



QIB (UK) plc

Annual Report

For the year ended 31 December 2020

Registered number 4656003



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Strategic Report

Almost exactly a year ago, I concluded my statement for the 2019 Annual Report on an optimistic note:

“Looking to the future, we are hopeful that the more stable political environment will instil some additional confidence in the real estate market during 2020.”

At that time, no one could have foreseen the way 2020 would unfold and the devastating impact caused by the COVID-19 pandemic. By any measure, the UK has been badly affected and sadly we have all become accustomed to medical briefings on R Rates and excess deaths, as well as the social distancing guidelines and lockdowns that have been imposed to try and bring the virus under some kind of control. It is clear that the economic and social impact will continue well into 2021, and even beyond, however we do at least have some concrete hope for the future with three vaccines currently approved for roll out within the UK. Against this backdrop, I want to share how proud I am of my colleagues who have worked tirelessly throughout 2020 to ensure that QIB (UK) has continued to operate at full capacity and provide its usual high levels of service.

Despite the unprecedented disruption, I can report that our Bank continued to perform during 2020 and posted a net profit after provisions and tax of £4.74m. This represented an increase of 7.2% year-on-year.

Below are the highlights of the financial performance during 2020:

<u>Key Performance Indicators (KPIs)</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Financing Portfolio (£m)</i>	594	531	482
<i>Cost-to-Income Ratio (%)</i>	55%	56%	62%
<i>Net Profit after Tax (£m)</i>	4.7	4.4	3.7
<i>Net Income Margin (%)</i>	2.0%	2.1%	2.2%
<i>Pre Tax Return on Capital (%)</i>	8.1%	8.5%	7.6%

After a strong opening to the year, the first national lockdown in March 2020 brought the real estate market to a standstill. The banks, lawyers and surveyors had to adapt their procedures to cope with remote working, as almost all employees were encouraged to work from home. Fortunately this hiatus was short lived and the market, encouraged by various Government support schemes, has proved to be very resilient with high transaction levels. Although we considered our existing approach as conservative, in response to the worsening market conditions, the Bank approved an interim Risk Appetite Statement in April which adopted a still more cautious approach to our financing guidelines. Despite these amendments, which remain in force as we cross into 2021, we have remained very much open for business and have continued to transact new financing activities. As a result, during the year our financing portfolio increased by 12%.

In accordance with the regulatory guidelines, we have been sympathetic where our clients have been affected by the COVID-19 pandemic and during the year we approved up to six months payment holidays for 18 facilities. I am pleased to advise that so far all of these facilities have resumed payments in line with their contractual obligations. We continue to monitor our asset quality and cannot be complacent as it is likely that the economic repercussions of the COVID-19 pandemic will be felt for many months to come, particularly as the extensive Government support measures are gradually unwound. As a consequence we have increased our provisions during the year, although our NPF ratio is still low at 1.84%.

Although it was overshadowed by the COVID-19 pandemic, we should not forget that 2020 has been a defining year for Brexit with a trade deal agreed at the 11th hour and the UK finally leaving the EU on 31st December 2020. As a UK subsidiary operating exclusively in the UK market, there is little direct impact; however we do believe that the uncertainty over the Brexit process has been a major headwind and we consider the UK's new status as a source of cautious optimism.

A major concern during the year was the dramatic fall off in LIBOR. This was prompted by the market's reaction to the drop in Gross Domestic Product and, in a bid to stimulate demand, the cut in the Bank of England Base

Rate to an all-time low of 0.1%. This unprecedented position negatively impacted our gross revenues which, as a consequence, fell by 3% despite the growth in the balance sheet. The net impact however was considerably dampened by the correlated reduction in our cost of funding, which fell during the year from 1.68% in January to 1.22% by December. QIB (UK) remains committed to accessing reasonably priced liquidity from a variety of sources. As such, the diversified profile of our liabilities portfolio proved an important buffer and at various times during the year we have relied upon our Private Banking clients, our Treasury counterparties and our Retail Savings Product to ensure that we have maintained adequate liquidity.

Future Developments

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

Faced with the closure of our Bank premises during the lockdowns, it was fortunate timing that our mobile banking service was being rolled out during Q1 and I am pleased to report that there was a promising level of take up by our clients. To date, this service has proved extremely reliable, providing easy access for client transactions and offering the Bank greater operational efficiencies. The proposed Phase II upgrade, adding the capability of international payments, suffered significant delays primarily due to the COVID-19 pandemic and it is now expected that it will be launched in Q1 2021.

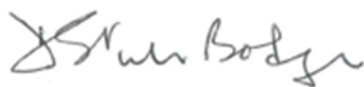
The Prudential Regulatory Authority deferred their planned initiatives to review climate change risk and operational resilience until 2021 due to the COVID-19 pandemic, and work on these two projects will be at the forefront of our regulatory compliance activity during the coming year. In terms of business continuity, a key component of the wider operational resilience initiative, we can however already take great comfort from the way we were able to respond to what could be considered the ultimate practical test, as our business was able to move seamlessly into remote working mode, albeit with individuals working from home for extended periods rather than being based at our disaster recovery site.

To conclude, I would report that we have shown great resilience in our ability to progress during 2020 based upon our balance sheet growth, leading to a 3.2% increase in net operating revenues year-on-year, accompanied by exceptional cost control. As a result, our cost-to-income ratio fell once again from 56% to 55%. With no dividends paid out, our capital position remains healthy, although our return on capital dipped slightly from 8.5% to 8.1%.

I am thankful for the continued guidance and support of our Chairman, Board of Directors and Shari'a Supervisory Board, although I regret to advise that Sheikh Abdussatar Abu Ghuddah, who had been a member of our SSB since the Bank was established, passed away in October.

Within the Bank, I am pleased to be able to report that all staff remain healthy and the senior management team is unchanged. We will continue to focus on developing our core business, in order to further improve profitability and the return on capital for our shareholder, and we look forward to better years ahead.

By the order of the Board



Duncan Steele-Bodger

Director

20th January 2021

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Principal activities

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

Principal Risks

The principal risks that the Bank will face in 2021 reflect the impact of the COVID-19 pandemic and include credit risk, operational risk (including resilience) and cybersecurity risk.

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

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

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

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

Financial results

The financial statements for the year ended 31 December 2020 are shown on pages 18 to 61. The profit for the year is £4,743,792 (2019: £4,426,547).

Proposed dividend

The Directors do not propose the payment of a dividend (2019: £nil).

Directors

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

Mr. Bassel Gamal (Chairman) ^{1,3}
Mr. Gourang Hemani ²
Mr. David Thomas OBE ^{1,2}
Mr. Rakesh Sanghvi ^{1,3}
Mrs. Marianne Ismail ^{1,2}
Mr. Duncan Steele-Bodger ³
Mr. Ludwig Krause

1 Denotes member of the Remuneration Committee

2 Denotes member of the Audit and Risk Committee

3 Denotes member of the Board Executive Committee

Directors' Report (continued)

Shari'a Supervisory Board

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

Sheikh Walid Ben Hadi (Chairman)
Sheikh Nizam Mohammed Yaquby
Sheikh Abdussatar Abu Ghuddah (*deceased October 2020*)

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

Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Bank, including an assessment of capital and liquidity requirements for the foreseeable future. This annual review and report was enhanced in light of COVID-19 and includes detailed analysis of capital, liquidity, business forecasts and expected credit losses.

This review not only covers the going concern up to January 2022. The going concern assessment is prepared by Executive Management, reviewed by the Board Audit and Risk Committee (ARC) and approved by the QIB (UK) Board.

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

As at 31 December 2020, QIB (UK) held eligible capital of £79.8m which translates to a capital surplus of £6.2m. In line with previous years, the 2020 profits will be retained to further strengthen the capital position.

ICAAP and ILAAP stress tests have been improved and run during 2020 to further support the real-time liquidity challenges faced during the COVID-19 pandemic. The Bank closes 2020 with a more diversified liability base, across a range on tenors, and a strong liquidity coverage ratio.

Based on this review, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Disclosure of information to auditors

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

By order of the Board



Lesley Anderton

Secretary

20th January 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

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

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

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

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

Shariah Supervisory Board

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

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

For the year ended 31 December 2020

In compliance with the Terms of Reference of the Company's Shariah Supervisory Board, we submit the following report:

We have reviewed the accounts relating to the transactions entered into by the Company during the year ended 31 December 2020.

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 2020 are in compliance with the Islamic Shariah rules and principles and fulfil the specific directives, rulings and guidelines issued by us.

We beg Allah the Almighty to grant us all success.



Sheikh Walid Ben Hadi

Chairman of the QIB (UK) SSB



Sheikh Nizam Yaquby

Member of the QIB (UK) SSB

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

Opinion

We have audited the financial statements of QIB (UK) PLC ("the Bank" or "the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the Bank's affairs as at 31 December 2020 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- We obtained an understanding of management's going concern assessment process.
- We assessed management's forecasts for the going concern period and evaluated the key assumptions on which management's assessment is based.
- We compared the budgeted financial information for the period ended 31 December 2020 with historical actual results.
- We reviewed management's reverse stress tests and downside sensitivity analysis as it relates to their Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).
- We reviewed management's Liquidity Stress Test Model and Capital Surplus calculation as at 31 December 2020.
- We evaluated management's plans for future actions in relation to its going concern assessment.

- We performed inquiries with the group auditors of the Bank’s parent, Qatar Islamic Bank (“QIB Doha”) relating to their going concern procedures and results of their assessment, in order to identify any matters that may impact the Bank.
- We reviewed regulatory correspondence and committee and board meeting minutes.
- We assessed the disclosures in the Annual Report and Accounts relating to going concern;

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Improper recognition of income from financing activities and fees and commission income • Credit impairments and disclosures • Recognition and valuation of the deferred tax asset • Valuation of investment property
Materiality	<ul style="list-style-type: none"> • Overall materiality of £0.9 million (2019: £0.8m) which represents 1% (2019: 1%) of the Bank’s regulatory capital (which includes equity and subordinated debt) (as per the capital management section of note 25).

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Improper recognition of Income</p> <p>Income from financing activities is £19.8 million (2019: £20.6 million).</p> <p>Income from fees and commissions is £1.7 million (2019: £1.8 million).</p> <p>Refer to the accounting policies (note 4), note 5, and note 8 of the financial statements.</p> <p>The key risks of improper recognition of income arise from:</p> <p>(i) Income recorded from financing activities might not be recorded in the correct accounting period, recognised using EYR (effective yield rate) calculation or in accordance with how the underlying structure should be treated under IFRS 9, and</p> <p>(ii) Fees and commissions can require judgment as to the amount and timing of recognition. There is a risk that fees and commission income is not recorded in the correct accounting period or in accordance with how the underlying structure should be treated under IFRS 15.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ Assessing the design, and testing the operating effectiveness of, key controls over revenue with the assistance, where required, of EY IT audit professionals ▶ For both fixed and variable parts of interest income, recalculating a sample of income from financing activities and verifying inputs to the underlying contracts ▶ Verifying a sample of fees and commissions with the underlying contracts, ascertaining the service provided for the fee or commission and determining whether it had been recognised in the correct period or deferred appropriately; ▶ In relation to re-negotiated or extended deals, understanding the nature of the change made and whether fee income has been recorded appropriately. ▶ Performing year-end cut-off testing to ensure revenue is recognised in the correct period ▶ Verifying to supporting evidence any journal entries identified that have characteristics that could indicate unusual or inappropriate adjustments ▶ Assessing aged and significant debtors at year-end to identify potential fictitious or non-recoverable revenue. ▶ Assessing disclosures for compliance with IFRS 15 and IFRS 9 requirements. 	<p>As a result of the procedures performed, we deem income from financing activities and from fees and commission to be reasonably stated.</p>

<p>Credit impairments and disclosures</p> <p>Financing arrangements amount to £594 million (2019: £531 million) net of credit impairment provisions of £7 million (2019: £7 million). An impairment charge of £832 thousand (2019: £563 thousand) was taken to the Statement of Comprehensive Income.</p> <p>Refer to the strategic report (pages 3 to 4), accounting policies (note 4), and note 27 of the financial statements.</p> <p>There is a risk that the calculated expected credit loss (ECL) or staging assessments are inaccurate due to inappropriate or incorrect data, assumptions and calculations in the IFRS 9 model. This includes the historical default data (both internal and external) and risk attributes used to build and run the models, which may be incomplete, inaccurate or non-representative of the portfolio. Further, forward looking elements relevant to the portfolio might not be incorporated in the ECL appropriately.</p> <p>The risk for 2020 has been heightened further as a result of COVID-19 and the uncertainty it places on the global economy. Consideration is required to assess various macro-economic scenarios, PDs, and the impact of any payment holidays provided to customers.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ Obtaining and assessing management’s expected credit loss policy under IFRS9 ▶ Walking through and understanding any changes to the modelling process since the prior year. ▶ Assessing the design effectiveness of key controls around identifying credit events. ▶ Validating the definition of significant deterioration in credit risk is in line with the accounting standard and determine if it has been appropriately applied. ▶ For the sample selected, we reviewed evidence supporting any collateral and assessed the valuation of underlying collateral. ▶ Understanding and challenging assumptions in relation to the impact of COVID-19 upon various macro-economic scenarios, PDs, and uptake of payment holidays by certain counterparties. This included: <ul style="list-style-type: none"> i. Assessment of payment holidays approved and breaches of covenants ii. Individual and collective assessment, multiple macroeconomic scenarios and management overlays iii. Impact of financial support and credit enhancements, if any. ▶ On a sample basis we tested credit files, arrears statistics, management’s watch list and related documentation and, where appropriate, collateral arrangements and valuation, as well as publicly available information that we judged to be relevant, in order to assess the appropriateness and 	<p>Using the support of our risk management and economic specialists, we understood and assessed the Bank’s ECL model and challenged key assumptions supporting the calculation, including taking into consideration the impact of Covid-19 and contradictory evidence.</p> <p>We performed an overall assessment of the ECL provision levels, including by stage, to determine if they were reasonable considering the Bank’s portfolio, risk profile, credit risk management practices, and the macroeconomic environment. This also included benchmarking to peers.</p> <p>We challenged the Directors on the application of the policy to certain overdue loans, and on the conclusions in relation to exposures for which payment holidays have been granted, and deem the Directors’ conclusions regarding stage allocation reasonable.</p> <p>As a result of the procedures performed, we are satisfied that management’s judgements when considered in aggregate are reasonable and that the credit impairment provisions, and related disclosures are appropriate and in line with IFRS 9.</p>
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	<p>adequacy of impairment provisions, focusing on areas where significant estimation is involved;</p> <ul style="list-style-type: none"> ▶ On a sample basis, we assessed the appropriateness and adequacy of any impairment provisions; focusing on areas where significant estimation is involved, including the estimates of future recovery. ▶ Engaging our credit risk modelling specialists to review the methodology and model applied for ECL calculation including staging of the loan portfolio. ▶ With the support of our economic and risk management specialists, assessing if forward-looking macroeconomic indicators are taken into account, and benchmarking factors considered to external sources and weighting applied to multiple economic scenarios to peer institutions. ▶ Challenging management on assumptions which materially impact the expected credit loss recorded. ▶ Testing the allocations of exposures between stages 1,2 and 3, based on PD data and individual customer situations. ▶ Assessing management's back testing analysis to assess the performance of the model on historic data and to understand the volatility of the outputs against historic periods. ▶ Performed procedures on disclosures to assess their adherence with the disclosure requirements. 	
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<p>Recognition and valuation of deferred tax asset</p> <p>The recognised deferred tax asset is £1.1 million, (2019: £1.0 million) with a charge of £0.7 million being taken to the Statement of Comprehensive Income (2019: £0.9 million).</p> <p>Unrecognised deferred tax asset booked is £1.4 million (2019: £1.6 million).</p> <p>Refer to the accounting policies (note 4) and note 12 of the financial statements.</p> <p>Under IFRS, recognition of deferred tax assets is only permitted where there is convincing evidence that there will be sufficient future taxable profit against which this asset can be realised. The accounting standards require recognition of assets in certain circumstances.</p> <p>The risk for 2020 has been heightened as a result of COVID-19 and the uncertainty it places on the global economy and consequently on the Bank's performance forecast, which is key in understanding the recoverability of the deferred tax asset.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ . ▶ Walking through the process and controls in place, to obtain understanding of the estimation uncertainty. ▶ Challenging if assessments of the risks of material misstatement at the assertion level are appropriate, including when indicators of possible management bias have been identified. ▶ Analysing and challenging the evidence supporting key assumptions made by management in their forecast, including their consideration of uncertainties, such as the impact of COVID-19 on the Bank's performance. ▶ Understanding the sensitivity analysis performed, and considering management's history of success at projecting profits, in order to assess the reasonableness of the current profit projections. ▶ We further stressed management's sensitivity analysis and assessed whether the impact on future profitability was enough to cover the DTA. ▶ Utilising EY tax professionals to check the calculations used in determining the amount of deferred tax asset are in line with the appropriate tax accounting requirements. 	<p>We have assessed and challenged the key assumptions made by Management and noted that certain assumptions (for example, budgeted expenses) are conservative while others (for example, 2020 new business volumes) are optimistic compared to historic performance. While we note there is macroeconomic uncertainty in the coming years caused by Covid-19 and Brexit, which should be factored in, based on our own independent calculation of DTA to be recognised, including different stress-test scenarios, we noted no material difference in the DTA amount recognised by the Bank.</p>
<p>Valuation of investment property</p> <p>The Bank, as a lessor, leases out a portion of its property. The accounting treatment of the building differs depending on the classification. The part of the</p>	<ul style="list-style-type: none"> ▶ Walking through the process and controls in place, to obtain an understanding of the estimation uncertainty. ▶ Challenged if assessments of the risks of material misstatement at the 	<p>Management have relied upon the fair value reported by an external property valuer as at October 2019 and then indexed the value to 31 December 2020 using an appropriate index.</p> <p>We noted that the fair value has not changed since the prior</p>

<p>building which is owner-occupied and classified as Property, plant and equipment is measured at amortized cost less any impairment. The part of the building leased out and classified as Investment property is measured at its fair value.</p> <p>There is a risk that the split in classification between office building and investment property is incorrect. The valuation of such property is also subject to judgement. The risk for 2020 is heightened as a result of COVID-19 and the uncertainty it places on the global economy and overall property prices across central London.</p> <p>The value of the investment property recorded in the financial statements remained at the same level as in prior year of £10.24 million, with no credit / charge, (2019: nil) being taken to the Statement of Comprehensive Income.</p> <p>Refer to the strategic report (pages 3 to 4), accounting policies (note 4), and note 19 of the financial statements.</p>	<p>assertion level are appropriate, including when indicators of possible management bias have been identified.</p> <ul style="list-style-type: none"> ▶ Obtained and assessed evidence that corroborates the classification split between investment property and property held for own use. ▶ Assessment of assumptions and judgements made by management in reclassifications from/to office building and investment property. ▶ Obtained and reperformed Management's valuation based on indices and any update estimates that support the valuation of the office building and the investment property. ▶ We considered the impact of COVID-19 on property and rental values, and whether this had been appropriately factored into management's assessment. We considered evidence that appeared contradictory to management's assumptions. ▶ We involved our real estate valuation specialists to support us in assessing and challenging the overall valuation. 	<p>year. However, we concluded that Management's significant assumptions used in developing the estimate were reasonable, and the overall outcome was within a reasonably acceptable range, which was informed by external market data, market practice, and calculations performed by our valuation specialist.</p> <p>As a result of the procedures that we performed we concluded that the value of the investment property is reasonable and in line with the accounting standards.</p>
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Our application of materiality

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

Materiality

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

We determined materiality for the Bank to be £0.9 million (2019: £0.8 million), which is 1% (2019: 1%) of the Bank's regulatory capital (as per the capital management section of note 25). We determined our materiality should be based on regulatory capital because the Bank is still in the early stages of being profitable. Also, our expectation is that the main users of the financial statements, such as the Prudential Regulation Authority and the immediate and ultimate controlling party, view capital preservation as a key consideration.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £0.7m (2019: £0.6m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £44k (2019: £41k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012 and relevant Prudential Regulation Authority and Financial Conduct Authority regulations. We understood how the Bank is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies, reviewed minutes of the Board, the Board Executive Committee, and the Board Audit & Risk Committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the governance framework and risk management framework and internal controls processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls that the Bank has established to address risks identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition, we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.
- As the audit of banks requires specialized audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.

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

Other matters we are required to address

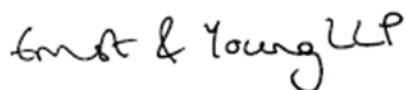
- ▶ We were appointed as auditors by the Bank on 7 November 2013 and our engagement letter was renewed and signed on 5 November 2020.

The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 31 December 2013 to 31 December 2020.

- ▶ The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the Bank in conducting the audit.
- ▶ The audit opinion is consistent with the additional report to the audit committee

Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.



Helen Joseph (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
London
20 January 2021

Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020	2019
		£	£
Income			
Income from financing activities	5	19,808,578	20,567,967
Income from investing activities	6	1,807,057	1,756,532
Returns to banks and customers	7	(9,690,817)	(10,922,693)
Net income from financing and investing activities		11,924,818	11,401,806
Fees and commissions income	8	1,728,470	1,816,439
Fees and commissions expense		(289,355)	(132,005)
Net fees and commissions income		1,439,115	1,684,434
Net gain/(loss) on financial assets at amortised cost		149,745	27,132
Gain/(loss) on foreign exchange	27	206,809	96,171
Other income		177,986	257,577
Total operating income		13,898,473	13,467,120
Expenses			
Personnel expenses	9	(5,032,706)	(4,875,912)
Depreciation and amortisation	17, 18	(665,641)	(637,414)
Other expenses	10	(1,925,466)	(2,043,621)
		(7,623,813)	(7,556,947)
Profit/(loss) before provisions for impairment		6,274,660	5,910,173
Credit loss expense on financial assets	27	(831,513)	(563,480)
Profit/(loss) before taxation		5,443,147	5,346,693
Taxation	12	(699,355)	(920,146)
Profit/(loss) for the year		4,743,792	4,426,547
Other comprehensive income (that will be recycled to Profit & Loss)			
Change in fair value of cash flow hedge net of tax	16	(27,525)	(3,236)
Other comprehensive income		(27,525)	(3,236)
Total comprehensive profit/(loss) for the year		4,716,267	4,423,311

All activities are derived from continuing operations. The notes on pages 22 to 61 are an integral part of these financial statements.

Statement of Financial Position As at 31 December 2020

	<i>Note</i>	2020 £	2019 £
Assets			
Cash and balances with banks	13	41,708,029	40,776,701
Financing arrangements	14	593,879,089	530,994,682
Financial assets at amortised cost	15	67,271,228	74,814,453
Derivative financial instruments	16	94,702	93,764
Property and equipment	17	13,545,102	14,434,772
Intangible assets	18	250,722	-
Investment property	19	10,240,000	10,240,000
Other assets	20	3,926,789	3,780,006
Deferred tax asset	12	1,148,521	1,031,743
Total assets		732,064,182	676,166,121
Liabilities			
Due to banks	21	125,332,937	85,169,482
Due to customers	22	495,173,550	480,142,212
Other liabilities	23	18,567,055	24,281,037
Derivative financial instruments	16	5,107,456	3,406,473
Subordinated Wakala	26	15,950,000	15,950,000
Total liabilities		660,130,998	608,949,204
Equity			
Share capital	25	60,864,221	60,864,221
Cash flow hedge reserve		(283,898)	(256,373)
Retained earnings		11,352,861	6,609,069
Total equity		71,933,184	67,216,917
Total liabilities and equity		732,064,182	676,166,121

The notes on pages 22 to 61 are an integral part of these financial statements. These financial statements were approved by the Board of Directors and were signed on its behalf by



Ludwig Krause
Chief Financial Officer
20th January 2021
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity

For the year ended 31 December 2020

	Share Capital	Cash Flow Hedge	Retained Earnings	Total
	£	£	£	£
Balance at 1 January 2019	60,864,221	(253,137)	2,182,522	62,793,606
Changes in fair value of cash flow hedge foreign exchange	-	(3,236)	-	(3,236)
Profit for the year after tax	-	-	4,426,547	4,426,547
Balance at 31 December 2019	60,864,221	(256,373)	6,609,069	67,216,917
Balance at 1 January 2020	60,864,221	(256,373)	6,609,069	67,216,917
Changes in fair value of cash flow hedge foreign exchange	-	(27,525)	-	(27,525)
Profit for the year after tax	-	-	4,743,792	4,743,792
Balance at 31 December 2020	60,864,221	(283,898)	11,352,861	71,933,184

The notes on pages 22 to 61 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2020

	<i>Note</i>	2020 £	2019 £
Cash flows from operating activities			
Profit/(loss) for the year		4,743,792	4,426,546
Adjustments for:			
Depreciation	17	555,383	626,025
Amortisation	18	110,258	11,389
Taxation	12	699,355	920,146
ECL loss allowance		877,573	620,430
(Increase)/decrease in financing arrangements		(63,502,402)	(49,113,784)
Stage 3 ECL recoveries		(46,061)	(56,950)
(Increase)/decrease in other assets		(146,783)	(128,572)
Increase/(decrease) in amounts due to banks		40,163,454	(6,334,662)
Increase/(decrease) in amounts due to customers		15,031,338	45,599,382
Increase/(decrease) in other liabilities		(6,738,617)	6,658,681
(Increase)/decrease in financial assets at amortised cost		7,544,997	(7,998,849)
(Increase)/decrease in derivative financial instruments		1,700,045	8,683,933
Net cash inflow/(outflow) from operating activities		992,332	3,913,714
Cash flows from investing activities			
Purchase of property and equipment	17	-	(153,801)
Purchase of intangible assets	18	(60,980)	-
Net cash outflow from investing activities		(60,980)	(153,801)
Net increase/(decrease) in cash and cash equivalents		931,352	3,759,913
Cash and cash equivalents at start of year		40,777,075	37,017,161
Cash and cash equivalents at end of year	13	41,708,427	40,777,075

The notes on pages 22 to 61 are an integral part of these financial statements.

Notes to the Financial Statements

1. Reporting entity

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

2. Basis of preparation

a. Statement of compliance

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements were approved by the Board on the 20th January 2021.

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

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Going concern

The Directors have reviewed the current and potential future business activities and financial position of the Bank, including an assessment of capital and liquidity requirements for the foreseeable future. This annual review and report was enhanced in light of COVID-19 and includes detailed analysis of capital, liquidity, business forecasts and expected credit losses.

This review not only covers the going concern up to January 2022. The going concern assessment is prepared by Executive Management, reviewed by ARC and approved by the Board.

Business volumes and redemption patterns have been adjusted to take into account the COVID-19 pandemic, and the forward looking metrics in the Bank's expected credit loss modelling have been enhanced and recalibrated.

As at 31 December 2020, QIB (UK) held eligible capital of £79.8m which translates to a capital surplus of £6.2m. In line with previous years, the 2020 profits will be retained to further strengthen the capital position.

ICAAP and ILAAP stress tests have been improved and run during 2020 to further support the real-time liquidity challenges faced during the COVID-19 pandemic. The Bank closes 2020 with a more diversified liability base, across a range on tenors, and a strong liquidity coverage ratio.

Based on this review, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

e. Use of estimates and judgement

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

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

The key sources of estimation and judgement uncertainty are:

(i) Provisions for impairment of financial assets

The measurement of impairment losses under IFRS 9 requires judgement, in particular when estimating the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative, reasonable and supportable forward-looking information.

The Bank's ECL calculations are driven by a model with a number of underlying assumptions, which include:

- The Bank's internal grading system which assigns probability of defaults (PD) to individual grades
- Days past due (DPD)
- Development of the ECL model, including the formulas and choice of inputs
- Determining covenant breaches, adverse market movements and external ratings
- Selection of forward-looking macroeconomic scenarios and their probability weightings

(ii) Determining fair values

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

(iii) Recognition of deferred tax asset

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

(iv) Lease liability discount rate

The calculation of the discount rate for the lease liability under IFRS 16 requires judgement, as the Bank must determine the most appropriate rate to use when the discount rate is not implicit in the lease. The lease liability is discounted on initial recognition using the Bank's annual average cost of funding to reflect the present value of the payments.

3. Changes in accounting policies

New standards and interpretations not yet adopted

Interest Rate Benchmark Reform

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

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

3 Month LIBOR is used as a reference rate in the Bank's financing agreements and the Bank's Tier 2 Capital is priced referencing 6 Month LIBOR. This represents the full extent of the impact as the Bank has no LIBOR based derivatives. Financing agreements have a clause that provide the Bank to use an alternative to LIBOR. The Bank will re-price Tier 2 Capital.

The Bank is in the process of recommending alternative reference rates to ALCO and this process will be concluded before the end of Q1 2021. As part of this transition, the Bank has completed an extensive analysis of historic LIBOR against other reference rates, to the extent that those were available. ALCO consider the impact of the 2021 transition on profits to be modest. As demonstrated during 2020, the Bank has the ability to respond to changes in asset pricing by re-pricing liabilities. The drop in LIBOR during 2020 has largely been offset by a funding cost reduction despite a challenging year for markets. A quarterly asset re-pricing cycle gives the Bank time to respond to changes in a measured way. In the final instance, the largest component in pricing is the Bank's margin, priced at completion and renewal, taking into account all market changes.

4. Significant accounting policies

a. Financial instruments

(i) Murabaha is a contract for the sale of goods at cost plus an agreed profit mark-up. The delivery of the goods from the seller to the purchaser is immediate but payment may be deferred. Such contracts may be used to provide financing. Commodity Murabaha is a specific example of such a contract where the item being sold is a metal commodity. Commodity Murabaha contracts are commonly used within the Islamic inter-bank short-term liquidity market.

(ii) Wakala is a transaction, which represents an agreement whereby a party provides a certain sum of money to an agent, who invests it according to specific conditions in order to achieve a certain specified return. The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(iii) Mudaraba is a partnership contract in which a provider of capital enters into an agreement with a partner to undertake a specific business or project. Profits are shared on a pre-agreed basis but losses are borne by the provider of capital unless negligence of the partner, who typically provides the labour or expertise, is demonstrated.

The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction. Where initial direct costs are incurred by the Bank, such as commissions and legal fees that are incremental and directly attributable to negotiating and arranging the transaction, these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced. Rental income is recognised at a constant periodic rate of return on the Bank's net investment.

(iv) Musharaka is a contract under which the Bank will enter into an agreement to jointly purchase a property with another party and rental income will be received relating to that proportion of the property owned by the Bank at any

point in time. The other party to the agreement may make separate payments to purchase additional proportions of the property from the Bank, thereby reducing the Bank's effective share.

The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction. Where initial direct costs are incurred by the Bank, such as commissions and legal fees that are incremental and directly attributable to negotiating and arranging the transaction, these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced. Rental income is recognised at a constant periodic rate of return on the Bank's net investment.

(v) Wa'ad is a purchase undertaking by one party to the other in a transaction effectively resulting in either a right to acquire or sell for one of the parties, structured with Shari's compliant conditions.

(vi) Qard Hasan is a contract whereby the repayment is for the same amount as the amount financed.

b. Measurement categories of financial assets and liabilities

The Bank applies IFRS 9 'Financial Instruments: Recognition and Measurement'.

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

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

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

Financial liabilities are measured at amortised cost.

All financial instruments are recognised on the trade date, that is, the date on which there is a commitment to buy or sell the financial instrument. The resulting assets and liabilities are initially recorded at fair value, and all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value, on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Bank makes an assessment of the objective of a business model in which an asset is held at an individual transaction level rather than at a portfolio level.

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

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

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

Financing Arrangements

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

Financial assets at amortised cost

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

Derivative financial instruments

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

For the purpose of hedge accounting, hedges are classified as:

Fair value hedges, when they hedge exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Cash flow hedges, when they hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or a foreign currency risk of a firm commitment and could affect profit or loss.

The Bank uses FX forwards to hedge the FX exposure and satisfy the criteria for classification as cash flow hedges under IAS 39.

Under cash flow hedge of the forward foreign currency risk, the cumulative gain or loss on re-measuring the forward contract is recognised in the cash flow hedge reserve (no sources of ineffectiveness) and reclassified from the cash flow hedge reserve to profit or loss when the payable or receivable affects profit or loss. As the payable or receivable is re-measured continuously in respect of changes in foreign exchange rates per IAS 21, the gain or loss on the forward contract is reclassified from the cash flow hedge reserve to profit or loss as the payable or receivable is re-measured, not when the payment occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, amounts previously recognised in Other comprehensive Income (OCI) remain separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

c. Reclassification of financial assets

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

d. Derecognition of financial assets and liabilities

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

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

e. Forborne and modified financial assets

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

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

Forbearance is generally considered a qualitative indicator of a significant increase in credit risk and may indicate that an exposure is credit-impaired/in default. Any impairment is measured using the original effective yield rate (EYR).

If the cash flows of a modified financing are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this circumstance, the original financial asset is derecognised and a new financial asset is recognised.

If the cash flows of the modified asset carried at amortised cost is not substantially different, the financial asset is not derecognised. Instead the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement, together with the impairment losses.

f. COVID-19 related mortgage payment holidays

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

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

For customers who were deemed eligible for a MPH, two options were made available. Option 1 represented a straight forward holiday for up to 2 quarter's worth of profit and amortisation, with payment being made at the next due date; This effectively meant that the customer would be required to pay the scheduled instalment and deferred MPH element (plus accrued profit thereon) at the same time. This would be the appropriate option in the instance that a customer was merely suffering logistical issues, such as problems in remitting funds to the Bank because of banking closures in the Middle East. Option 2 allowed for a longer deferred repayment period at an agreed point in the future, up to the facility maturity date, with profit continuing to accrue during this period. In this case, the impact of COVID-19 on the customer's longer term cash flow was considered to agree an appropriate repayment period.

There were a total of £1,100,086 payment holidays granted during the year, representing 9 Structured Real Estate facilities (£741,985) and 9 Private Banking facilities (£358,101). All payment holidays that were due to be repaid in 2020 did so.

g. Impairment of financial assets

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

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

- Credit risk at initial recognition to credit risk at reporting date – relative increase in credit risk e.g. internal rating moved 2 notches down
- Changes in risk of default e.g. days past due transactions for 60 days overdue
- Adverse market changes in collateral value
- Covenant breach – covenant monitoring for profit cover in addition to collateral
- Financing-to-value breach – monitoring the ratio of a financing to the value of the property purchased
- Drop in external ratings
- Annual review of the Bank's assets

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

Staging

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

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

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

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

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

Calculation of ECL

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

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

PD – The *Probability of Default* is an estimate of the likelihood of default over a particular time horizon.

EAD – The *Exposure at Default* is the current drawn facility amount, plus any accrued profit, assuming that a default occurred today.

LGD – The *Loss Given Default* is the ratio of the loss on an exposure due to the default of the counterparty, to the amount outstanding at default, after realising any collateral.

The Bank measures ECL on an individual asset basis.

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

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

The Bank has rebutted the 30 days past due presumption, as it considers a backstop of 60 days past due to be more appropriate for its financing portfolio, particularly in the context of receiving quarterly profit payments.

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

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

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

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

COVID-19

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

Due to a lack of sufficient internal default data, the Bank has incorporated GDP as a single macro-economic component to drive PD from external PD data, as GDP best reflects the risk faced by the Bank's portfolio. COVID-19 adversely impacted UK GDP in 2020. The model uses GDP as the only economic input, and whilst the economy has indeed shrunk during 2020, we've seen significant government interventions in place which we would expect to delay (and potentially reduce) the impact on future defaults and losses. However, to reflect the risk triggered by the COVID-19 pandemic, the Bank has incorporated a GDP of -9.8% within the model and used an overlay to reflect proportionate risk.

Due to COVID-19, the Bank has also changed the probability weighting of the model from 70% base case, 15% optimistic case and 15% pessimistic case to 70% base case, 10% optimistic case and 20% pessimistic case.

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

Sensitivity analysis has also been introduced to assess the sensitivity of the model under different scenarios.

h. Impairment of undrawn commitments

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

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

ECLs on loan commitments are presented as a liability in the statement of financial position.

i. Impairment of non-financial assets

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

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

j. Write-off's

Financial assets are written off only when the Bank has stopped pursuing the recovery and determined that no future funds will be recoverable. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount.

k. Fees and commissions

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

l. Property and equipment

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

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

The occupied part of the building purchased by the Bank in March 2014 is measured using the revaluation method. Under the revaluation method, the value of the building is initially determined as cost less accumulated depreciation, which results in the carrying value. Where there is a material difference between the carrying value and the market value, the building is revalued to reflect the market value. The market value will be determined by an independent registered valuer on alternate years, with indexation or a desk top valuation in the years where no valuation is performed. As at 31 December 2020, the carrying value materially reflects the market value.

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

The current estimated useful lives are as follows:

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

m. Investment property

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

n. Intangible assets

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

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

Amortisation is recognised in the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The current estimated useful lives are as follows:

Software	3 Years
Computer licenses	3 Years

o. Taxation

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

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

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

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

p. Employee benefits

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

q. Cash and cash equivalents

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

r. Other receivables

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

s. Leased assets

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

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

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

- the Bank has the right to direct how and for what purpose the identified asset is used throughout the period of use

Lease Term

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

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

Measurement and recognition of leases as lessee

The Bank recognises a right-of-use asset and a lease liability on the Balance Sheet on the lease commencement date.

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

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

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

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

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

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

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

t. Foreign currency transactions

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

5. Income from financing activities

Income from	2020 £	2019 £
Banks		
Wakala placements	192	59,287
Financing arrangements		
Murabaha financing	19,808,386	20,472,182
Musharaka financing	-	36,498
 Total income from financing activities	 <u>19,808,578</u>	 <u>20,567,967</u>

6. Income from investing activities

	2020 £	2019 £
Returns on investments	1,807,057	1,756,532
 Total income from investing activities	 <u>1,807,057</u>	 <u>1,756,532</u>

7. Returns to banks and customers

	2020 £	2019 £
Murabaha deposits	382,294	241,259
Wakala deposits	6,483,974	7,608,123
Notice accounts	1,918,118	2,075,548
Instant access savings accounts	19,913	53,624
Subordinated Wakala & other returns	886,518	944,139
 Total returns to banks and customers	 <u>9,690,817</u>	 <u>10,922,693</u>

8. Fees and commissions income

	2020 £	2019 £
Property financing fees	1,470,648	1,572,873
Other fee income	257,822	243,566
 Total fees and commissions income	 <u>1,728,470</u>	 <u>1,816,439</u>

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

9. Personnel expenses

	2020 £	2019 £
Directors' emoluments and fees	806,400	795,830
Wages and salaries	3,269,837	3,148,376
Social security costs	498,195	477,073
Pension contributions	296,940	292,892
Other staff costs	161,334	161,741
 Total personnel expenses	5,032,706	4,875,912

The aggregate of the emoluments in 2020 of the highest paid Director was £437,000 (2019: £418,875) and company pension contributions of £nil (2019: £nil) were made on their behalf.

The value of the services performed by three Doha Directors was estimated by the Board as £75,000 (2019: £75,000). This amount was not recharged to the Bank.

The number of employees at the end of the year was 40 (2019: 36) and the average number throughout the year was 39 (2019: 37).

10. Other expenses

	2020 £	2019 £
Other staff related costs	91,307	107,447
IT expenses	708,763	783,854
General and administrative costs	1,125,396	1,152,320
 Total other expenses	1,925,466	2,043,621

11. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging:	2020 £	2019 £
Auditor's remuneration		
Fees payable to the Bank's auditor for the audit of financial statements	178,325	146,838
 Fees payable to the Bank's auditor for other services:		
– other services pursuant to legislation	6,242	6,120
– other services	26,433	25,915
	211,000	178,873

12. Taxation

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

	2020	2019
	£	£
Current tax expense/(credit) for period at 19%	814,113	456,975
Prior year adjustment	(9,340)	4,845
Deferred tax expense/(credit) relating to:		
Origination and reversal of temporary differences	(5,680)	475,660
Effect of tax rate change	(110,880)	(1,033)
Prior year adjustment	11,142	(16,301)
Total tax expense	<u>699,355</u>	<u>920,146</u>

(ii) Reconciliation of the total tax charge

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

	2020	2019
	£	£
(Loss)/profit before tax	5,443,147	5,346,693
At standard rate of UK corporation tax of 19% (2019: 19%)	1,034,198	1,015,872
Effects of:		
Non-deductible expenses	96,845	160,014
Effect of tax rate change	(110,880)	(1,033)
Prior year adjustment	1,802	(11,456)
Movement in unrecognised deferred tax asset	(322,610)	(189,250)
Total tax expense	<u>699,355</u>	<u>920,146</u>

(iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 19% (2019: 17.1%). The following are the deferred tax assets calculated by the Bank and movements thereon during the current and prior reporting period.

	2020	2019
	£	£
Deferred tax asset as at 1 January	(1,031,744)	(1,478,711)
Expensed to the Statement of Comprehensive Income	(5,680)	475,660
Credit to Other Comprehensive Income/Reserves	(11,359)	(11,359)
Effect of rate change	(110,880)	(1,033)
Prior year adjustment	11,142	(16,301)
Deferred tax asset as at 31 December	<u>(1,148,521)</u>	<u>(1,031,744)</u>
The deferred tax asset can be analysed as follows:		
Decelerating capital allowances	95,228	78,595
Other timing differences	(112,468)	(132,980)
Tax losses carried forward	(1,131,281)	(977,359)
	<u>(1,148,521)</u>	<u>(1,031,744)</u>

The Bank utilised tax losses of £1,448,197 in the period. In addition, it has also recognised a portion of previously unrecognised tax losses.

The recognition of a deferred tax asset of £1,148,521 (net) as at 31 December 2020 is based on future taxable profit forecasts. Based on the evidence available to support the forecasts, the Directors are of the opinion that sufficient future taxable income will be available to realise this deferred tax asset.

In addition to the recognised deferred tax asset, the Bank has a gross unrecognised deferred tax asset of £7,551,825, net £1,434,847 (2019: £9,233,388, net £1,569,675) arising on tax losses. This represents a portion of the overall tax losses on which a deferred tax asset cannot be recognised due to insufficient evidence of future expected taxable profits.

13. Cash and balances with banks

	2020 £	2019 £
Cash	468,166	490,561
On demand bank deposits	41,240,261	40,286,513
Less: allowance for impairment losses	(398)	(373)
Total cash and balances with banks	<u>41,708,029</u>	<u>40,776,701</u>

14. Financing arrangements

	2020 £	2019 £
Murabaha financing	600,705,034	537,142,684
Mudaraba financing	-	879,798
Other financing	22,724	36,549
Less: allowance for impairment losses	(6,848,669)	(7,064,349)
Total financing arrangements	<u>593,879,089</u>	<u>530,994,682</u>

15. Financial assets held at amortised cost

	2020 £	2019 £
Investment in Sukuk	67,303,614	74,848,611
Less: allowance for impairment losses	(32,386)	(34,158)
Total financial assets held at amortised cost	<u>67,271,228</u>	<u>74,814,453</u>

16. Derivative financial instruments

	2020 £	2019 £
Gain on fair value of forward foreign exchange contracts	94,702	93,764
Loss on fair value of forward foreign exchange contracts	(5,107,456)	(3,406,473)
Total derivative financial instruments	(5,012,754)	(3,312,709)

The Bank entered into forward foreign exchange contracts to manage its foreign currency exposures and all the foreign exchange contracts are used just for hedging purposes. The Bank uses foreign currency-denominated deposits and foreign exchange forward contracts to manage its transaction exposures. The foreign exchange forward contracts are entered into for periods consistent with the foreign currency exposure of the underlying transactions, generally from 1 to 12 months. The fair value of £(5,012,754) represents an aggregate net position of £5,107,456 losses netted against £94,702 gains. The movement in the fair value of forward foreign exchange contracts is included in the Statement of Comprehensive Income. The cumulative loss-to-date is £283,898 (2019: loss of £256,373).

The Bank's book is effectively hedged for foreign currencies and the positions are closely monitored on a daily basis. Due to the unhedged FX open position during the year, there was a net gain of £206,809 (2019: £96,171 net gain). This is the outcome of the ineffective hedging portion and this net position is arising out of a FX total gain of £1,761,017 (2019: £8,188,163) of the hedging instruments and total loss of £1,554,208 (2019: £8,091,992) of hedged items. The total nominal value of the derivatives as at year-end was £162m (2019: £163m). The instruments are there to hedge the liabilities that are in foreign currencies (mainly in USD) as the Bank's asset book is largely in GBP. All the derivatives have a maturity of less than a year, which is in line with the Bank's foreign currency deposit profile.

The Bank entered into a forward foreign exchange contract to hedge its currency exposure arising from income denominated in foreign currency for 2020. Despite COVID-19, there has been no material change to the underlying hedged income as it was based on an asset with a fixed income schedule.

The table below shows the maturity of the derivative instruments as at the end of the year:

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
2020	47,587,671	65,649,959	48,784,139	-	-	162,021,769
2019	13,772,229	78,154,682	70,610,120	-	-	162,537,031

17. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment/ Fixed Assets in Progress	Total
	£	£	£	£	£
Cost:					
Balance at 1 January 2020	14,269,334	93,516	2,243,214	880,463	17,486,527
Transfer to intangible assets	-	-	-	(300,000)	(300,000)
Decrease in right-of-use asset	-	-	-	(34,287)	(34,287)
Balance at 31 December 2020	<u>14,269,334</u>	<u>93,516</u>	<u>2,243,214</u>	<u>546,176</u>	<u>17,152,240</u>
Depreciation:					
Balance at 1 January 2020	(1,420,717)	(84,193)	(1,133,616)	(413,228)	(3,051,754)
Depreciation charge for the year	(285,525)	(4,851)	(221,467)	(43,541)	(555,384)
Balance at 31 December 2020	<u>(1,706,242)</u>	<u>(89,044)</u>	<u>(1,355,083)</u>	<u>(456,769)</u>	<u>(3,607,138)</u>
Net book value at 31 December 2020	<u>12,563,092</u>	<u>4,472</u>	<u>888,131</u>	<u>89,407</u>	<u>13,545,102</u>
Cost:					
Balance at 1 January 2019	14,269,334	445,264	3,090,056	1,136,085	18,940,739
Additions	-	3,801	-	226,596	230,397
Write offs	-	(355,549)	(846,843)	(482,218)	(1,684,610)
Balance at 31 December 2019	<u>14,269,334</u>	<u>93,516</u>	<u>2,243,213</u>	<u>880,463</u>	<u>17,486,527</u>
Depreciation:					
Balance at 1 January 2019	(1,135,192)	(417,486)	(1,739,732)	(811,852)	(4,104,262)
Depreciation charge for the year	(285,525)	(22,256)	(240,727)	(77,517)	(626,025)
Write offs	-	355,549	846,843	476,141	1,678,533
Balance at 31 December 2019	<u>(1,420,717)</u>	<u>(84,193)</u>	<u>(1,133,616)</u>	<u>(413,228)</u>	<u>(3,051,754)</u>
Net book value at 31 December 2019	<u>12,848,617</u>	<u>9,323</u>	<u>1,109,597</u>	<u>467,235</u>	<u>14,434,772</u>

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

There were no additions or disposals during 2020 and fixed assets in progress totalling £300,000 were transferred to computer software during the year on completion of the mobile banking project.

Right-of-use assets under IFRS 16 'Leases' for £42,309 (2019: £76,596) are included within office equipment.

18. Intangible assets

	Computer Software £	Computer Licenses £	Total £
Cost:			
Balance at 1 January 2020	223,066	383,263	606,329
Additions	60,980	-	60,980
Transfer from fixed assets in progress	300,000	-	300,000
Balance at 31 December 2020	<u>584,046</u>	<u>383,263</u>	<u>967,309</u>
Amortisation:			
Balance at 1 January 2020	(223,066)	(383,263)	(606,329)
Amortisation charge for the year	(110,258)	-	(110,258)
Balance at 31 December 2020	<u>(333,324)</u>	<u>(383,263)</u>	<u>(716,587)</u>
Net book value at 31 December 2020	<u>250,722</u>	<u>-</u>	<u>250,722</u>
Cost:			
Balance at 1 January 2019	1,165,727	477,407	1,643,134
Additions	-	-	-
Write offs	(942,661)	(94,145)	(1,036,806)
Balance at 31 December 2019	<u>223,066</u>	<u>383,262</u>	<u>606,328</u>
Amortisation:			
Balance at 1 January 2019	(1,161,429)	(470,316)	(1,631,745)
Amortisation charge for the year	(4,298)	(7,091)	(11,389)
Write offs	942,661	94,145	1,036,806
Balance at 31 December 2019	<u>(223,066)</u>	<u>(383,262)</u>	<u>(606,328)</u>
Net book value at 31 December 2019	<u>-</u>	<u>-</u>	<u>-</u>

During the year, fixed assets in progress totalling £300,000 were transferred to computer software on completion of the mobile banking project.

19. Investment property

	£
Balance at 1 January 2020	10,240,000
Fair Value adjustment	-
Balance at 31 December 2020	<u>10,240,000</u>

CBRE Limited valued the building during October 2019 at £25,600,000, reflecting a value of £10,240,000 for the investment portion. Formal valuations are conducted in alternate years, with an index adjustment for years in between. The 2019 valuation represents level 2 in the fair value hierarchy.

The 2020 value is based on the MSCI (formerly IPD) capital growth index for West End & Mid Town with the following inputs:

- The October 2019 CBRE valuation of £25,600,000 for 43 Grosvenor Street, resulting in an investment valuation of £10,240,000 (40%).
- The MSCI (IPD) capital growth index for West End & Mid-Town for October 2019 (date of CBRE valuation). Value = 378.35.
- The MSCI (IPD) capital growth index for West End & Mid-Town for November 2020. Value = 362.56.

Based on these inputs, the value declined by 4.17% between October 2019 and November 2020. Index movements in the range minus 5% to plus 5% are considered immaterial by the QIB (UK) Board. The investment property value is therefore held at the CBRE valuation of £10,240,000.

20. Other assets

	2020 £	2019 £
Income receivable	3,125,714	3,166,199
Fees receivable	374,688	210,598
VAT recoverable	32,953	41,853
Prepayments	259,217	206,106
Other receivables	134,217	155,250
Total other assets	<u>3,926,789</u>	<u>3,780,006</u>

21. Due to banks

	2020 £	2019 £
Demand	203,690	208,151
Murabaha deposits	94,828,120	38,711,285
Wakala deposits	30,301,127	46,250,046
Total due to banks	<u>125,332,937</u>	<u>85,169,482</u>

22. Due to customers

	2020 £	2019 £
Demand	48,078,457	45,833,789
Notice	112,058,840	112,171,237
Wakala deposits	335,036,253	322,137,186
Total due to customers	<u>495,173,550</u>	<u>480,142,212</u>

23. Other liabilities

	2020 £	2019 £
Returns payable	13,493,968	19,144,896
Accruals	1,198,910	1,373,700
Trade payables	22,255	58,008
Social security and income tax	158,603	121,701
Deferred Income	2,752,847	2,821,704
Allowance for impairment losses on undrawn commitments	353,925	145,422
Corporation Tax payable	440,658	468,335
Lease liability	42,309	76,596
Other payables	103,580	70,675
Total other liabilities	<u>18,567,055</u>	<u>24,281,037</u>

24. Leases

Bank as lessee

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

A right-of-use asset and a lease liability were recognised on the Balance Sheet on the lease commencement date. The Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the end of the lease term. The lease liability was discounted using the Bank's 2020 annual average cost of funding of 1.47% to reflect the present value of the payments.

A right-to-use asset of £42,309 has been reported within fixed assets in the statement of financial position, whereas the lease liability for the same value has been included in other liabilities.

There were cash flows of £43,025 (2019: £nil) relating to this contract reported during the year.

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

	2020 £	2019 £
Within 1 year	28,309	28,267
After 1 year but not more than 5 Years	14,000	48,329
	<u>42,309</u>	<u>76,596</u>

During the year £28,568 (2019: £26,198) was recognised as an expense in the Statement of Comprehensive Income in respect of leases.

Bank as a lessor

The Bank has entered into operating leases for its investment property (see note 19). One of the tenants vacated the premises in July 2020. The remaining lease has a term of 1.5 years. The lessee is also required to provide a residual value guarantee on the properties.

During the year, £173,965 (2019: £255,407) rental income was recognised in the Statement of Comprehensive Income relating to this operating lease. The Bank receives the rent as net basis and there are no additional expenses associated with the lease.

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

	2020 £	2019 £
Within 1 year	97,149	155,363
After 1 year but not more than 5 Years	48,575	68,063
	<u>145,724</u>	<u>223,426</u>

25. Share capital

	2020 £	2019 £
Authorised		
100,000,000 Ordinary shares of £1.00 each	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1.00 each	<u>60,864,221</u>	<u>60,864,221</u>

26. Related party transactions

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

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

Subordinated Wakala from related party

As at 31 December 2020 there was an outstanding subordinated Wakala balance payable to QIB Doha of £15,950,000 (2019: £15,950,000).

Total subordinated Wakala returns due to QIB Doha in the year were £886,517 (2019: £944,139) and returns of £269,734 (2019: £306,483) were payable as at the end of the year.

Bank lines

As at 31 December 2020, the Bank had £245,000,000 (2019: £204,000,000) of agreed inter-bank funding lines and £60,000,000 (2019: £60,000,000) of agreed lending lines with related parties within the QIB Group. These lines are of varying tenor and duration.

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

Due to banks

QIB Doha held demand deposit accounts with the Bank on an arm's length basis. As at 31 December 2020, total demand deposits due to QIB Doha were £203,690 (2019: £208,151).

Cash and balances with banks

Demand bank accounts were held with QIB Doha in line with their normal account terms and conditions. As at 31 December 2020, the Bank had a balance of £42,772 with QIB Doha (2019: £39,324)

Guarantee fees

To support the Bank's ability to seek external funding, QIB Doha occasionally provide a guarantee to external financiers. In return, QIB Doha charge the Bank guarantee fees. During the year, there was no guarantee fees payable to Doha (2019: £nil). The amount outstanding as at 31 December 2020 is £2,483,486 (2019: £2,566,927).

Financing arrangements

As at 31 December 2020, financing arrangements included a total of £14,992,388 (2019: £15,349,388) and other assets of £85,547 (2019: £109,845) relating to real estate secured financing transactions made with Directors of QIB Doha and their close family members, on an arm's length basis. Total returns due to the Bank in the year were £464,668 (2019: £373,463).

Due to customers

Directors of QIB Doha and their close family members held demand bank accounts and instant access saving accounts with the Bank on an arm's length basis. As at 31 December 2020, the total of these deposits were £1,438,784 (2019: £925,771).

Key management compensation

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

	2020	2019
	£	£
Emoluments including social security costs	1,819,520	1,814,546
Company contributions to pension plans	87,450	89,019
	1,906,970	1,903,565

27. Financial risk management

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

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

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

Risk management framework

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

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

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

Elements of the framework are detailed further below.

Governance structure

QIB (UK) Board

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

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

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

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

- a) the business has an effective system of internal control and management of business risks, and it is conducted in accordance with the PRA/FCA principles for businesses
- 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 and Risk function, and internal and external auditors are competent and provided with appropriate resource in the discharge of their duties
- e) an integrated system of planning and budgeting is established to ensure that the Bank can efficiently and effectively achieve its strategic objectives, in support of and in line with the strategic objectives of the shareholders
- f) the composition of the Board is periodically reviewed to ensure that its skill set is appropriate to current and future business requirements
- g) maintain oversight of the robust implementation of the risk management framework
- h) review and approve a suitable Risk Appetite Statement on at least an annual basis.
- i) promote a risk aware and risk responsible culture

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

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

Board sub-committees

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

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

The Board will perform an annual self-appraisal of its performance and that of its members, and will also annually solicit views from each Board and Management Sub-Committee before formally appraising their performance and making any necessary changes to their Terms of Reference, Standing Agenda and Membership.

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

Board Executive Committee ('ExCo')

Board ExCo has a specific role in relation to the review (and subsequent rejection, recommendation or approval as appropriate) of new credit exposures that are within its delegated authority, in accordance with the agreed delegated credit authority limit structure. Its principal purpose is to preserve the independence of the members of the Board Audit and Risk Committee from the commercial activities of the Bank.

Board Audit & Risk Committee ('ARC')

ARC is constituted to ensure that the Executive Management has established and maintains an effective system of internal controls on behalf of the Board. It is also responsible for providing a channel of communication between the Board, Executive Management, the Risk and Compliance functions and Internal and External Audit. ARC has specific delegated authority for the establishment, approval and periodic review of all policies and procedures adopted by the Bank as part of the risk management and control framework.

Board Nominations & Remuneration Committee ('RemCo')

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

Shari'a Supervisory Board ('SSB')

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

Executive Management Committee ('ManCo')

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

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

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

Management sub-committees

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

- Risk Management Committee;
- Asset & Liability Committee; and
- Product and Pricing Committee.

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

Risk Management Committee (RMC)

RMC has been established to provide support and advice directly to ManCo and indirectly to the Board in regards to risk governance.

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

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

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

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

Asset & Liability Committee ('ALCo')

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

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

Product and Pricing Committee ('P&PC')

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

Material risks

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

Business risk

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

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

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

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

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

Capital adequacy

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

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

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

The Bank's capital requirements are set and monitored by the PRA.

Credit risk

Credit risk is considered a material risk for the Bank and can be defined as a loss arising from a counterparty failing to fulfil contractual arrangements. This risk would occur if a counterparty fails to meet financing owed to the Bank due to inability to repay or refusal to repay. The Bank manages credit risk through a clearly defined credit approval process and metrics have been set to guide and monitor this process. Key responsibility for credit risk management is shared between the business teams and the risk management function, both at the point of initial review and approval and during the ongoing monitoring of a connection. Prior to 2020, the Bank made the decision for the Structured Real Estate business to move away from higher risk real estate development and mezzanine transactions. It also decided to focus more on residential investment rather than commercial real estate transactions, therefore benefiting from a lower RWAs base.

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

Management of credit risk

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

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

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

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

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

exposure to either ExCo or the Board. An active 'watch list' process is in place and exposures on the watch list are subject to more detailed ongoing review.

Credit risk exposures as at 31 December are shown below.

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

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

Concentration of risks of financial assets with credit risk exposure

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

Geographical sectors:

	Europe	Middle East	USA	Asia	Total
	£	£	£	£	£
Balances with Banks	36,900,731	42,771	4,296,361	-	41,239,863
Other financing	5,542	-	-	-	5,542
Murabaha financing	596,338,277	-	-	-	596,338,277
Financial assets at amortised cost	-	55,407,628	-	11,863,600	67,271,228
31 December 2020	633,244,550	55,450,399	4,296,361	11,863,600	704,854,910
Off Balance sheet:					
Undrawn Commitments	4,928,398	-	-	-	4,928,398
31 December 2020	4,928,398	-	-	-	4,928,398
Total	638,172,948	55,450,399	4,296,361	11,863,600	709,783,308
Balances with Banks	34,545,533	39,324	5,701,284	-	40,286,140
Other financing	12,667	-	-	-	12,667
Murabaha financing	533,451,245	-	-	-	533,451,245
Financial assets at amortised cost	-	59,509,962	-	15,304,490	74,814,453
31 December 2019	568,009,445	59,549,286	5,701,284	15,304,490	648,564,505
Off Balance sheet:					
Undrawn Commitments	13,634,308	-	-	-	13,634,308
31 December 2019	13,634,308	-	-	-	13,634,308
Total	581,643,753	59,549,286	5,701,284	15,304,490	662,198,812

Industry sectors:

	Banks	Individuals	Real Estate	Corporates	Central Governments	Total
	£	£	£	£	£	£
Balances with Banks	41,239,863	-	-	-	-	41,239,863
Other financing	-	5,542	-	-	-	5,542
Murabaha financing	-	-	596,338,277	-	-	596,338,277
Financial assets at amortised cost	36,905,545	-	-	3,717,819	26,647,864	67,271,228
31 December 2020	78,145,408	5,542	596,338,277	3,717,819	26,647,864	704,854,910
Off Balance sheet:						
Undrawn Commitments	-	262,067	4,666,331	-	-	4,928,398
31 December 2020	-	262,067	4,666,331	-	-	4,928,398
Total	78,145,408	267,609	601,004,608	3,717,819	26,647,864	709,783,308
Balances with Banks	40,286,140	-	-	-	-	40,286,140
Other financing	-	12,667	-	-	-	12,667
Murabaha financing	-	-	533,451,245	-	-	533,451,245
Financial assets at amortised cost	44,210,853	-	-	3,891,008	26,712,590	74,814,453
31 December 2019	84,496,994	12,667	533,451,245	3,891,008	26,712,590	648,564,505
Off Balance sheet:						
Undrawn Commitments	-	623,152	13,011,156	-	-	13,634,308
31 December 2019	-	623,152	13,011,156	-	-	13,634,308
Total	84,496,994	635,819	546,462,401	3,891,008	26,712,590	662,198,812

Credit quality

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

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

The Bank assesses this based on key indicators such as:

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

Credit quality for institutions 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. Risk ratings are on a rating scale of 1-10 (with 1 being the highest) and are in line with QIB Group methodology. The latter are mapped to the ECAI and Regulators' credit risk ratings.

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

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

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

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

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

During the year, the Bank recovered £39,361 from a Stage 3 UK corporate Mudaraba financing and wrote off the remaining £840,437. A further £6,700 was recovered from two Stage 3 individual Qard Hasans.

The contractual amount outstanding on financial assets that are still subject to enforcement activity as at 31 December is £1,968,056 (2019: £nil).

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

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

	Investment Grade	Standard Monitoring	Special Monitoring	Total
	£	£	£	£
Balances with Banks	41,239,863	-	-	41,239,863
Other financing	-	-	5,542	5,542
Murabaha financing	550,465,521	38,037,438	7,835,318	596,338,277
Financial assets at amortised cost	67,271,228	-	-	67,271,228
31 December 2020	658,976,612	38,037,438	7,840,860	704,854,910
Off Balance sheet:				
Undrawn Commitments	1,718,526	3,120,663	89,209	4,928,398
31 December 2020	1,718,526	3,120,663	89,209	4,928,398
Total	660,695,138	41,158,101	7,930,069	709,783,308
Balances with Banks	40,286,140	-	-	40,286,140
Other financing	-	-	12,667	12,667
Murabaha financing	497,928,326	26,797,193	8,725,726	533,451,245
Financial assets at amortised cost	74,814,453	-	-	74,814,453
31 December 2019	613,028,919	26,797,193	8,738,393	648,564,505
Off Balance sheet:				
Undrawn Commitments	3,199,339	9,974,940	460,030	13,634,308
31 December 2019	3,199,339	9,974,940	460,030	13,634,308
Total	616,228,257	36,772,133	9,198,422	662,198,812

Investment grade (R1 – R4) refers to external rating of BBB- and above. Special monitoring refers to all the assets that are under review by RMC and are rated at R7 or higher for regular impairment review. All other assets are monitored under the Standard monitoring (R5 –R6) initiative.

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

- 1) A UK corporate with a total Murabaha financing amount due of £7,102,381 (2019: £6,843,479). The total impairment provision against this asset as at 31 December is £1,200,000 (2019: £nil).
- 2) A UK corporate with a total Murabaha financing amount due of £3,842,843 (2019: £3,842,843). The total impairment provision against this asset as at 31 December is £3,842,843 (2019: £3,842,843).
- 3) A UK individual with a total Qard Hasan financing amount due of £12,655 (2019: £18,155). The total impairment provision against this asset as at 31 December is £12,655 (2019: £18,155).
- 4) A UK individual with a total Qard Hasan financing amount due of £4,527 (2019: £5,727). The total impairment provision against this asset as at 31 December is £4,527 (2019: £5,727).

Sensitivity Analysis

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

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

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

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

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

Collateral

Risk Management assesses the exposures against the collateral held. This is done as part of the initial credit assessment and then periodically as part of the annual credit reviews.

The Murabaha transactions are collateralised against residential and commercial properties, mainly in prime central London. A property valuation is performed at origination and in the event of a change in risk, which is monitored monthly. The Bank has not identified any significant adverse movement in the value of the collateral.

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

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

Market risk

Market risk is defined as the risk of losses arising from adverse changes in the value of positions, as a result of movements in prices across foreign exchange, commodity, debt and rate markets.

The Bank does not have material exposure to market risk or any trading book assets as it is not the nature of a Shari'a compliant bank to engage in speculative market trading. The Bank does however accept market risk to some degree by holding Sukuk, and the Board's strategic view of market risk is therefore to accept it only on the basis of asset and liability management and for liquidity purposes, and not in pursuit of trading profits.

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

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

Exchange rate risk

This is the sensitivity of financial positions to adverse movements in foreign exchange rates. Exchange rate risk does not only arise as a result of direct foreign exchange related dealings, but can also result from foreign currency based transactions such as financing, deposits, Islamic derivative trades (i.e. FX currency swaps) or through foreign currency commission payments and receipts. The Bank utilises a combination of foreign exchange spot, outright and forward contracts to manage this risk. Furthermore, early warning indicators (EWI) have been set to monitor movements in the currency pairs that the Bank is exposed to, in order to prompt management discussion during times of increased volatility.

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

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Balances with Banks	4,330,953	1,742,852	35,616,388	9,659	8,575	41,708,427
Financing arrangements	-	-	600,727,758	-	-	600,727,758
Financial assets at amortised cost	67,303,614	-	-	-	-	67,303,614
Other Assets	553,907	-	28,557,227	-	-	29,111,134
31 December 2020	72,188,474	1,742,852	664,901,373	9,659	8,575	738,850,933
Liabilities						
Due to Banks	85,400,850	27,004,167	12,927,920	-	-	125,332,937
Due to other financial institutions	4,522,162	-	37,553,461	-	-	42,075,623
Due to customers	114,240,149	1,688,717	337,169,061	-	-	453,097,927
Subordinated Loan	-	-	15,950,000	-	-	15,950,000
Other Liabilities	3,135,140	9,757	15,068,233	-	-	18,213,130
Cash flow reserve net of tax	-	-	(5,288)	-	-	(5,288)
31 December 2020	207,298,301	28,702,641	418,663,387	-	-	654,664,329
Net on balance sheet financial position	(135,109,827)	(26,959,789)	246,237,986	9,659	8,575	84,186,604
Forward foreign exchange contracts	135,075,774	26,945,995	-	-	-	162,021,769
Assets						
Balances with Banks	5,737,039	834,696	34,192,314	3,573	9,452	40,777,074
Financing arrangements	-	-	538,059,031	-	-	538,059,031
Financial assets at amortised cost	74,848,611	-	-	-	-	74,848,611
Other assets	545,458	-	28,864,468	-	-	29,409,925
31 December 2019	81,131,107	834,696	601,115,812	3,573	9,452	683,094,641
Liabilities						
Due to Banks	20,818,488	34,019,385	30,331,609	-	-	85,169,482
Due to other financial institutions	4,894,477	-	37,547,023	-	-	42,441,500
Due to customers	164,971,494	793,334	271,935,884	-	-	437,700,712
Subordinated Loan	-	-	15,950,000	-	-	15,950,000
Other Liabilities	3,941,393	528	20,193,694	-	-	24,135,615
Cash flow reserve net of tax	-	-	22,238	-	-	22,238
31 December 2019	194,625,852	34,813,246	375,980,448	-	-	605,419,546
Net on balance sheet financial position	(113,494,745)	(33,978,550)	225,135,365	3,573	9,452	77,675,095
Forward foreign exchange contracts	113,432,296	33,964,400	-	-	-	147,396,696

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible and, as at 31 December 2020, held a £206,809 net gain from FX hedges (2019: £96,171 net gain). Every foreign currency exposure is hedged by FX forwards with similar maturity profile to eliminate any foreign currency risk. For this reason the Bank has not provided a separate foreign exchange sensitivity risk analysis.

Profit rate risk (non-trading book)

This is the sensitivity of financial positions to adverse movements in market interest rates. The risk is largely owing to the mismatching of assets and liabilities (with respect to maturity/re-pricing profile) in tandem with shifting market rates across various tenors of the yield curve. This risk impacts the Bank's Balance Sheet positions which need to be regularly re-priced (if they are not being held until maturity) and can be subject to varying levels of volatility. Profit rate risk also affects the Bank's funding costs, whereby a change in market rates can positively or negatively affect the cost of funding.

The Bank monitors profit rate risk movement at monthly ALCo meetings and is controlled by Treasury as part of the Bank's asset and liability management. The Bank also has a profit rate EWI to monitor a 25bp movement in any rolling 5 day period in the 6 month Overnight Indexed Swap curve.

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

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

Liquidity risk

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

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

Management of liquidity risk is primarily the responsibility of Treasury and ALCo. Sources of liquidity risk include unforeseen withdrawal of deposits, restricted access to new funding with appropriate maturity and profit characteristics, inability to liquidate marketable assets in a timely manner with an acceptable risk of capital loss, unpredicted non-payment of financing obligations and a sudden increase in demand for financings.

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

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

The Bank's on-line retail savings product was launched in 2018. The infrastructure supporting the product, both in the outsourced supplier and internally within QIB (UK), have been tested and proven through the cycle, including the maturity of the first 1-year products. The Bank will continue to expand the product range in 2021 to meet our funding requirements. This includes the launch of notice accounts to sit alongside the fixed term products.

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

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

Risk governance was enhanced to manage the rapidly changing environment, with ad-hoc Board and ARC meetings being held. In order to monitor and manage liquidity and funding risks, weekly meetings have been established including the Asset and Liability Committee members. This has meant liquidity levels have remained above regulatory requirements and funding has been managed without the need to adopt any of the Bank's contingency funding options.

Through its access to the mainstream UK retail savings market, the Bank has been able to acquire additional long term deposits of over 1 year or longer in tenor in order to increase the Bank's long term cash position. These deposits have replaced less stable deposits and mitigated the risk of cash outflows at maturity, during an uncertain year for liquidity. Mainstream retail savings deposits increased by £76m to £130m (2019: £55m) as at 31 December.

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
Assets						
Cash and balance with Banks	41,708,427	-	-	-	-	41,708,427
Financing arrangements	19,144,676	46,251,487	77,253,224	417,185,894	40,892,477	600,727,758
Financial assets at amortised cost	67,303,614	-	-	-	-	67,303,614
Other Assets	2,665,100	98,686	327,438	25,911,579	108,331	29,111,134
31 December 2020	130,821,817	46,350,173	77,580,662	443,097,473	41,000,808	738,850,933
Liabilities						
Due to Banks	49,255,597	58,479,126	17,598,214	-	-	125,332,937
Due to other financial institutions	820,387	950,232	40,305,004	-	-	42,075,623
Due to customers	69,573,348	82,976,391	252,130,465	48,417,723	-	453,097,927
Subordinated Loan	-	-	-	6,950,000	9,000,000	15,950,000
Other Liabilities	733,890	3,569,838	7,007,979	6,212,318	689,105	18,213,130
Cash flow reserve net of tax	(5,288)	-	-	-	-	(5,288)
31 December 2020	120,377,934	145,975,587	317,041,662	61,580,041	9,689,105	654,664,329
Undrawn commitments	4,928,398	-	-	-	-	4,928,398
Difference	5,515,485	(99,625,414)	(239,461,000)	381,517,432	31,311,703	79,258,206
Assets						
Cash and balance with Banks	40,777,074	-	-	-	-	40,777,074
Financing arrangements	2,871,282	24,260,658	88,259,005	346,441,268	76,226,818	538,059,031
Financial assets at amortised cost	74,848,611	-	-	-	-	74,848,611
Other Assets	2,342,519	-	-	27,067,406	-	29,409,925
31 December 2019	120,839,486	24,260,658	88,259,005	373,508,674	76,226,818	683,094,641
Liabilities						
Due to Banks	19,808,151	55,553,160	9,808,171	-	-	85,169,482
Due to other financial institutions	589,948	1,379,466	40,093,728	378,358	-	42,441,500
Due to customers	73,386,981	92,109,760	257,942,028	14,261,943	-	437,700,712
Subordinated Loan	-	-	-	-	15,950,000	15,950,000
Other Liabilities	6,635,025	3,116,585	8,062,110	5,541,795	780,100	24,135,614
Cash flow reserve net of tax	22,238	-	-	-	-	22,238
31 December 2019	100,442,343	152,158,970	315,906,038	20,182,095	16,730,100	605,419,546
Undrawn commitments	13,634,308	-	-	-	-	13,634,308
Difference	6,762,836	(127,898,313)	(227,647,033)	353,326,578	59,496,718	64,040,787

Liabilities arising from financing activities

	Balances as at 1 January 2020	Cashflows	Balances as at 31 December 2020
	£	£	£
Subordinated Loan	15,950,000	-	15,950,000
Total liabilities arising from financing activities	15,950,000	-	15,950,000

Operational risk

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

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

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

The Board retains ultimate responsibility for oversight of risk management and control in the Bank. This includes setting a clear risk appetite statement and, whilst the Board approves the strategy and policy documents, it delegates part of this responsibility to ARC. At an executive level, risk is managed by the Executive Management team, reporting to the Bank's CEO. The following outlines the governance structure for the Bank's operational risk framework which operates through a three lines of defence system for managing risk:

1. The first line of defence are the front-line business units and support functions who have prime responsibility for risk. They are responsible for identifying, measuring, controlling and monitoring risk within their areas of accountability. They are required to establish effective control frameworks for their business in compliance with the risk policy hierarchy, and are required to act within the risk appetite parameters set by the Board. They are responsible for the development and review of some policies, with input from the second line. For each material risk they should identify, assess, measure, monitor and report.
2. The second line of defence is the oversight management committees and risk control functions of Risk Management (including the CRO) and Compliance. They act as independent functions providing oversight of, and challenge to, the effectiveness of risk management arrangements and control frameworks in the business i.e. assessing the first line of defence's monitoring of risk management. The second line of defence will ensure appropriate risk policies are in place and are maintained and reviewed accordingly. The Risk function also collates aggregated risk management information for senior management and the Board and provides analysis of data and trends. For each material risk they advise, challenge, control and escalate. Furthermore, they are responsible for establishing a robust risk management and control framework, conducting independent assessments and oversight and challenge to the first line of defence teams and activities.

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

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

The Compliance team ensures that all aspects of regulatory risk impacting the Bank are appropriately reviewed and managed. The Bank does not have a dedicated in-house legal function but uses professional legal firms for all matters requiring legal advice. The Compliance team undertakes tests as part of its annual Compliance Monitoring Plan (CMP). The CMP has been expanded to include controls and procedures specifically implemented in relation to COVID-19. These tests have covered social distancing requirements, email security, treating customers fairly, data protection and clear desk requirements to list a few.

Reports from Internal Audit are reviewed by ARC, which is also responsible for reviewing and approving the annual internal audit plan. To provide the Board with assurance, an audit was carried out in relation to the measures undertaken in response to COVID-19. The outcome of the audit was satisfactory and provided a handful of recommendations that have been implemented.

The Bank conducts fire drills so that staff are aware of the procedures to be followed in cases of emergency and has an off-site business continuity planning and disaster recovery facility based in Basildon, which is periodically tested by Bank staff to ensure that they can perform their functional duties away from the Bank's headquarters, should it be required at any given point in time.

In response to the COVID-19 pandemic restrictions, the Bank moved all staff to remote home working. This has impacted the inherent operational risks, and therefore required the Bank to implement additional COVID-19 related controls. These additional controls have ensured the residual operational risk level remains within the Bank's risk appetite. Throughout the following section these additional COVID-19 controls are highlighted.

To support the move to full home working, the Bank implemented formal change control requirements. All proposed changes to policies and processes were reviewed and approved by Risk. To support the change from hard copy documents to digital, secure electronic signatures have been implemented. RMC and ARC have oversight of these COVID-19 related changes.

Cyber risk, which is assessed as part of the operational risk framework, is the risk of any financial loss, disruption or damage as a result of cyber-attacks, security breaches, unauthorised access, loss or destruction of data, unavailability of service, computer viruses or other events that could have an adverse security impact.

Cyber risk is managed through technology risk management such as penetration test, firewall, phishing-vishing test and Business Continuity Planning, and is considered as part of the Bank's overall operational risk assessment.

The increased use of home working was facilitated by the Bank's resilient IT infrastructure. Prior to the lockdown, a number of staff were able to remote work securely. To extend this to all staff, the purchase of additional firewall and VPN licenses was required. A number of additional controls were undertaken to prevent and manage cyberattacks. Firewalls were upgraded, email security enhanced and staff training brought forward. The headcount in IT/IT Security has also increased from 2 FTE to 3 FTE.

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

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

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

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

The COVID-19 pandemic tested the Bank's operational resilience, however it has demonstrated it can remain operational even in the most challenging period as seen in 2020. Our customers had ongoing access to products and services with very limited disruption. For a brief period during the initial lockdown, the Bank did not offer its Private Banking cash desk service. Cash services were still available at the Bank's ATM located in the building and other ATMs. In reality, there was very little demand for cash as the majority of the Bank's clients had returned overseas and the use of cash was discouraged due to the risk of COVID-19 transmission.

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

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

Climate change risk

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

The project work will deliver the appropriate framework and the streams will cover the following:

1. Risk Management:

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

2. Governance:

- Further to identifying the climate risks inherent in the Bank's business model, clear roles and responsibilities will be established at Board and Executive level.
- The Board directors, with their long-term stewardship duties, are a crucial element in the governance of climate change related risks and opportunities. The Bank will ensure that the Board has the right knowledge and tools to discharge this duty in relation to climate change.
- Individuals or committees designated with accountability will be sufficiently qualified or trained in climate change risk.

3. Scenario Analysis:

- Development of scenario analysis to assess the impact of identified physical and transition risk scenarios.
- Scenario analysis will be run to assess the impact on capital and liquidity requirements as part of the Bank's ICAAP and ILAAP.
- Output will inform strategy setting so that the Bank can align the business to the adjustment to a climate impacted and lower carbon operating environment.

Shari'a compliance risk

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

Group risk

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

Conduct risk

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

Financial crime

Given the Bank's customer base is predominantly from the Middle East, there are a large number of clients that are classified as High Risk/PEPs. Accordingly, the Bank has strong controls and mitigates to identify and control this risk and does everything to prevent supporting transactions or activities relating to financial crime or terrorism.

28. Fair value of financial assets and liabilities

In the opinion of the Directors, except for the Sukuk portfolio, where the fair value (£70m) (2019: £76m) is higher than the carrying value (£67m) (2019: £75m) (which is not due to the credit risk), the fair value of financial assets and financial liabilities are not materially different from their carrying value.

Fair value hierarchy

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

The Bank follows the standardised approach of mapping, guided by ECAIs' credit assessments to credit quality steps:

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

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

The fair value of forward currency exchange contracts was determined using quoted forward exchange rates matching the maturity of the contracts.

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

	Level 1	Level 2	Level 3	Total
	£	£	£	£
31 December 2020				
Derivative financial instruments at fair value through profit and loss	-	94,702	-	94,702
Investment property at fair value through profit and loss	-	10,240,000	-	10,240,000
Total Assets	-	10,334,702	-	10,334,702
Derivative financial instruments at fair value through profit and loss	-	5,107,456	-	5,107,456
Total Liabilities	-	5,107,456	-	5,107,456
31 December 2019				
Derivative financial instruments at fair value through profit and loss	-	93,764	-	93,764
Investment property at fair value through profit and loss	-	10,240,000	-	10,240,000
Total Assets	-	10,333,764	-	10,333,764
Derivative financial instruments at fair value through profit and loss	-	3,406,473	-	3,406,473
Total Liabilities	-	3,406,473	-	3,406,473

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

29. Events after the balance sheet date

There were no events between the balance sheet date and the date when the financial statements were signed, which would have had any material impact on the financial results for the year ended 31 December 2020.

Although stricter lockdown measure have been announced since the balance sheet date, we believe that these have been countered by the positive news regarding the planned vaccine roll out in the UK.

30. Immediate and ultimate controlling party

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

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

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

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

The Bank falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2020 are set out below.

	<i>UK</i>	<i>Total</i>
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income	£13,898,473	£13,898,473
d) Average number of employees	39	39
e) Profit before tax	£4,743,792	£4,743,792
f) Corporation tax paid	£843,809	£843,809
g) Public subsidies received	-	-