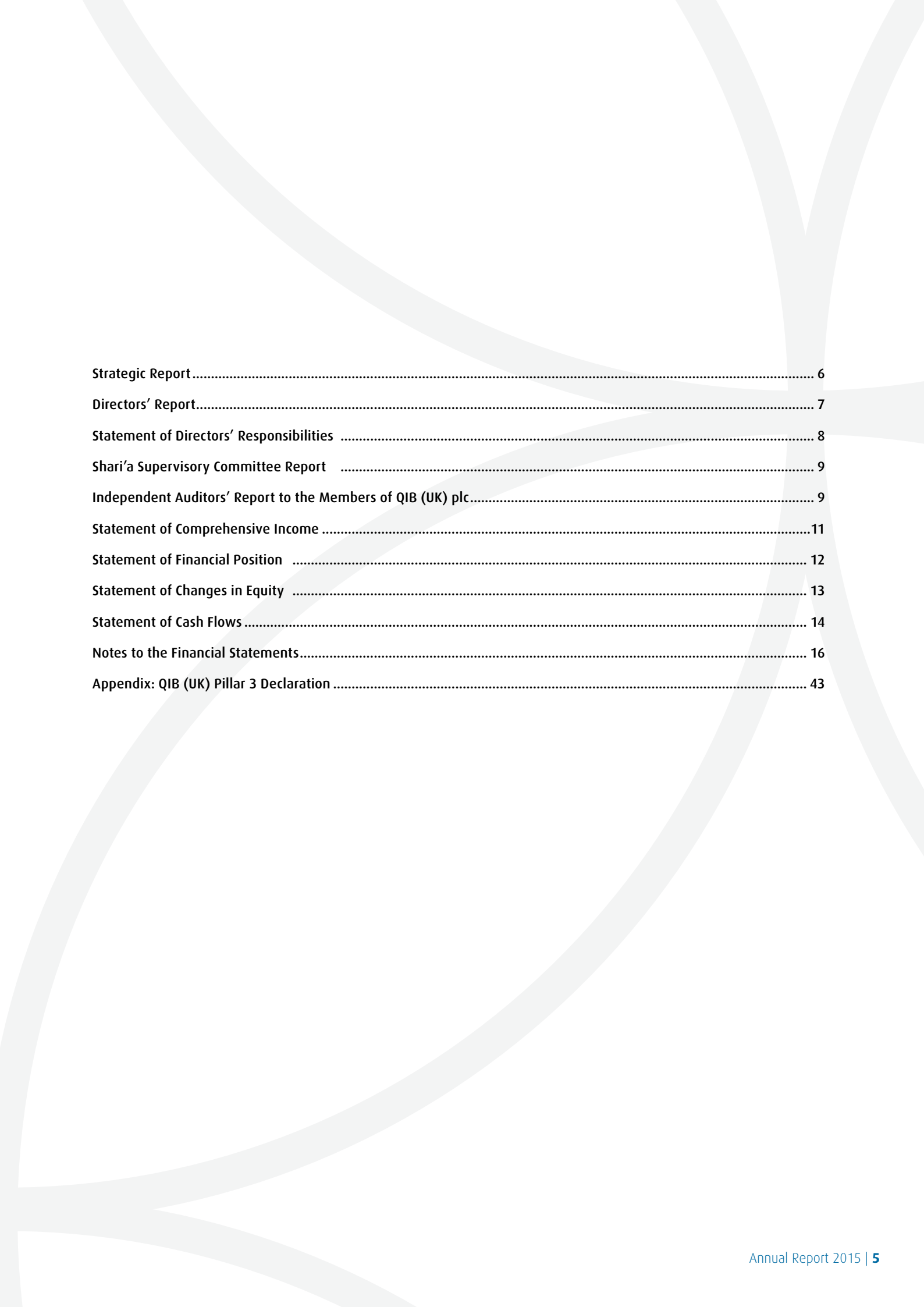


2015 ANNUAL REPORT





TABLE OF CONTENT



Strategic Report.....	6
Directors' Report.....	7
Statement of Directors' Responsibilities	8
Shari'a Supervisory Committee Report	9
Independent Auditors' Report to the Members of QIB (UK) plc.....	9
Statement of Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Statement of Cash Flows	14
Notes to the Financial Statements.....	16
Appendix: QIB (UK) Pillar 3 Declaration	43

Strategic Report

2015 was a year of significant progress for the Bank since the implementation of the new strategy, which built on the reversion to profit of 2014 after a period of marginal results.

The year saw the Bank pursuing the revised business model which was adopted by the Board in 2014 following a strategic review. This model, with its emphasis on Private Banking and Property Finance, aligned the Bank's activities with the core strengths of its parent, QIB.

During 2015 the Board, on the recommendation of the Chief Executive Officer, withdrew from a third line of business - Trade Finance – as it was felt to be sub-scale and unlikely to provide an acceptable return on capital within the foreseeable future.

The main business lines as of year-end were therefore the following:

- Middle East High Net Worth Individuals (MEHNWI). A dedicated team serves the needs of this market segment, with a particular focus on providing investment property finance in prime London post-codes

To support and enhance the private banking customer proposition the Bank moved at the end of 2014 to new premises at a prestigious address in Grosvenor Street. This has proved attractive to clients.

A portfolio of new Cash-Management products was successfully launched during the year, including a current account with debit card and cheque book, savings accounts and wakala deposits of varying terms

- Structured Real Estate. The focus of this business line is on senior and mezzanine finance for commercial and development property.

The business did well during the year, successfully employing its market expertise, service quality and synergies with the Qatar parent to capture a healthy share of this active and lucrative market.

The Bank retains and is managing down a small legacy portfolio of corporate finance assets booked prior to 2013.

The Bank does not offer asset management or investment advisory, but refers clients requiring such shari'a-compliant services to its sister company, QInvest.

The Bank's Treasury function is no longer an active profit centre, but manages the Bank's market risk including funding and liquidity. To this end the team maintains the Bank's portfolio of sukuk investments. These are liquidated as necessary to fund the Bank's rapidly growing portfolio of property-related assets.

In addition, to support the rapid balance-sheet growth QIB further increased the Bank's total capital by providing 18.3£m of additional Share Capital and 8.2£m of Tier 2 Capital during the year.

Both main lines of business have proven themselves: total operating income from the strategy increased from 5,249,598£ in 2014 to 9,327,829. The after-tax profit of 1,317,432£ in 2014 grew to 2,547,829 in 2015. Importantly, this figure takes no account of revenues delivered by the Bank to the QIB Group through sub-participation agreements.

The Bank invested significantly to deliver this result, reinforcing its front-line salesforce and strengthening its processing and risk management to accommodate the business growth safely. Accordingly, total operating expenses for the year rose by 19% to 6,831,875 (2014: 5,730,983).

In addition to growing customer business, there was a continuing emphasis during the year on enhancing governance and control structures throughout the Bank. Further information on the Bank's approach to financial and operational risk management is set out in note 28 to the financial statements.

Importantly, the Bank made significant progress in diversifying its funding sources, and by year-end was running a commercial surplus exclusive of any funding from its parent. During the year the bank has been successful in lowering depositor concentration risks whilst at the same time broadening both its UK as well European depositor base, including non-banking financial institutions as well as banks. In addition, the successful promotion of the QIB brand in these regions assisted in removing some of the reliance on GCC depositors.

Funding diversification was further supported by the private banking division, MEHNWI, who were successful in attracting a number of longer tenor deposits from HNW individuals.

In summary, having stabilised the business in 2014, 2015 was a year of successful business growth which should provide an excellent foundation for further growth in 2016.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

Principal activities

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

Financial results

The financial statements for the year ended 31 December 2015 are shown on pages 11 to 47. The profit for the year is £2,547,829 (2014: profit of £1,317,432).

Proposed dividend

The Directors do not propose the payment of a dividend (2014: £nil).

Directors

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

Mr. Bassel Gamal (Chairman)^{1,3}
Mr. Roderick Chamberlain^{1,2} Resigned on 19 May 2015
Mr. Giles Cunningham^{1,3}
Mr. Bert de Rooter³
Mr. Gourang Hemani²
Mr. Azhar Khan³ Resigned on 14 July 2015
Mr. David Thomas OBE^{1,2}

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

Shari'a Supervisory Committee members

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

Sheikh Walid Ben Hadi (Chairman)
Sheikh Nizam Mohammed Yacoubi
Professor Abdul Sattar Abou Ghodda

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

Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company, including an assessment of capital and liquidity requirements for the foreseeable future. Based on this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, as far as each of them is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Guy Priestley
Company Secretary
January 2016 15

Grosvenor Street 43
London
W1K 3HL

Statement of Directors' Responsibilities

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, **Changes in Accounting Estimates and Errors** and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company, in accordance with the Companies Act 2006.

The Directors have general responsibility for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the financial statements are prepared on a going concern basis.

Shari'a Supervisory Committee Report

In the name of Allah, the Most Gracious, the Most Merciful

To the shareholders of QIB (UK) plc (the 'Company')

For the year ended 31 December 2015

In compliance with the Terms of Reference of the Company's Shari'a Supervisory Committee, we submit the following report:

We have reviewed the accounts relating to the transactions entered into by the Company during the year ended 31 December 2015.

Based on our review, and representations received from the Company's management, all transactions during the period were on the basis of agreements approved by us.

Therefore, in our opinion the transactions entered into by the Company during the year ended 31 December 2015 are in compliance with the Islamic Shari'a rules and principles and fulfil the specific directives, rulings and guidelines issued by us.

We beg Allah the Almighty to grant us all success.

Sheikh Walid Ben Hadi

Chairman of the Shari'a Supervisory Committee

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

We have audited the financial statements of QIB (UK) plc (the 'Company') for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we will read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any material misstatements or uncertainties we consider the implications in our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kenneth Eglinton (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London

Date:

Statement of Comprehensive Income

For the year ended 31 December 2015

		2015	2014
	Note		
Income			
Income from financing and investing activities	4	11,089,315	5,786,005
Returns to banks and customers	5	(3,045,370)	(2,496,257)
Net income from financing and investing activities		8,043,945	3,289,748
Fees and commissions income	6	1,113,357	1,845,823
Fees and commissions expense		(880,560)	(450,948)
Net fees and commissions income		232,797	1,394,875
Net gain on financial assets classified as AFS		664,505	232,643
Loss on foreign exchange		(144,845)	(845,914)
Fair value gain on forward foreign exchange	15	142,127	838,599
Other income		389,300	339,647
Total operating income		9,327,829	5,249,598
Expenses			
Personnel expenses	7	(3,714,599)	(3,098,242)
Depreciation and amortisation	17,18	(901,176)	(133,409)
Other expenses		(2,216,100)	(2,499,332)
Total operating expenses		(6,831,875)	(5,730,983)
Profit / (loss) before provisions for impairment		2,495,954	(481,385)
Provisions for impairment	28	51,000	1,727,092
Profit / (loss) before taxation		2,546,954	1,245,707
Taxation	9	875	71,725
Profit / (loss) for the year		2,547,829	1,317,432
Other comprehensive income			
Change in fair value of AFS financial assets net of tax	16	(476,401)	274,825
Total comprehensive profit / (loss) for the year		2,071,428	1,592,257

All activities are derived from continuing operations.

The notes on pages 15 to 47 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2015

	Note	2015	2014
Assets			
Cash and balances with banks	10	6,096,742	5,844,014
Due from banks	11	69,597,214	23,576,325
Financing arrangements	12	227,801,665	88,981,407
Less: impairment on financing arrangements	28	(625,495)	(679,495)
Financial assets held to maturity	14	4,067,521	6,808,055
Financial assets available for sale	16	87,735,905	70,549,731
Derivative financial instruments	15	923,845	650,176
Property and equipment	17	16,248,792	14,724,851
Intangible assets	18	295,064	61,555
Investment property	19	9,511,839	9,511,839
Other assets	20	3,224,444	3,153,260
Deferred tax asset	9	3,316,970	3,194,647
Total assets		428,194,506	226,376,365
Liabilities			
Due to banks	21	134,128,955	27,358,165
Due to customers	22	216,017,303	153,139,947
Other liabilities	23	6,213,727	2,615,160
Subordinated loans	27	16,200,000	12,757,834
Total liabilities		372,559,985	195,871,106
Equity			
Share capital	26	79,557,834	56,500,000
Fair value reserve on AFS financial assets	16	(309,485)	166,916
Retained deficit		(23,613,828)	(26,161,657)
Total equity		55,634,521	30,505,259
Total liabilities and equity		428,194,506	226,376,365

The notes on pages 15 to 47 are an integral part of these financial statements.

Bert de Ruiter
Chief Executive Officer

Guy Priestley
Company Secretary

15 January 2016
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity

For the year ended 31 December 2015

	Share Capital	Fair Value Reserve on AFS Financial Assets	Retained Earnings	Total
Balance at 1 January 2014	44,000,000	(107,909)	(27,479,089)	16,413,002
Share issuance	12,500,000	-	-	12,500,000
Net Change in fair value of AFS financial assets	-	274,825	-	274,825
Profit for the year after tax	-	-	1,317,432	1,317,432
Balance at 31 December 2014	56,500,000	166,916	(26,161,657)	30,505,259
Balance at 1 January 2015	56,500,000	166,916	(26,161,657)	30,505,259
Share issuance	23,057,834	-	-	23,057,834
Change in fair value of AFS financial assets net of tax	-	(476,401)	-	(476,401)
Profit for the year after tax	-	-	2,547,829	2,547,829
Balance at 31 December 2015	79,557,834	(309,485)	(23,613,828)	55,634,521

The notes on pages 15 to 47 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015	2014
Cash flows from operating activities			
Profit / (Loss) for the year		2,547,829	1,317,432
Adjustments for:			
Depreciation	17	861,601	105,777
Amortisation	18	39,575	27,632
Taxation	9	(875)	(71,725)
Increase/(decrease) in impairments on financing arrangements	28	(54,000)	(1,727,092)
(Increase)/(decrease) in amounts due from banks		(46,020,889)	54,532,317
(Increase)/decrease in financing arrangements		(138,820,258)	(52,303,240)
(Increase)/decrease in other assets		(71,184)	(183,765)
Increase/(decrease) in amounts due to banks		106,770,791	(26,374,538)
Increase/(decrease) in amounts due to customers		62,877,356	85,233,707
Increase/(decrease) in other liabilities		3,581,353	(777,303)
(Increase)/decrease in financial assets held to maturity		2,740,534	536,654
Increase/(decrease) in financial assets available for sale		(17,766,811)	(48,125,848)
(Increase)/decrease in derivative financial instruments		(273,669)	(650,218)
Net cash inflow / (outflow) from operating activities		23,588,646	11,539,790
Cash flows from investing activities			
Purchase of property and equipment	17,19	(2,385,542)	(23,974,159)
Purchase of intangible assets	18	(273,084)	(50,973)
Net cash outflow from investing activities		(2,658,626)	(24,025,132)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	26	23,057,834	12,500,000
Proceeds from subordinated loans	27	3,442,166	3,000,000
Net cash inflow from financing activities		26,500,000	15,500,000
Net increase / (decrease) in cash and cash equivalents		252,728	3,014,658
Cash and cash equivalents at start of year		5,844,014	2,829,356
Cash and cash equivalents at end of year	10	6,096,742	5,844,014

The notes on pages 15 to 47 are an integral part of these financial statements.





Notes to the Financial Statements

For the year ended 31 December 2015

Notes to the Financial Statements For the year ended 31 December 2015

1. Reporting entity

QIB (UK) plc (the 'Company' or the 'Bank') is incorporated and domiciled in the UK. The address of the Company's registered office is 43 Grosvenor Street, London W1K 3HL. The Company operates as a Shari'a compliant bank.

2. Basis of preparation

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements were approved by the Board of Directors on 15 January 2016.

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

b. Basis of measurement

The financial statements have been prepared under the historical cost convention, except financial assets and investment property held at fair value through profit or loss and available for sale financial assets and occupied property which have been measured at fair value through the other comprehensive income.

c. Functional and presentation currency

The financial statements are presented in Sterling, which is the Company's functional and presentational currency.

d. Use of estimates and judgement

The preparation of financial statements requires management to make judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key sources of estimation uncertainty are:

(i) Provisions for impairment of financial assets

A financial asset is considered to be impaired if there is objective evidence of events since initial recognition of the asset that will adversely affect the amount or timing of future cash flows from the asset. The amount of the impairment loss will be the difference between the carrying value of the financial asset and the present value of the estimated future

cash flows. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral or any other means of repayment.

(ii) Impairment of non-financial assets

At each reporting date the Company reviews the carrying value of its non-financial assets, specifically property and equipment and intangible assets, to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount for property and equipment and intangible assets is based on an estimation of the continuing use of the assets in the business.

(iii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price may require the use of valuation techniques, based on variables that may include data not directly from observable markets. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market focus, pricing assumptions and other risks affecting the specific instrument.

(iv) Recognition of deferred tax asset

Deferred income tax assets are recognised for tax loss carry-forwards and timing differences to the extent that the realisation of the related tax benefit against future taxable profits is probable. In making this decision, business projections are reviewed in detail and the existence of convincing evidence is considered.

e. Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Company, including an assessment of capital and liquidity requirements for the foreseeable future. Based on this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

3. Significant accounting policies

a. Financial instruments

- (i) Murabaha is a contract for the sale of goods at cost plus an agreed profit mark-up. The delivery of the goods from the seller to the purchaser is immediate but payment may be deferred. Such contracts may be used to provide financing. Commodity Murabaha is a specific example of such a

Notes to the Financial Statements For the year ended 31 December 2015

contract where the item being sold is a metal commodity. Commodity Murabaha contracts are commonly used within the Islamic inter-bank short-term liquidity market.

- (ii) Wakala is a transaction, which represents an agreement whereby a party provides a certain sum of money to an agent, who invests it according to specific conditions in order to achieve a certain specified return. The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.
- (iii) Istisna is a contract for the acquisition of a product or property which is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client and delivered at the agreed date and price. Istisna contracts are used within financing activities.
- (iv) Ijara is a contract granting the right to use an asset by one party to another which equates to the leasing of the asset in return for rental payments, and which may include a transfer of ownership title at the end of the rental period. Ijara contracts are typically used for medium to long term financing of equipment, plant and machinery and vessels or aircraft.
- (v) Mudaraba is a partnership contract in which a provider of capital enters into an agreement with a partner to undertake a specific business or project. Profits are shared on a pre-agreed basis but losses are borne by the provider of capital unless negligence of the partner, who typically provides the labour or expertise, is demonstrated.
- (vi) The above contracts form the basis of financial instruments shown within due from banks, financing arrangements, and due to banks and customers.

These financial instruments are recognised on the trade date, that is, the date on which there is a commitment to buy or sell the financial instrument. The resulting assets and liabilities are initially recorded at fair value and are subsequently measured at amortised cost.

Income and costs on the above financial instruments are recognised on an effective yield basis. The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the receivable or payable. The effective yield is established on initial recognition of the asset or liability and is not revised subsequently. Accrued income receivable and returns payable are included within other assets and other liabilities.

The calculation of the effective yield rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate. Transaction costs are

incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

b. Held to maturity financial investments

Held to maturity investments are measured at amortised cost using the effective yield basis. The Bank assesses all held to maturity investments for impairment on each reporting date. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and present value of future cash flows discounted using the original effective yield rate. The carrying amount of the asset is reduced and the loss is recognised in the Statement of Comprehensive Income. If the impairment loss decreases (or there is objective evidence that the loss has decreased) after the impairment was recognised, then the corresponding impairment is reversed through the Statement of Comprehensive Income.

c. Financial assets available for sale

Financial assets available for sale are initially recognised at fair value. Subsequent to initial measurement, the fair value gain or loss on these assets is reported into the Statement of Changes in Equity. On sale or impairment of the asset, the cumulative gain or loss previously recognised in the Statement of Changes in Equity is reclassified within the Statement of Comprehensive Income.

d. Derivative financial instruments

Derivative financial instruments include forward foreign exchange contracts based on the wa'ad principle. Derivative financial instruments are initially recognised at fair value. Subsequently, these instruments are measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

e. Property financing

Property finance is provided using the Musharaka (partnership) principal of Islamic financing or Murabaha contracts. Under Musharaka, the Company will enter into an agreement to jointly purchase a property with another party and rental income will be received relating to that proportion of the property owned by the Company at any point in time. The other party to the agreement may make separate payments to purchase additional proportions of the property from the Company, thereby reducing the Company's effective share.

The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction. Where initial direct costs are incurred by the Company such as commissions and legal fees that are incremental and directly attributable to negotiating and arranging the transaction,

Notes to the Financial Statements For the year ended 31 December 2015

these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced. Rental income is recognised at a constant periodic rate of return on the Company's net investment.

f. Derecognition of financial assets and liabilities

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

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

g. Impairment of financial assets

At each reporting date it is assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows from the asset that can be estimated reliably.

All individually significant financial assets are assessed for specific impairment. Objective evidence that financial assets are impaired include default or delinquency by the counterparty, extending or changing repayment terms, indications that a counterparty may go into bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payments status of counterparties, or economic conditions that correlate with defaults in the Company.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted at the assets' original

effective yield rate. Losses are recognised in the Statement of Comprehensive Income and reflected against the asset carrying value. When a subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through the Statement of Comprehensive Income.

In the case of investments classified as available for sale, impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, which impact the estimated future cash flows of the financial assets. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss.

h. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are

independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Income.

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

i. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of cost of funds and, where appropriate, the risks specific to the liability.

j. Fees and commissions

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

k. Property and equipment

Items of property and equipment excluding the building are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the Statement of Comprehensive Income as incurred.

The occupied part of the building purchased by QIB (UK) in March 2014 is measured using the revaluation method. Under the revaluation method the value of the building is initially

Notes to the Financial Statements For the year ended 31 December 2015

determined as cost less accumulated depreciation which results in the carrying value. Where there is a material difference between the carrying value and the market value the building is revalued to reflect the market value. The market value will be determined by an independent registered valuer. As at 31 December 2015, the carrying value materially reflects the market value.

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

The current estimated useful lives are as follows:

Computer equipment	3	Years
Office equipment	5	Years
Fixtures and fittings	5	Years
Leasehold improvements	10	Years
Building	50	Years

I. Investment property

The building acquired on 13 March 2014 is partially used as an investment property as three of the seven floors of the building are leased to a third party. The leased part of the building is initially measured at cost and subsequently at fair value. As under IAS 40 the leased part of the building is not subject to depreciation.

In 2016 the intention is for the Company to occupy one of these three floors.

m. Intangible assets

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

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

Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The current estimated useful lives are as follows:

Software	3	Years
Computer licenses	3	Years

n. Taxation

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

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

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

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

o. Employee benefits

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

p. Cash and cash equivalents

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

q. Other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

r. Lease payments made

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

Notes to the Financial Statements For the year ended 31 December 2015

s. Foreign currency transactions

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

t. New and amended standards adopted

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that have had a material impact on the Company.

u. New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a material impact on the financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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

The Company is yet to assess the full impact of the above and intends to adopt the required changes before their respective effective dates, subject to endorsement by the EU. The Company will also consider the impact of the remaining phases of the above when completed by the International Accounting Standards Board.

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

Notes to the Financial Statements For the year ended 31 December 2015

4. Income from financing and investing activities

	2015	2014
Income from		
Banks		
Murabaha placements	89,345	707,047
Wakala placements	21,720	271,419
Financing arrangements		
Murabaha financing	8,884,034	2,087,406
Wakala financing	145,854	55,135
Musharaka financing	363,764	591,662
Mudaraba financing	18,131	89,289
Ijara financing	107,976	118,235
Returns on investments	1,458,491	1,865,812
Total income from financing and investing activities	<u>11,089,315</u>	<u>5,786,005</u>

5. Returns to banks and customers

	2015	2014
Murabaha deposits	538,311	835,736
Wakala deposits	2,170,490	1,439,256
Subordinated loans	336,569	221,265
Total returns to banks and customers	<u>3,045,370</u>	<u>2,496,257</u>

6. Fees and commissions income

	2015	2014
Asset management fees	-	251,725
Property financing fees	1,049,810	374,725
Other fee income	63,547	1,219,373
Total fees and commissions income	<u>1,113,357</u>	<u>1,845,823</u>

7. Personnel expenses

	2015	2014
Directors' emoluments and fees	622,159	531,667
Wages and salaries	2,229,469	1,951,279
Social security costs	379,415	286,056
Pension contributions	290,068	214,379
Other staff costs	193,488	114,861
Total personnel expenses	<u>3,714,599</u>	<u>3,098,242</u>

The aggregate of the emoluments in 2015 of the highest paid Director was £359,000 (2014: **236,667£**) and Company pension contributions of £25,800 (2014: **21,500£**) were made on his behalf.

The number of employees at the end of the year was 32 (2014: 27) and the average number throughout the year was 34 (2014: 29).

8. Profit / (loss) before taxation

	2015	2014
Profit / (loss) before taxation is stated after charging:		
Auditor's remuneration		
Fees payable to Company's auditor for the audit of financial statements	95,091	86,610
Fees payable to Company's auditor for other services:		
– other services pursuant to legislation	6,000	22,500
– other services	10,000	32,122
	<u>111,091</u>	<u>141,232</u>

Notes to the Financial Statements For the year ended 31 December 2015

9. Taxation

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

	2015	2014
Current tax expense / (credit) for period 20.5% (21.5% :2014)	121,064	(75,271)
Deferred tax expense / (credit) relating to:		
Origination and reversal of temporary differences	(198,457)	2,469
Effect of tax rate change	108,837	(171)
Prior year adjustment	(32,319)	1,248
Total tax credit	<u>(875)</u>	<u>(71,725)</u>

(ii) Reconciliation of the total tax credit

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

	2015	2014
Profit / (loss) before tax	2,546,954	1,245,707
At standard rate of UK corporation tax of 20.25% (2014: 21.5%)	515,758	267,827
Effects of:		
Non-deductible expenses	156,098	11,763
Effect of tax rate change	108,837	(171)
Deferred tax prior year adjustment	(32,318)	1,248
Movement in unrecognized Deferred tax asset	(749,250)	(352,392)
Total tax credit	<u>(875)</u>	<u>(71,725)</u>

(iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 19.4% (2014: 20%). This rate is a hybrid rate based the unwinding of the deferred tax asset recognised taking into account the enacted rate that will reduce to 19% on 1 April 2017 and 18% on 1 April 2018. The following are the deferred tax assets calculated by the Company and movements thereon during the current and prior reporting period.

	2015	2014
Deferred tax asset as at 1 January	(3,194,647)	(3,198,193)
Expensed to the Statement of Comprehensive Income	(198,867)	2,469
Effect of rate change	108,863	(171)
Prior year adjustment	(32,319)	1,248
Deferred tax asset as at 31 December	<u>(3,316,970)</u>	<u>(3,194,647)</u>
The deferred tax asset can be analysed as follows:		
Decelerating capital allowances	46,037	(24,122)
Pension Accrual	(3,782)	(3,488)
Tax losses carried forward	(3,359,225)	(3,167,037)
	<u>(3,316,970)</u>	<u>(3,194,647)</u>

The Company utilised tax losses of £2,183,250 in the period. However, it has also recognised a portion of previously unrecognised tax losses.

The recognition of a deferred tax asset of £3,316,970 (net) as at 31 December 2015 is based on future taxable profit forecasts. Based on the evidence available to support the forecasts, the Directors are of the opinion that sufficient future taxable income will be available to recognise this deferred tax asset.

In addition to the recognised deferred tax asset, the Company has a gross unrecognised deferred tax asset of £8,302,566 (net £1,494,462) arising on tax losses. This represents a portion of the overall tax losses on which a deferred tax asset cannot be recognised due to insufficient evidence of future expected taxable profits.

With effect from 1 April 2015, the UK Government introduced legislation in the Finance (No. 2) Act 2015, which restricts the proportion of banks' annual taxable profit that can be offset by certain carried forward tax losses. The restriction applies to relevant tax losses arising prior to this date. Tax losses arising in the first 5 years of the bank commencing a banking activity, as well as tax losses arising in an accounting period prior to the one in which the company began undertaking a banking activity are not included within the restriction. This legislation has been considered by the Company and there is no impact on the tax figures in the period.

Notes to the Financial Statements For the year ended 31 December 2015

10. Cash and balances with banks

	2015	2014
	£	£
Cash	521,457	1,598
On demand bank deposits	5,575,285	5,842,416
Total cash and balances with banks	<u>6,096,742</u>	<u>5,844,014</u>

11. Due from banks

	2015	2014
	£	£
Murabaha placements	69,597,214	10,922,153
Wakala placements	0	12,654,172
Total due from banks	<u>69,597,214</u>	<u>23,576,325</u>

12. Financing arrangements

	2015	2014
	£	£
Murabaha financing	215,746,202	63,229,925
Musharaka financing	8,092,500	18,688,769
Mudaraba financing	1,016,760	1,016,760
Ijara financing	225,495	3,483,083
Other financing	2,720,708	2,562,870
Total financing arrangements	<u>227,801,665</u>	<u>88,981,407</u>

13. Finance lease receivables

Assets leased to customers using the Ijara structure, included under financing arrangements, are treated as finance leases. Ijara financing receivables are recognised on the Statement of Financial Position and income is recognised over the period of the lease so as to give a constant rate of return on the net cash investment in the Ijara. Finance lease receivables in 2014 relate to assets that were transferred to the Parent during 2015. The following shows the gross investments in Ijara financing receivables:

	2015	2014
	£	£
Not later than one year	-	-
Later than one year but not later than five years	-	3,231,979
Later than five years	-	-
Gross investment in Ijara financing	-	3,231,979
Unearned future rentals	-	(28,391)
Net investment in Ijara financing	-	3,203,588
The net investment in Ijara financing comprises:		
Not later than one year	-	-
Later than one year but not later than five years	-	3,203,588
Later than five years	-	-
Total	<u>-</u>	<u>3,203,588</u>

14. Financial assets held to maturity

	2015	2014
	£	£
Investment in sukuk	4,067,521	3,844,306
Unquoted fixed-term funds	-	2,963,749
Total financial assets held to maturity	<u>4,067,521</u>	<u>6,808,055</u>

15. Derivative financial instruments

	2015	2014
	£	£
Fair value of forward foreign exchange contracts	923,845	650,176
Total derivative financial instruments	<u>923,845</u>	<u>650,176</u>

The Company entered into forward foreign exchange contracts to manage its foreign currency exposures. The fair value of £923,845 represents an aggregate net position of £1,915,360 gains netted against £991,515 losses. The movement in the fair value of forward foreign exchange contracts is included in the Statement of Comprehensive Income and was a gain of £142,127 (2014: gain of £838,599).

Notes to the Financial Statements For the year ended 31 December 2015

16. Financial assets available for sale

	2015	2014
	£	£
Value of financial assets available for sale (AFS) as at 1 January	70,549,731	22,073,787
Net additions / (disposals) in AFS	17,784,023	48,233,757
Increase / (decrease) in fair value of AFS	(597,849)	242,187
Value of financial assets available for sale as at 31 December	<u>87,735,905</u>	<u>70,549,731</u>

The balance of the fair value reserve for AFS financial assets as at 31 December 2015 gross and net of tax is £ (430,933) and £ (309,485) respectively. The movement in the AFS reserve in the year gross and net of tax is £ (597,849) and £ (476,401) respectively.

17. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment	Total
	£	£	£	£	£
Cost:					
Balance at 1 January 2015	14,268,702	363,888	846,843	559,330	16,038,763
Additions		33,441	2,173,220	178,881	2,385,542
Balance at 31 December 2015	<u>14,268,702</u>	<u>397,329</u>	<u>3,020,063</u>	<u>738,211</u>	<u>18,424,305</u>
Depreciation:					
Balance at 1 January 2015	-	(341,767)	(608,263)	(363,882)	(1,313,912)
Depreciation charge for the year	(285,185)	(16,098)	(451,944)	(108,374)	(861,601)
Balance at 31 December 2015	<u>(285,185)</u>	<u>(357,865)</u>	<u>(1,060,207)</u>	<u>(472,256)</u>	<u>(2,175,513)</u>
Net book value at 31 December 2015	<u>13,983,517</u>	<u>39,464</u>	<u>1,959,856</u>	<u>265,955</u>	<u>16,248,792</u>
Cost:					
Balance at 1 January 2014	-	339,961	846,843	389,639	1,576,443
Additions	14,268,702	23,927	-	169,691	14,462,320
Balance at 31 December 2014	<u>14,268,702</u>	<u>363,888</u>	<u>846,843</u>	<u>559,330</u>	<u>16,038,763</u>
Depreciation:					
Balance at 1 January 2014	-	(334,621)	(523,671)	(349,843)	(1,208,135)
Depreciation charge for the year	-	(7,146)	(84,592)	(14,039)	(105,777)
Balance at 31 December 2014	<u>-</u>	<u>(341,767)</u>	<u>(608,263)</u>	<u>(363,882)</u>	<u>(1,313,912)</u>
Net book value at 31 December 2014	<u>14,268,702</u>	<u>22,121</u>	<u>238,580</u>	<u>195,448</u>	<u>14,724,851</u>

The Company acquired a building on 13 March 2014 at 43 Grosvenor Street, London, W1K 3HL. During 2015 three floors of the building were leased out to a third party from the acquisition date. Accordingly, the building

value disclosed above reflects the floors occupied by the Company. For the value of the remaining floors leased, refer to note 19.

Notes to the Financial Statements For the year ended 31 December 2015

18. Intangible assets

	Computer Software	Computer Licenses	Total
	£	£	£
Cost:			
Balance at 1 January 2015	841,879	463,062	1,304,941
Additions	272,001	1,083	273,084
Balance at 31 December 2015	<u>1,113,880</u>	<u>464,145</u>	<u>1,578,025</u>
Amortisation:			
Balance at 1 January 2015	(823,173)	(420,213)	(1,243,386)
Amortisation charge for the year	(17,412)	(22,163)	(39,575)
Balance at 31 December 2015	<u>(840,585)</u>	<u>(442,376)</u>	<u>(1,282,961)</u>
Net book value at 31 December 2015	<u>273,295</u>	<u>21,769</u>	<u>295,064</u>
Cost:			
Balance at 1 January 2014	832,456	421,512	1,253,968
Additions	9,423	41,550	50,973
Balance at 31 December 2014	<u>841,879</u>	<u>463,062</u>	<u>1,304,941</u>
Amortisation:			
Balance at 1 January 2014	(811,215)	(404,539)	(1,215,754)
Amortisation charge for the year	(11,958)	(15,674)	(27,632)
Balance at 31 December 2014	<u>(823,173)</u>	<u>(420,213)</u>	<u>(1,243,386)</u>
Net book value at 31 December 2014	<u>18,706</u>	<u>42,849</u>	<u>61,555</u>

19. Investment property

	£
Balance at 1 January 2015	9,511,839
Additions	-
Balance at 31 December 2015	9,511,839

The Company acquired a building on 13 March 2014 at 43 Grosvenor Street, London, W1K 3HL. During 2015 three floors of the building were leased out to a third party, and this part of the building has been accounted for as an investment property. A fair value assessment was undertaken at the year end with the assistance of an independent registered valuer which continued to support the carrying value of the investment property.

20. Other assets

	2015	2014
	£	£
Income receivable	2,612,093	1,457,631
Fees receivable	174,239	48,176
VAT recoverable	51,117	281,222
Prepayments	269,150	1,232,615
Other receivables	117,845	133,616
Total other assets	<u>3,224,444</u>	<u>3,153,260</u>

Notes to the Financial Statements For the year ended 31 December 2015

21. Due to banks

	2015	2014
	£	£
Demand	160,611	70,518
Murabaha deposits	46,455,122	2,873,635
Wakala deposits	87,513,222	24,414,012
Total due to banks	<u>134,128,955</u>	<u>27,358,165</u>

22. Due to customers

	2015	2014
	£	£
Demand	7,725,722	4,144,948
Murabaha deposits	400,807	3,844,452
Wakala deposits	207,890,774	145,150,547
Total due to customers	<u>216,017,303</u>	<u>153,139,947</u>

23. Other liabilities

	2015	2014
	£	£
Returns payable	4,086,146	1,048,660
Accruals	591,559	586,695
Trade payables	12,367	279,176
Social security and income tax	89,567	78,976
Other payables	1,434,088	621,653
Total other liabilities	<u>6,213,727</u>	<u>2,615,160</u>

24. Commitments under operating lease

An earlier commitment under the non-cancellable lease for a previous business premises at 4th Floor, Berkeley Square House, Berkeley Square, London W1J has been transferred to a third party. Therefore the only remaining long-term operating lease is in relation to an IT rental lease with an annual rental of £9,165. The following shows the total future minimum lease payments under this non-cancellable operating leases:

	2015	2014
	£	£
Not later than one year	9,165	443,505
Later than one year and not later than five years	25,203	1,767,146
Later than five years		1,303,020
	<u>34,368</u>	<u>3,513,671</u>

During the year £9,165 (2014: 438,922£) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

25. Contingent liabilities and commitments

	2015	2014
	£	£
Letters of credit	-	2,005,989
Total	<u>-</u>	<u>2,005,989</u>

26. Share capital

During the year 23,057,834 new ordinary shares were issued for £1.00 and fully paid.

	2015	2014
	£	£
Authorised		
100,000,000 Ordinary shares of £1.00 each	100,000,000	100,000,000
Allotted, called up and fully paid		
Ordinary shares of £1.00 each	79,557,834	56,500,000

During the year the Company issued shares totalling £23,057,834 to QIB that were fully paid for. The purpose of the issue was to ensure that sufficient regulatory capital was in place to support asset growth.

Notes to the Financial Statements For the year ended 31 December 2015

27. Related party transactions

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

All other related parties are related by virtue of QIB ownership or common Non-Executive Directors, unless otherwise stated below.

Subordinated loan from related party

As at 31 December 2015 there was an outstanding subordinated loan balance payable to QIB of £16,200,000 (2014: 12,757,834£). In March 2015 £4,757,834 of subordinated debt was converted to share capital. Additionally during the year, new subordinated loans of £8,200,000 (2014: 3,000,000£) were issued.

Bank lines

As at 31 December the Company had £48,266,485 (2014: £45,083,774) of agreed inter-bank borrowing lines and £45,000,000 (2014: 48,000,000£) of agreed lending lines with related parties within the QIB Group. These lines are of varying tenor and duration.

No fees are payable or receivable for these lines and they have been utilised during the year only as described above.

Due from Banks

As at 31 December, QIB (UK) had placed 47,454,409£ with QIB Doha under a collateralised financing Murahaba arrangement.

Due to banks

QIB held demand deposit accounts and entered into Wakala deposit transactions with the Bank on an arm's length basis. As at 31 December 2015, total deposits due to QIB Doha were £34,000,000 (2014: 8,446,997£).

During the year, QIB (UK) entered into Wakala and Murabaha arrangements with Arab Finance House (AFH). As at the 31 December 2015, total amount owed to AFH was £6,101,281 (2014: £nil).

QInvest entered into Wakala deposit transactions with the Bank on an arm's length basis. As at 31 December, total deposits owed to QInvest were £3,389,601 (2014: £nil).

Cash and balances with banks

Demand bank accounts were held with QIB in line with QIB's normal account terms and conditions. As at 31 December, the balance held with QIB was £721,544 (2014: 33£).

Guarantee fees

To support QIB (UK)'s ability to seek external funding, QIB occasionally provide a guarantee to external lenders. In return, QIB charge QIB (UK) guarantee fees. During the year, the guarantee fees charged to the income statement are £818,040 (2014: £444,107). The amount outstanding as at 31 December 2015 is £1,174,101 (2014: £444,107).

Financing arrangements

As at 31 December 2015, financing arrangements included a balance of £6,000,000 (2014: £3,502,163) relating to a real estate secured financing transaction made with Mr Abdullah Al-Eida, a Director of QIB, on an arm's length basis.

Key management compensation

Key management of the Company is the Management Committee of the Bank. The Management Committee was reformed during the year with an increased number of members. The compensation of key management personnel is as follows:

	2015	2014
	£	£
Emoluments including social security costs	2,015,950	992,431
Company contributions to pension plans	154,283	77,563
	<u>2,170,233</u>	<u>1,069,994</u>

As at 31 December 2015, advances totalling £113,600 (2014: 115,500£) had been made to key management as part of a staff advance scheme. No returns are payable on these advances and repayment is directly from salary.

28. Financial risk management

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

- Capital adequacy
- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Profit rate risk
- Shari'a compliance risk

This note presents information about the Bank's exposure to each of these risks; and its objectives, policies and processes for identifying, mitigating, managing and reporting them.

Notes to the Financial Statements For the year ended 31 December 2015

Risk management framework

QIB (UK) seeks to mitigate risk through robust systems and controls, and through effective corporate governance. The Bank has an established risk management framework which has been enhanced following an in-depth review during 2015.

The major components of QIB (UK)'s risk management framework include:

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

Elements of the framework are detailed further below:

Governance structure

QIB (UK) Board

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

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

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

The QIB (UK) Board has a general duty to ensure that the Bank conducts business in accordance with all relevant statutory and regulatory requirements. This includes specific responsibilities for ensuring that:

- a) the business has an effective system of internal control and management of business risks and is conducted in accordance with the PRA/FCA principles for businesses

- b) adequate records are maintained
- c) a strong capital base is maintained to support the development of its business and to meet regulatory capital requirements at all times
- d) the compliance department and internal and external auditors are competent and provided with appropriate resource in the discharge of their duties
- e) an integrated system of planning and budgeting is established to ensure that the Company can efficiently and effectively achieve its strategic objectives in support of and in line with the strategic objectives of the shareholders
- f) the composition of the QIB (UK) Board is periodically reviewed to ensure its skill-set is appropriate to current and future business requirements.

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

The QIB (UK) Board has established a governance framework of Board Sub-Committees and Management Committees to ensure the sound management of the Bank. These committees are depicted below.

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

Shari'a Supervisory Committee ("SSC")

The SSC reviews the proposed products and services of QIB (UK) to ensure that they are fully compliant and in accordance with the rules and principles of Shari'a. The guidance of the SSC prevents the Bank from taking risks outside an important facet of its risk appetite, that of compliance with Shari'a.

Board Sub-Committees

The QIB (UK) Board has delegated specific powers and authority to the following Board Sub-Committees as set out in their respective terms of reference:

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

Board Executive Committee ("Board ExCo")

The Board ExCo reviews, rejects, recommends or approves as appropriate new credit exposures within the authority delegat-

Notes to the Financial Statements For the year ended 31 December 2015

ed to it. Its principal purpose is to preserve the independence of the members of the Board Audit and Risk Committee from the commercial activities of the Bank.

Board Audit & Risk Committee ("ARC")

The ARC is constituted to ensure that the executive management has established and maintains an effective system of internal controls on behalf of the QIB (UK) Board. It is also responsible for providing a channel of communication between the QIB (UK) Board, executive management, the Risk and Compliance functions and Internal and External Audit.

Notes to the Financial Statements

Board Remuneration Committee ("RemCo")

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

Executive Management Committee ("ManCo")

Drawn from the executives of the Company, ManCo is responsible for the operational oversight and management of the Company.

Under the leadership of the Chief Executive Officer, the ManCo is the principal forum for conducting the business of QIB (UK) plc and is responsible for the efficient and controlled operation of the business within the limits of the strategy, budgets and mandates approved by the QIB (UK) Board.

The ManCo has specific delegated authority for the establishment, approval and periodic review of all policies and procedures adopted by the Bank as part of the risk management and control framework.

Sub-Management Committees

The ManCo has three Sub-Management Committees:

- the Risk Management Committee
- the Asset & Liability Committee
- the Pricing and Product Committee

Their roles and responsibilities are covered below.

Risk Management Committee ("RMC")

The RMC provides support and advice directly to the ManCo, and indirectly to the QIB (UK) Board.

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

First, to establish and oversee a robust risk management framework and advise the ManCo and ultimately the QIB (UK) Board on all areas of risk management, current risk exposures and future risk strategy, including capital and liquidity management.

Secondly, to assess, decide and recommend upon proposed credit risk exposures. In consultation with the QIB Group Risk function and subject to QIB (UK) Board approval the RMC sets and approves financial institution limits to avoid excessive consolidated Group exposures.

The RMC is chaired by the Chief Risk Officer ("CRO").

Asset & Liability Committee ("ALCO")

The ALCO is responsible for managing and monitoring the capital, assets and liabilities of the Bank. It also manages the risk/reward relationship between solvency, liquidity and profit rate risk. The ALCO has responsibility for ensuring that QIB (UK)'s capital is effectively managed to maximise returns whilst protecting the interests of the Bank, its employees, shareholders and clients, and ensuring regulatory limits are observed.

The ALCO supports the Board and CEO in managing liquidity by recommending policies, setting limits and monitoring the risk and liquidity profile of the Bank on a regular basis. The ALCO provides guidance upon the day to day management of liquidity and oversees the effective establishment of effective controls & methodologies to ensure that QIB (UK) has sufficient liquidity at all times.

The ALCO is chaired by the Chief Executive Officer ("CEO").

Notes to the Financial Statements

Product and Pricing Committee

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

Capital management

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

- Tier 1 capital, which includes ordinary share capital and retained earnings
- Tier 2 capital, which includes qualifying subordinated loans

Notes to the Financial Statements For the year ended 31 December 2015

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

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty is unable to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements.

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

Management of credit risk

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

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

- reviewing and approving credit and underwriting proposals, within delegated limits
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and actioning, as appropriate, any non-performing credits
- monitoring ongoing adherence to country and counterparty limits

The existing credit limit structure was further enhanced during 2015 as part of the Credit & Investment Policy and associated Risk Appetite Statement, something that is monitored on a monthly basis through Risk Reporting to RMC. Within this limit structure, potential exposures and proposals are assessed by either the RMC, the Board ExCo, the Audit & Risk Committee (ARC) or the QIB (UK) Board itself.

The RMC is responsible for the formal assessment of any new exposures. Business lines submit credit approval requests to the Risk Management department using the standardised QIB Credit Application Template. The Risk Manager undertakes an initial credit analysis and submits the analysis with the request to the RMC for consideration and approval sign-off.

The RMC reviews all potential exposures. If the potential exposure falls within its delegated authority, the RMC will form its own decision. If not, the RMC will review and if appropriate recommend the exposure to either the Board ExCo or the QIB (UK) Board.

Credit risk exposures as at 31 December are shown below.

	2015	2014
	£	£
Balances with Banks	6,096,742	5,844,014
Due from Banks	69,597,214	23,576,325
Other financing	9,027	-
Murabaha financing	215,746,202	63,229,925
Wakala financing	2,711,681	2,562,870
Musharaka financing	8,092,500	18,688,769
Mudaraba financing	616,760	616,760
Ijara financing	-	3,203,588
Financial assets available for sale	87,735,905	70,549,731
Financial assets held to maturity	4,067,521	6,808,055
Total	394,673,552	195,080,036
<i>Off Balance sheet:</i>		
Letters of credit	-	2,005,989
Undrawn Commitments	5,427,288	12,587,405
Total	5,427,288	14,593,394
Total Credit Risk	400,100,840	209,673,430

The credit exposures shown above are gross before taking into account the impact of any collateral held.

Concentration of risks of financial assets with credit risk exposure

The following tables provide additional analysis of the credit exposure, showing concentration by geographical location and industry type of counterparties. For geographical sector, allocation of exposures to regions is based on the country of incorporation or nationality of the counterparty.

Notes to the Financial Statements For the year ended 31 December 2015

Geographical sectors:

	Europe	Middle East	USA	Other	Total
	£	£	£	£	£
Balances with Banks	5,375,198	721,544	-	-	6,096,742
Due from Banks	22,142,804	47,454,410	-	-	69,597,214
Other financing	9,027	-	-	-	9,027
Murabaha financing	177,112,602	30,584,475	-	8,049,125	215,746,202
Wakala financing	-	2,711,681	-	-	2,711,681
Musharaka financing	8,092,500	-	-	-	8,092,500
Mudaraba financing	616,760	-	-	-	616,760
Ijara financing	-	-	-	-	-
Financial assets available for sale	12,203,420	66,796,099	-	8,736,386	87,735,905
Financial assets held to maturity	-	4,067,521	-	-	4,067,521
31 December 2015	225,552,312	152,335,729	-	16,785,511	394,673,552
Off Balance sheet:					
Letters of credit					-
Undrawn Commitments	5,427,288	-	-	-	5,427,288
31 December 2015	5,427,288	-	-	-	5,427,288
Total	230,979,600	152,335,729	-	16,785,511	400,100,840
Balances with Banks	4,801,920	33	1,042,060	-	5,844,014
Due from Banks	5,922,153	17,654,173	-	-	23,576,325
Other financing	-	-	-	-	-
Murabaha financing	50,447,749	11,702,070	-	1,080,106	63,229,925
Wakala financing	-	2,562,870	-	-	2,562,870
Musharaka financing	11,575,000	7,113,769	-	-	18,688,769
Mudaraba financing	616,760	-	-	-	616,760
Ijara financing	-	3,203,588	-	-	3,203,588
AFS	13,478,918	57,070,812	-	-	70,549,731
Financial assets held to maturity	2,963,749	3,844,306	-	-	6,808,055
31 December 2014	89,806,250	103,151,621	1,042,060	1,080,106	195,080,037
Off Balance sheet:					
Letters of credit	-	2,005,989	-	-	2,005,989
Undrawn Commitments	10,463,910	-	-	2,123,495	12,587,405
31 December 2014	10,463,910	2,005,989	-	2,123,495	14,593,394
Total	100,270,160	105,157,610	1,042,060	3,203,601	209,673,431

Notes to the Financial Statements For the year ended 31 December 2015

Industry sectors:

	Banks	Individuals	Real Estate	Corporates	Other	Total
	£	£	£	£	£	£
Balances with Banks	6,096,742	-	-	-	-	6,096,742
Due from Banks	69,597,214	-	-	-	-	69,597,214
Other financing	-	9,027	-	-	-	9,027
Murabaha financing	-	62,390	213,642,562	-	2,041,250	215,746,202
Wakala financing	2,711,681	-	-	-	-	2,711,681
Musharaka financing	-	-	8,092,500	-	-	8,092,500
Mudaraba financing	-	-	-	-	616,760	616,760
Ijara financing	-	-	-	-	-	-
Financial assets available for sale	39,202,040	-	-	11,177,946	37,355,918	87,735,905
Financial assets held to maturity	-	-	-	2,033,760	2,033,760	4,067,521
31 December 2015	117,607,677	71,417	221,735,062	13,211,707	42,047,689	394,673,552
Off Balance sheet:						
Letters of credit	-	-	-	-	-	-
Undrawn Commitments	-	-	5,427,288	-	-	5,427,288
31 December 2015	-	-	5,427,288	-	-	5,427,288
Total	117,607,677	71,417	227,162,350	13,211,707	42,047,689	400,100,840
Balances with Banks	5,844,014	-	-	-	-	5,844,014
Due from Banks	23,576,325	-	-	-	-	23,576,325
Other financing	-	-	-	-	1,080,106	-
Murabaha financing	2,883,229	75,241	53,905,103	5,286,066	-	63,229,925
Wakala financing	2,562,870	-	-	-	-	2,562,870
Musharaka financing	-	-	18,688,769	-	-	18,688,769
Mudaraba financing	-	-	-	616,760	-	616,760
Ijara financing	-	-	-	3,203,588	-	3,203,588
AFS	54,366,074	-	-	12,308,866	3,874,791	70,549,731
Financial assets held to maturity	2,963,749	-	-	1,922,153	1,922,153	6,808,055
31 December 2014	92,196,261	75,241	72,593,872	23,337,433	6,877,050	195,080,037
Off Balance sheet:						
Letters of credit	2,005,989	-	-	-	-	2,005,989
Undrawn Commitments	-	-	10,463,910	-	2,123,495	12,587,405
31 December 2014	2,005,989	-	10,463,910	-	2,123,495	14,593,394
Total	94,202,250	75,241	83,057,782	23,337,433	9,000,545	209,673,431

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

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

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

During the year, the Bank incurred impairment losses of £nil (2014: £400,000). From the adjustments to the provisions brought forward, £54,000 relates to recoveries made in the year.

Notes to the Financial Statements For the year ended 31 December 2015

The table below shows the movement in impairment provisions during the year:

	£
Total provisions brought forward	(679,495)
Adjustments to provisions brought forward	54,000
Additional 2015 provisions	-
Closing impairment provision as at 31 December 2015	(625,495)

The credit quality of the portfolio of financing arrangements and due from banks is further assessed by reference to the internal rating system adopted by the Bank.

	2015		2014	
	Due from Banks £	Financing Arrangements £	Due from Banks £	Financing arrangements £
Neither past due or impaired	69,597,214	226,549,896	23,576,325	87,665,926
Individually impaired	-	1,242,255	-	1,309,031
Past due	-	9,514	-	6,451
Gross	69,597,214	227,801,665	23,576,325	88,981,407
Impairment		(625,495)	-	(679,495)
Total	69,597,214	227,176,170	23,576,325	88,301,913

Notes to the Financial Statements For the year ended 31 December 2015

The credit quality of the portfolio of financing arrangements and due from banks is further assessed by reference to the internal rating system adopted by the Bank.

	Investment Grade Internal Rating R1 - R4	Standard Monitoring Internal Rating R5 - R6	Special Monitoring Internal Rating R7 - R10	Total
	£	£	£	£
Balances with Banks	6,096,742	-	-	6,096,742
Due from Banks	69,597,214	-	-	69,597,214
Other financing	-	-	9,027	9,027
Murabaha financing	171,236,980	34,423,792	10,085,431	215,746,202
Wakala financing	2,711,681	-	-	2,711,681
Musharaka financing	8,092,500	-	-	8,092,500
Mudaraba financing	-	-	616,760	616,760
Ijara financing	-	-	-	-
Financial assets available for sale	84,167,225	3,568,680	-	87,735,905
Financial assets held to maturity	-	4,067,521	-	4,067,521
31 December 2015	341,902,341	42,059,992	10,711,218	394,673,552
Off Balance sheet:				
Letters of credit				
Undrawn Commitments	5,427,288	-	-	5,427,288
31 December 2015	5,427,288	-	-	5,427,288
Total	347,329,629	42,059,992	10,711,218	400,100,840
Balances with Banks	5,844,014			5,844,014
Due from Banks	23,576,325			23,576,325
Other financing				-
Murabaha financing		61,711,025	1,518,900	63,229,925
Wakala financing	2,562,870			2,562,870
Musharaka financing		18,688,769		18,688,769
Mudaraba financing			616,760	616,760
Ijara financing		3,203,588	-	3,203,588
Financial assets available for sale	69,257,934	1,291,797		70,549,731
Financial assets held to maturity		6,808,055		6,808,055
31 December 2014	101,241,143	91,703,234	2,135,660	195,080,037
Off Balance sheet:				
Letters of credit	2,005,989	-	-	2,005,989
Undrawn Commitments		12,587,405		12,587,405
31 December 2014	2,005,989	12,587,405	-	14,593,394
Total	103,247,132	104,290,639	2,135,660	209,673,431

Investment grade refers to external rating of BBB- and above. Special monitoring refers to all the assets that are under review by the CRO and are rated at 7 or higher for regular impairment review. All other assets are monitored under the Standard monitoring initiative.

As at 31 December 2015, the Bank had the following impaired assets for which it is undertaking special monitoring:

- 1) A UK corporate with a total Ijara financing of £225,495 (2014: £279,495). The total impairment provision against this asset as at 31 December is £225,495 (2014: £279,495).
- 2) A UK corporate with a total Mudaraba financing amount due of £1,016,760 (2014: £1,029,536). The total impairment provision against this asset as at 31 December is £400,000 (2014: £400,000).

Notes to the Financial Statements For the year ended 31 December 2015

A full assessment of all other assets where an indication of impairment has occurred has been completed. It has been determined that no other impairment provision is required.

Collateral

Risk Management assesses exposure against collateral held. This is done as part of the initial credit assessment and then periodically as part of the annual credit reviews. The collateral Murabaha and Musharaka financing exposures presented in the table below represents mortgages on the real estate assets. The collateral presented below also includes Mudaraba securities held on trade receivables. The fair value of collateral can vary.

* The murabaha financing includes £17.9m of related mezzanine finance, supported by £42.5m collateral which is available to QIB (UK), after any senior lender claims.

	2015		2014	
	Exposure £	Collateral £	Exposure £	Collateral £
Balances from Banks	6,096,742	6,096,742	5,844,014	
Due from Banks	69,597,214	47,454,410	23,576,325	
Other financing	9,027	-	-	
Murabaha financing	215,746,202	428,317,631	63,229,925	77,863,444
Wakala Financing	2,711,681	-	18,688,769	28,143,064
Musharaka financing	8,092,500	13,775,000	616,760	616,760
Mudaraba financing	616,760	-	2,562,870	-
Ijara financing	-	-	3,203,588	-
Financial assets available for sale	87,735,905	83,681,322	70,549,731	-
Financial assets held to maturity	4,067,521	7,031,270	6,808,055	-
Letters of credit	-	-	2,005,989	-
Undrawn Commitments	5,427,288	83,684,016	12,587,405	-
Total Credit Risk	400,100,840	670,040,391	209,673,431	106,623,268

Market risk

Market risk encompasses an adverse change in the value of assets as a consequence of market movements such as rates, equity prices and commodity prices which are not matched by a corresponding movement in the value of liabilities.

The market risk within the Bank is managed in accordance with the PRA Rule Book and includes all:

- trading book positions; and
- foreign exchange positions, whether or not in the trading book

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

Exchange rate risk

This is the sensitivity of financial positions to adverse movements in foreign exchange rates. Exchange rate risk does not only arise as a result of direct foreign exchange related dealings, but can also result from foreign currency based transactions

Notes to the Financial Statements For the year ended 31 December 2015

such as financing, deposits, Islamic derivative trades or through foreign currency commission payments and receipts. The Bank utilizes a combination of Foreign exchange spot, outright and swap contracts to manage this risk.

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

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Cash and balance with bank	840,779	63,164	5,184,554	357	7,888	6,096,742
Due from Banks	66,097,214	-	3,500,000	-	-	69,597,214
Financing arrangements	2,711,681	-	224,464,490	-	-	227,176,170
Financial assets held to maturity	4,067,521	-	-	-	-	4,067,521
Financial assets available for sale	83,134,905	-	4,601,000	-	-	87,735,905
Derivative financial instruments	-	-	923,845	-	-	923,845
Other assets	701,535	-	31,895,575	-	-	32,597,110
31 December 2015	157,553,634	63,164	270,569,463	357	7,888	428,194,506
Liabilities						
Due to Banks	68,189,667	25,841,736	40,097,553	-	-	134,128,956
Due to customers	113,776,338	2,491,183	99,749,782	-	-	216,017,303
Subordinated Loan	-	-	16,200,000	-	-	16,200,000
Other liabilities	1,408,670	21,901	4,783,154	-	-	6,213,726
Reserves	(830,933)	-	521,448	-	-	(309,485)
31 December 2015	182,543,742	28,354,820	160,830,489	-	-	372,250,500
Net on balance sheet financial position	(24,990,108)	(28,291,657)	109,738,974	357	7,888	55,944,006
Forward foreign exchange contracts	24,888,287	28,268,968				

Assets						
Cash and balance with bank	1,113,684	61,729	4,660,133	33	8,435	5,844,014
Due from Banks	14,576,325	-	9,000,000	-	-	23,576,325
Financing arrangements	20,141,601	-	68,160,311	-	-	88,301,912
Financial assets held to maturity	3,844,306	-	2,963,749	-	-	6,808,055
Financial assets available for sale	70,549,731	-	-	-	-	70,549,731
Derivative financial instruments	-	-	650,176	-	-	650,176
Other assets	-	-	30,646,152	-	-	30,646,152
31 December 2014	110,225,647	61,729	116,080,521	33	8,435	226,376,365
Liabilities						
Due to Banks	2,900,206	23,344	24,434,615	-	-	27,358,165
Due to customers	147,290,118	1,408,468	4,441,361	-	-	153,139,947
Subordinated Loan	-	-	12,757,834	-	-	12,757,834
Other liabilities	469,287	-	2,145,873	-	-	2,615,160
31 December 2014	150,659,611	1,431,812	43,779,683	-	-	195,871,106
Net on balance sheet financial position	(40,433,964)	(1,370,083)	72,300,838	33	8,435	30,505,259
Forward foreign exchange contracts	41,818,773	1,416,060	-	-	-	-

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible, and as at 31 December 2015, held a £2,718 net loss from FX hedges (2014: £7,315 loss).

Notes to the Financial Statements For the year ended 31 December 2015

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations due from its financial liabilities. Managing Liquidity risk is primarily the responsibility of Treasury and the ALCO. It arises due to maturity mismatch between assets and liabilities and can be compounded by the Bank's inability to hold non-Shari'a compliant instruments. Finance monitors liquidity on a daily basis by calculating the liquid asset buffer requirement using the Liquidity Metric Monitor ("LMM") and from the 1st October the Liquidity Coverage Ratio (LCR). The RMC also has oversight of liquidity risk with the Risk Report including key elements of Liquidity Risk.

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
Assets						
Cash and balance with bank	6,096,742					6,096,742
Due from Banks	69,597,214					69,597,214
Financing arrangements	17,116,996	13,050,851	29,982,429	100,508,026	66,517,868	227,176,170
Financial assets held to maturity	-	-	2,033,760	2,033,760	-	4,067,521
Financial assets available for sale	-	-	3,481,391	73,111,356	11,143,158	87,735,904
Derivative financial instruments	-		923,845			923,845
Other Assets	1,924,633		1,177,489	3,612,034	25,882,954	32,597,110
31 December 2015	94,735,585	13,050,851	37,598,914	179,285,176	103,543,979	428,194,506
Liabilities						
Due to Banks	25,820,295	44,123,622	37,068,233	27,116,806	-	134,128,956
Due to customers	36,636,299	9,636,715	169,744,289	-	-	216,017,303
Subordinated Loan					16,200,000	16,200,000
Other Liabilities	670,393		5,543,334			6,213,726
31 December 2015	63,126,987	53,760,337	212,355,856	27,116,806	16,200,000	372,559,985
Difference	31,608,597	(40,709,485)	(174,756,942)	152,148,371	87,343,979	55,634,520
Assets						
Cash and balance with bank	5,844,014					5,844,014
Due from Banks	23,576,325					23,576,325
Financing arrangements	7,730,529	1,536,354	22,300,238	47,150,760	9,584,032	88,301,912
Financial assets held to maturity				6,808,055		6,808,055
Financial assets available for sale		3,393,881		64,530,873	2,624,976	70,549,731
Derivative financial instruments			650,176			650,176
Other Assets	1,920,645		3,194,647	61,555	25,469,575	30,646,422
31 December 2014	39,071,513	4,930,235	26,145,061	118,551,243	37,678,584	226,376,635
Liabilities						
Due to Banks	15,484,530	9,000,000	2,873,635			27,358,165
Due to customers	16,702,885	3,277,017	4,613,000		128,547,045	153,139,947
Subordinated Loan					12,757,834	12,757,834
Other Liabilities	2,615,160					2,615,160
31 December 2014	34,802,576	12,277,017	7,486,634	-	141,304,879	195,871,106
Difference	4,268,938	(7,346,782)	18,658,427	118,551,243	(103,626,295)	30,505,529

Notes to the Financial Statements For the year ended 31 December 2015

Profit rate risk (non-trading book)

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

- A material proportion of the real estate portfolio is provided to High Net Worth Individuals who have significant wider income and asset streams to absorb profit rate increases.
- Cases are assessed on a case by case basis using prudent interest rate assumptions, with buy to let / Residential Investment typically having a blocked deposit account (holding 6 months profit costs as a contingency) providing additional comfort.

From a liability perspective, following the withdrawal of a large fixed rate deposit during 2015, the remaining deposits are structured on a floating rate basis.

With regard to the Investment portfolio (fixed rate, non-trading book SUKUK), whilst these are valued daily on a mark to market basis, the following analysis sets the notional impact of an increase in LIBOR rates on the Sukuk book. The impact of a 1% upward shift rate shock has been based on an effective duration methodology.

	2015	2014
	£	£
Parallel rate shock risk (upward shift)		
• 1% rate shock	(2,391,283)	(2,169,308)
• Impact on Regulatory capital	(3.7)%	(6.3)%

Operational risk

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

The Bank's objective in managing operational risk is to implement an integrated internal control and operating infrastructure that supports process efficiency and customer needs, whilst effectively reducing the risk of error and financial loss in a cost effective manner. The overall operational risk framework is set by the Board of Directors and is documented within the Bank's Operational Risk Policy under the guidance of the RMC. Operational risk management is considered to be the responsibility of all staff.

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

o The First Line of Defence is the business unit, which manages the relationship with the customer. Its primary responsibility is to understand customer requirements to mitigate the risk of default or early withdrawal of deposits and to maintain and improve the processes through which QIB (UK) serves the customers to mitigate operational failures leading to loss or damage to reputation.

- The **Second Line of Defence** is the risk control functions of Risk Management (including the CRO), Financial Control, Compliance and vary occasionally Operations. These are responsible for establishing a robust risk management and control framework, conducting independent assessments and oversight and challenge to the first line of defense teams and activities.
- The **Third Line of Defence** contains the assurance functions, namely Internal Audit. They are responsible for checking and reporting compliance with Regulatory requirements and internal policies

There is a detailed QIB (UK) Risk Register maintained which provides details on the Top and Medium Priority risks derived from Internal Audit reviews, Incident Reports, RCSA results (where residual risk is considered medium or high priority) and those identified proactively within the Bank. The risk register will have a clear action plan / mitigation steps, owner and timeline to resolve and presented through Governance quarterly. Alongside, the Top Risks are contained within Risk Management Information and debated and discussed through both Risk Management Committee and ARC in order to ensure senior management are aware of and taking action to manage the Banks key risks.

The Compliance team ensures that all aspects of regulatory risk impacting the Bank are appropriately reviewed and managed. The Bank does not have a dedicated in-house legal function but uses professional legal firms for all matters requiring legal advice.

Reports from Internal Audit are reviewed by the Audit and Risk Committee which is also responsible for reviewing and approving the annual internal audit plan.

The Bank regularly conducts a Fire Drill so that staff are aware of the procedures to be followed in cases of emergency and has an

Notes to the Financial Statements For the year ended 31 December 2015

off-site Business Continuity Planning & Disaster recovery facility based in Chelmsford, which is periodically tested by Bank staff to ensure that they can perform their functional duties away from the Bank headquarters should it be required at any given point in time.

The fair value for investments in Sukuk and funds under 'financial assets available for sale' are based on quoted prices as defined in level 1 under IFRS 7. The fair value of investments in structured notes is based on observable market prices as defined in level 2 under IFRS 7.

Shari'a compliance risk

Shari'a compliance risk is the risk of loss arising from non-compliance of products or services offered by the Bank with Shari'a principles. The Bank's Shari'a Supervisory Committee (SSC) ensures that all products and activities of the Bank are Shari'a compliant. The members of the SSC are leading experts in the interpretation of Islamic law and its applications in the contemporary financial markets. The Sharia approval is a necessary condition prior to the settlement of any transaction.

29. Fair value of financial assets and liabilities

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

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

Notes to the Financial Statements For the year ended 31 December 2015

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

	Level 1	Level 2	Level 3	Total
	£	£	£	£
31 December 2015				
Financial assets at fair value through profit and loss				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
Derivative financial instruments	-	923,845	-	923,845
Financial assets available for sale				
- Equity instruments	-	3,568,680	-	3,568,680
- Debt instruments	79,337,201	4,830,024	-	84,167,225
Total Assets	79,337,201	9,322,549	-	88,659,750

	Level 1	Level 2	Level 3	Total
	£	£	£	£
31 December 2014				
Financial assets at fair value through profit and loss				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
Derivative financial instruments	-	650,176	-	650,176
Financial assets available for sale				
- Equity instruments	-	-	-	-
- Debt instruments	63,626,137	6,923,594	-	70,549,731
Total Assets	63,626,137	7,573,770	-	71,199,907

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

30. Events after the balance sheet date

There were no events between the balance sheet date and the date when the financial statements were signed, which would have had any material impact on the financial results for the year ended 31 December 2015.

31. Immediate and ultimate controlling party

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

32. Capital Requirements Directive IV ("CRD IV") – country by country reporting

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

- The name, nature of activities and geographical location of the institution and any subsidiaries and branches;

Notes to the Financial Statements For the year ended 31 December 2015

- b) Turnover;
- c) The average number of employees on a full time equivalent basis;
- d) Profit or loss before tax;
- e) Corporation tax paid; and
- f) Public subsidies received.

The Company falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2015 are set out below.

	UK	Total
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income (£)	£9,327,829	£9,327,829
d) Average number of employees	34	34
e) Profit before tax (£)	£2,546,955	£2,546,955
f) Corporation tax paid (£)	-	-
g) Public subsidies received (£)	-	-

Appendix: QIB (UK) Pillar 3 Declaration

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

1. Introduction

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

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

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

This declaration follows BIPRU rules for capital disclosures as of 31 December 2015, the effective date of the declaration. The BIPRU rules form part of the FCA Handbook and PRA Handbook which implements Basel III in this respect.

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

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

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

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

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

2. Scope

As of 31 December 2015 the Bank had no active subsidiaries or joint ventures. All banking activities are reflected in the Bank's balance sheet.

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

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

This Pillar 3 report is based on the Bank's Annual Report and Accounts for the year ended 31 December 2015, and is consistent with its accounting policies.

3. Risk Management

3.1. Risk Management Objectives

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

3.2. Risk Management Framework

This includes

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

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

To support the risk management framework, the Bank operates

Appendix: QIB (UK) Pillar 3 Declaration

a “three lines of defence” model:

- The first line of defence lies with customer-facing departments, who manage risk by maintaining and observing appropriate systems and controls.
- The second line of defence is comprised of governance and oversight. Governance and oversight include the monitoring committees, Compliance and the Risk function.
- The third line of defence is independent assurance checking and challenge, provided by Internal Audit, monitoring committees and the Risk function.

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

3.3. Principal Risks

The Bank faces the following principal risks:

- i. Strategic Risk: risks which affect the Bank’s ability to achieve its corporate and strategic objectives
- ii. Credit Risk: loss from a borrower or counterparty failing to meet their financial obligations to the Bank
- iii. Capital Risk: that the Bank has insufficient capital to cover regulatory requirements and/or growth plans
- iv. Liquidity Risk: that the Bank is unable to meet its financial obligations as they fall due, or can do so only at excessive cost
- v. Profit Rate Risk (similar to Interest Rate Risk for a conventional bank): financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in profit rates
- vi. Market Risk: the financial effect of adverse changes in market prices on the value of assets and liabilities
- i. Operational Risk: financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events

- ii. Conduct Risk: the risk of detriment to the Bank’s customers due to inappropriate execution of its business activities and processes
- iii. Sharia Risk: the risk of products and services offered that are not in compliance with the rules and principles of Shari’a.

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

3.4. Risk Appetite

The Bank has a clearly defined risk appetite for the risks it faces. This appetite is designed to meet the Risk Management Objectives, and is regularly reviewed and exposure against it monitored and reported. The risk appetite is set by the Board with the advice of the Audit and Risk Committee, and implemented by the Executive.

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

Strategic Risk

Performance against the Business Plan and Budget is tracked monthly by Line of Business, and reported to the Audit & Risk Committee.

Credit Risk

As a small, specialist institution the Bank sets credit risk limits at portfolio level, within which it sets individual counterparty limits. These appetites and limits are factored into the budget process.

Capital Risk

The Bank maintains at all times sufficient capital to cover the ICG requirement set by the regulator, which includes Pillar 1 and Pillar 2 requirements, plus additional elements that may be imposed by the regulator.

Liquidity Risk

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

Appendix: QIB (UK) Pillar 3 Declaration

Market & Profit Rate Risk

The Bank aims to minimise both these risks, maintaining a hedged book so far as possible. The Bank rarely takes proprietary trading positions, although some liquid assets which form part of the liquid asset buffer (LAB) may carry a limited amount of mark to market risk which is regularly monitored.

Operational Risk

Operational Risk takes many forms, so effective control is central to the Bank's Risk Management approach. It maintains robust operational systems and controls and seeks to operate prudently at all times. It holds additional Pillar 2 Capital for certain identified operational risks.

Conduct Risk

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

Shari'a Compliance Risk

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

3.5. Risk Oversight, Monitoring and Reporting

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

3.6. Risk Governance Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors. The Bank's governance structure is outlined below.

3.7. Committee Structure

The Board and its committees ensure high-level control of the Bank's activities. They meet regularly, with ad hoc meetings if needed.

QIB (UK) Board

- Executive Committee
- Audit & Risk Committee
- Remuneration Committee

Executive Committees

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

Board

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

Board Executive Committee

The Board Executive Committee ("ExCo") is charged with overseeing credit risk and approving new proposals that exceed the authority delegated to the Risk Management Committee (RMC).

Audit & Risk Committee

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

The Internal Audit function reports directly to the Audit & Risk Committee with a dotted line report to the Chief Executive Officer. The Audit & Risk Committee approves the terms of appointment and receives reports from the external auditors.

Board Remuneration Committee

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

The Remuneration Committee meets at least twice a year.

Management Committee ("ManCo")

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

Risk Management Committee ("RMC")

This Committee is responsible for reviewing and approving credit proposals, escalating them if necessary to ExCo. It also monitors portfolio performance and reviews policy issues such as provisioning and lending policies, then recommending these to the Board or Audit & Risk Committee. The committee meetings take place at least on a monthly basis or when necessary.

Asset & Liability Committee ("ALCO")

The ALCO meets monthly to ensure that the firm adheres to the

Appendix: QIB (UK) Pillar 3 Declaration

market risk, interest rate risk and liquidity policies and objectives set down by the Board. The committee is also responsible for the effective management of the Bank's assets and liabilities and the impact on capital and liquidity of future (pipeline) business.

Product and Pricing Committee

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

4. Capital Resources

As at 31 December 2015, the Bank's capital base was made up of £49.1 million of Tier 1 capital and £16.2 million of Tier 2 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA's regulatory document GENPRU 2.2.83 R and audited reserves. Tier 2 capital consists of subordinated loan notes from the Bank's parent, Qatar Islamic Bank S.A.Q.

The Bank has elected to use the standardised approach for credit risk. Under Basel III, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements. The Bank must also set aside additional 'Pillar 2' capital to provide for additional risks as directed by the PRA in its Individual Capital Guidance (ICG).

The Bank's capital base was in excess of the minimum required under the ICG.

4.1. Capital Risk and Capital Adequacy

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

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

- To meet minimum regulatory capital requirements
- To ensure the Bank can meet its objectives, including growth objectives
- To ensure the Bank can withstand future uncertainty, such as a severe economic down-

turn

- To provide assurance to depositors, borrowers, shareholders and other third parties

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

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

5. Principal Risks: Credit Risk

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

The Bank does not actively 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.

5.1. Credit Risk: Property

The Bank specialises in property lending. It seeks to mitigate credit risk by focusing on finance for prime London investment property and high-quality property development, a business sector where it has specific expertise and experience. It also specialises in finance for High Net Worth clients from, or with family connections in the Middle East, which have strong repayment records.

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

Appendix: QIB (UK) Pillar 3 Declaration

Each proposal is reviewed by the relationship team with background experience of this market, before being submitted to the RMC for challenge and approval.

5.1. Credit Risk: Property

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

Each proposal is reviewed by the relationship team with background experience of this market, before being submitted to the RMC for challenge and approval.

5.2. 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.

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.

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

As part of its liquidity buffer the Bank holds a portfolio of high-quality Sukuk. These are highly liquid, highly-rated and accepted by the regulator as a component of the Bank's statutory core liquidity. The amount held in these securities at 31 December 2015 was £73.1 million. These instruments have a 0% risk-weighting.

5.3. Non-performing Loans and Provisioning

QIB (UK) maintains a policy of raising specific provisions against agreements which are non-performing or in default. When

specific provisions are made for defaulted agreements a loan-by-loan analysis is undertaken to understand the probability of recovery, whether the agreement can be restored to order or, if not, what the recovery is likely to be. The majority of loans have good security, such as property, and this would lead in most cases to a full or high level of recovery. Any potential shortfall is calculated and this value forms the basis of the specific provision, taking into account the costs of recovery. There is regular monitoring of the performance of loan assets, especially where there is any sign of potential or actual impairment in which case they are immediately put onto the 'watchlist' by Risk Management and applied a risk rating of 7 or more depending on the circumstances. Late payments and arrears cases are reported in detail and reviewed on a regular basis and detailed credit reports are submitted for review to the monthly Risk Management Committee and to the Board Audit & Risk Committee.

6. Principal Risks: Liquidity Risk

Liquidity risk is the risk that QIB (UK) is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. To protect the Bank and its depositors against liquidity risks the Bank maintains a liquidity buffer, which reflects the Bank's liquidity needs under stressed conditions. Finance monitors liquidity on a daily basis by calculating the liquid asset buffer requirement using the Liquidity Metric Monitor ("LMM") and from the 1st October the Liquidity Coverage Ratio (LCR). The RMC also has oversight of liquidity risk with the Risk Report including key elements of Liquidity Risk.

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

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

6.1. Liquidity Risk Drivers

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

Deposit Funding Risk

The risk would arise if depositors elected to withdraw their funds more rapidly than the Bank could liquidate assets. The Bank maintains very conservative liquidity reserves against this possibility; and a proportion of deposits are protected by the

Appendix: QIB (UK) Pillar 3 Declaration

government Financial Services Compensation Scheme ("FSCS"). As from 1 January 2016, the insured amount provided by the FSCS will be £75,000 for each depositor.

Wholesale Funding

The Bank benefits from substantial stable funding lines from its parent and from Qatar government-owned bodies. These are unlikely to be withdrawn.

Payments Systems

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

Pipeline Loan Commitments

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

7. Principal Risks: Profit Rate Risk

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. Profit rate risk is managed and monitored by Treasury with oversight from Finance and Risk Departments and reported to ALCO and the Regulator on a periodic basis.

8. Principal Risks: Market Risk

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

9. Principal Risks: Operational Risk

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

The operational risk charge for QIB (UK) under Pillar 1 is calculated using the basic indicator approach, whereby a 15% multiplier is applied to the 3 year historical average of net income. The amount calculated under this approach was £0.8 million for 2015.

Risk Register & Key Risks

The Bank risk register is maintained by the CRO and owned by the Audit & Risk Committee. Key operational risks from the risk register are considered as part of the ICAAP.

Business Continuity Plans ("BCP") and Disaster Recovery ("DR") Plans

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

10. Principal Risks: Conduct risk

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

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

11. Other Risks

11.1. Concentration Risk

Concentration risk consists of high or excessive exposure to certain counterparties, regions or sectors which can lead to a concentration of loss in the event of an adverse event. The Bank assesses and monitors its exposure to concentration risk from lending activities. Although there is diversification within the Bank's portfolios and operations, certain features of the Bank's activity contain an element of concentration:

- Geography: the Bank primarily finances London based property. However, it heavily favours prime locations, and protects itself against any downturn in this market through conservative security margins.

Appendix: QIB (UK) Pillar 3 Declaration

- Asset class: QIB (UK) has a sector focus on unregulated investment property products.
- Funding: the Bank currently utilises funding from a limited number of wholesale depositors.

11.2. Pension Obligation Risk

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

11.3. Residual Risk

Residual risks result from the partial performance or failure of credit risk mitigation techniques for reasons unconnected with their intrinsic value. This risk is immaterial for QIB (UK) as the Bank does not use derivatives such as CDS to hedge its credit risk, and tangible reliance upon guarantees is limited. Where it accepts guarantees, the risk to the Bank is captured by the Pillar 1 calculation (which applies to the gross value of the exposure) or the Pillar 2 stress tests, which capture the potential loss to the Bank if credit-related losses exceed expected levels due to, for example, a weakening of real estate / security values. It is the opinion of senior management that there is no material residual risk beyond this.

As at the 2015 year-end the Bank does not have any residual value risk exposure.

11.4 Insurance risk

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

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

11.5 Legal, regulatory and compliance risk

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

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

11.6 Reputational risk

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

11.7 Money laundering risk

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

12. Remuneration

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

This requires QIB (UK) 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 remuneration code staff (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 code. The disclosure requirements of Pillar 3 are defined by the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11 as at December 31 2015.

12.1. Overview of approach to remuneration

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

- It is fair and equitable, reflecting QIB (UK)'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.

Appendix: QIB (UK) Pillar 3 Declaration

12.2. Governance and decision making

In line with regulatory guidance, remuneration is overseen by the Board's Remuneration Committee. This Committee has four members, all of whom are 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 also reviews and provides feedback on executive directors. Within its terms of reference the Committee is obliged to review its own performance, constitution and terms of reference at least annually to ensure it is operating at maximum effectiveness and in line with regulatory requirements, and recommend any changes it considers necessary to the Board for approval. The Committee takes independent external professional advice as appropriate, and monitors comparative remuneration packages within the financial sector.

12.3. Code Staff Criteria

As a firm in proportionality level three, QIB (UK) currently defines none of its employees as Coded staff. All employees, including senior management and Executive Directors, receive a fixed remuneration package. There is no provision for formal performance-related pay or bonuses, although the Board reserves the right to pay bonuses to any employee on a case-by-case basis.

The Bank's remuneration policy focuses on ensuring sound and effective risk management through:

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

12.4. Service contracts

All the current executive directors have entered into contracts which stipulate a three month notice period. Service contracts for other senior staff have notice periods which vary depending on the particular role.

12.5. Aggregate remuneration data

The Prudential Sourcebook for Banks, Building Societies and Investment Firms (Remuneration Disclosures)

Instrument 2010 requires the publication of aggregate remuneration data for senior managers and members of staff whose actions have a material impact on the risk profile of the firm.

Total remuneration paid to members of the Management Committee for the year ending 31 December 2015 is £2.1 million.

