AL RAYAN BANK

Pillar 3 Disclosures

31 December 2023

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Executive Summary

1.1 Background to the Bank

Al Rayan Bank PLC provides Sharia compliant savings, finance and current account services to over 90,000 personal, business and premier customers and was the first Islamic bank in the UK to receive a public rating. The Bank has an Aa3(cr) rating from Moody's Investors Service (Moody's), one of the leading global ratings agencies.

The parent company and majority shareholder, of Al Rayan Bank PLC (the Bank) is Al Rayan (UK) Limited, the UK subsidiary of Masraf Al Rayan Q.P.S.C. Masraf Al Rayan is a Qatar based Islamic bank providing banking, financial, investment and brokerage services across Qatar. Masraf Al Rayan was incorporated in January 2006 and is licensed by Qatar Central Bank. Masraf Al Rayan is one of the largest banks in Qatar. Our ambition is for Al Rayan Bank to be the most trusted, Sharia compliant bank in the UK, providing Premier and Commercial Property Finance. We do this by keeping our business simple and connecting with each other through living our "One Team" values every day, creating a great place to work and a great place for customers to bank. We promote ethical banking, embrace and celebrate diversity and we care about having a positive impact on the world around us.

Current products include Commercial Property Finance (CPF), focused on residential investment financing, Premier Home Purchase Plans, current accounts and a range of savings accounts catering for different needs for resident and non-resident customers.

The Bank's Board of Directors has delegated responsibility for day-to-day management of the Bank to the executive team, led by the Chief Executive Officer.

The Bank serves its customers through a variety of channels, including online and mobile, telephone and in person, through its Premier and Commercial office in London.

The Bank prides itself on delivering value for customers.

1TEAM

"Our ambition is for Al Rayan Bank to be the most trusted, Sharia-compliant Bank in the UK, providing Premier and Commercial Property Finance. We do this by keeping our business simple and connecting with each other through living our "One Team" values every day, creating a great place to work and a great place for customers to bank. We promote ethical banking, embrace and celebrate diversity and we care about having a positive impact on the world around us."

1.2 Purpose of the Pillar 3 Disclosures

This document comprises the Bank's Pillar 3 disclosures on Capital and Risk Management as at 31st December 2023. It has two principal purposes:

1. To provide useful information on the capital and risk profile of the Bank; and

2. To meet the regulatory disclosure requirements under the UK Capital Requirements Regulation ("CRR"), Part 8 and the rules of the Prudential Regulation Authority ("PRA") as amended and as on-shored by the UK.

1.3 Summary metrics

Capital ratios remained in excess of regulatory requirements throughout the year and as at 31st December 2023, Common Equity Tier 1 (CET1) ratio is 17.4% (2022: 14.9%) and Total Capital Ratio is 19.4% (2022: 17.5%).

The leverage ratio is calculated per the Capital Requirements Directive IV (CRD IV) which measures the relationship between Tier 1 capital and total assets, to supplement risk-based capital requirements. At present, the Bank is not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. The Bank, as per risk appetite, maintains a prudent limit well above the PRA prescribed minimum leverage ratio requirement for larger institutions.

Under the European Banking Authority's (EBA) rules on leverage, the leverage ratio is calculated by dividing Tier 1 capital by on-balance sheet and off-balance sheet assets. The leverage ratio remained above regulatory requirements throughout the year, and as at 31st December 2023 is 7.8% (2022: 6.8%).

As at 31st December 2023, the Bank's Liquidity Coverage Ratio (LCR) was 786% (2022: 458%). The LCR exceeds the UK regulatory minimum requirement. The LCR saw a significant increase compared to the previous year, primarily driven by a 15% growth in High-Quality Liquid Assets (HQLA).

Full details regarding the Bank's overall financial position can be found in the Annual Report and Financial Statements for the year ended 31 December 2023 (the Accounts). A summary of the key metrics is shown opposite.

Key metrics

Table 1: Available capital (£m)

	2023	2022
Total Risk Weighted Assets (RWA)	1,059.1	1,022.3
Common Equity Tier 1	183.9	152.7
Additional Tier 1[1]	3.0	3.0
Tier 1	186.9	155.7
Tier 2[2]	18.7	22.7
Total Capital	**205.5**	**178.4**

[1] Additional Tier 1 capital was drawn down from the parent company during 2019.

[2] All Tier 2 balances held by the Bank are due to mature within 5 years resulting in the balances having to be amortised to maturity. The amortisation of Tier 2 funding has been incorporated in the Bank's capital forecasts.

Table 2: Capital ratios as a percentage of RWA (%)

	2023	2022
Common Equity Tier 1 Ratio	17.4%	14.9%
Tier 1 Ratio	17.7%	15.2%
Total Regulatory Capital Ratio	**19.4%**	**17.5%**

Table 3: CRR Leverage ratio (£m/%)

	2023	2022
Total Leverage Ratio Exposure	2,399.4	2,306.6
Leverage Ratio	7.8%	6.8%

Table 4: Liquidity Coverage Ratio (%)

	2023	2022
Liquidity Coverage Ratio	786%	458%

Table 5: Net Stable Funding Ratio (%)

	2023	2022
Net Stable Funding Ratio	160%	155%

Table 6: Profit after tax (£m)

	2023	2022
Profit after tax	23.0	16.5

Introduction

Background

The Basel III regulatory framework is implemented through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), together referred to as CRD IV.

The CRD IV framework includes three 'pillars':

Pillar 1 Minimum capital requirements relating to credit, market and operational risks;

Pillar 2 Firm's own internal assessment of additional capital requirements relating to specific risks not covered by the Pillar 1 minimum capital requirement. This additional capital requirement is subject to review by the PRA;

Pillar 3 Disclosure of information relating to the risk assessment process and resulting capital adequacy. The Pillar 3 Disclosures are designed to promote market discipline through external disclosure of a firm's risk management framework and risk exposures

The UK implemented CRD V on 31st

December 2020, with the aim of addressing the adequacy and effectiveness of capital and liquidity resources. This implementation included an improved approach, known as Pillar 2, for managing and controlling profit rate risk in the banking book (PRRBB). Additionally, it introduced several measures specific to the European Union (EU) to promote greater consistency in both micro and macro prudential supervision, while also enhancing proportionality in prudential requirements.

The Bank's disclosures have been prepared in accordance with the UK Capital Requirements Regulation (CRR) Disclosure part of the PRA rulebook following the implementation of PS22/21 'implementation of Basel Standards: Final rules' which came into force on 1 January 2022.

1.5 Scope of application

The Bank has no trading subsidiaries; therefore, this document only contains the Pillar 3 disclosures for Al Rayan Bank PLC.

1.6 Basis and frequency of disclosures

Unless stated otherwise, all data is at or for the year to 31st December 2023, with 31st December 2022 comparatives. The term CRD IV is used throughout these disclosures as a collective term for CRD IV, CRR and the PRA's policy statements. This report is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8) as amended and on shored by the UK. This includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

The Bank qualifies as a small and non-complex institution in line with the requirements set out in article 4 (145) CRR, therefore, the Bank has included only those disclosure templates which are applicable to such an institution within Annex 1.

This document will be updated annually and will be based on the Bank's most recent audited financial statements and regulatory returns. The regulatory returns go through a four-eye check with reconciliation to management accounts and variance analysis explained where applicable. The disclosures may differ from similar information in the Bank's Accounts which are prepared in accordance with International Financial Reporting Standards (IFRS). Therefore, the information in these disclosures may not be directly comparable.

Both the Financial statements and the Pillar 3 disclosures can be found on the Bank's website.

1.7 Verification

These disclosures have been reviewed and approved by the Bank's Executive Management Committee, Board Audit Committee and the Board.

1.8 External audit

The disclosures provided in this document have been internally verified by management but have not been subjected to external audit.

1.9 Board responsibility for risk management

The Board has overall accountability and ownership for ensuring that the Bank has an appropriate system of risk management in place to ensure risks in the bank are quantified, identified, assessed, managed, mitigated and reported.

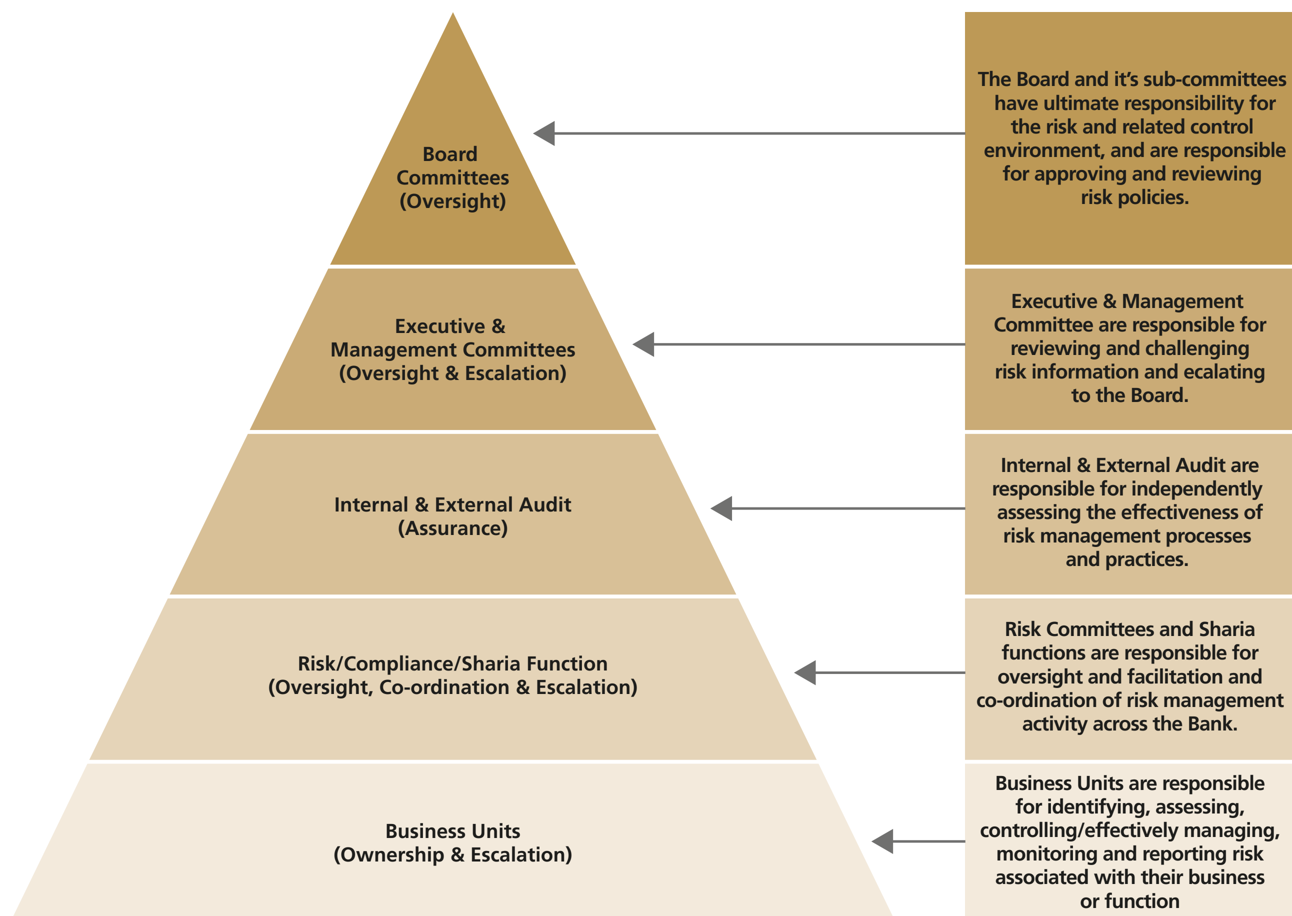
The Board considers that, as at 31st December 2023, it had in place adequate systems and controls regarding the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined regulatory limits for risk exposure throughout the year for all principal risks.

Governance Structure

Risk governance is an integral aspect of the Bank's corporate governance which focuses on the structures, processes and approach to the management of the Primary Risks to the Bank's objectives. This includes clearly defined accountabilities and expectations for all relevant parties, including the roles and responsibilities of the Board, management and employees for the management and oversight of all Primary Risk Types.

The Bank's approach to risk governance ensures that risk management is directed and controlled by the Bank's Board, and utilises hierarchical management control structures and management information as appropriate. Figure 1 below illustrates the Bank's overall risk governance structure which provides a framework for the identification, assessment, control / effective management, monitoring and reporting of risks across the Bank.

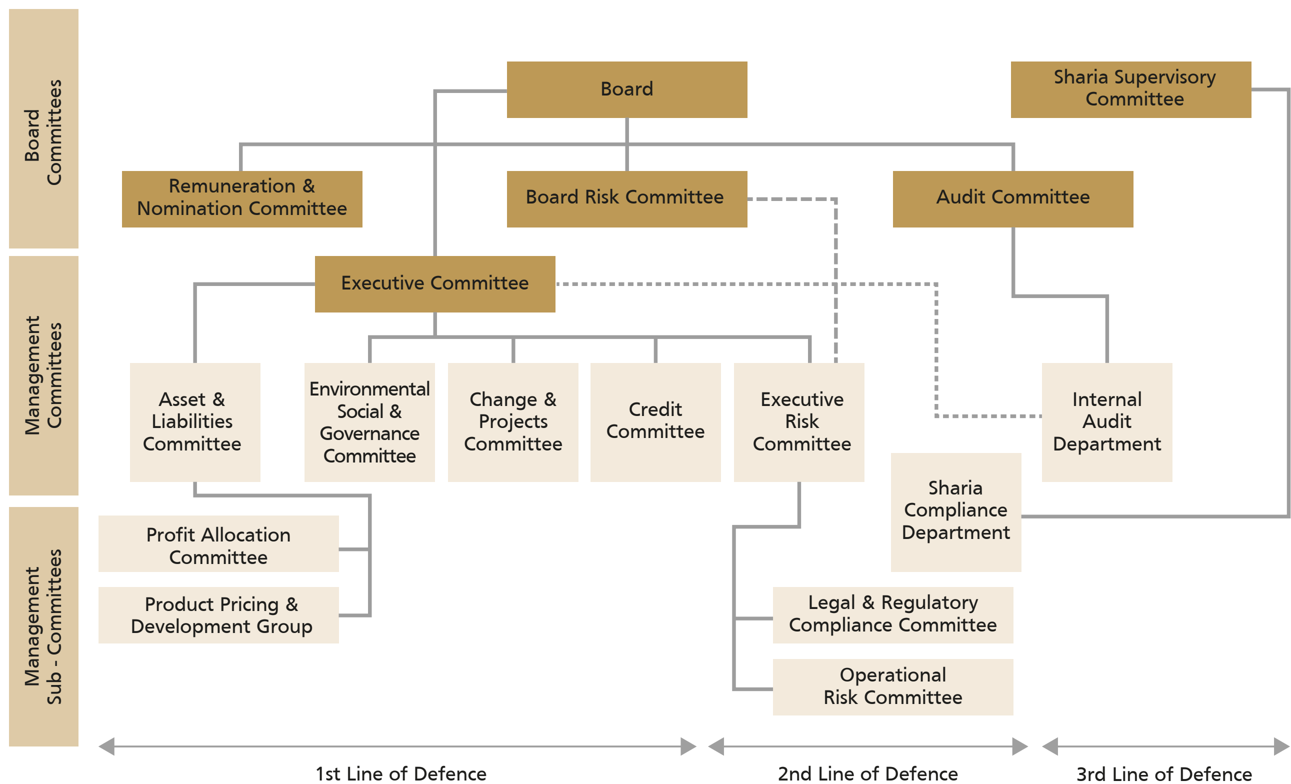
Figure 1: Al Rayan Bank Governance Framework



The Board has established a governance structure that is commensurate with the Bank's size, complexity and nature of its activities, comprising the Board and its sub-committees; a (management) executive committee and its sub-committees; and a Sharia Supervisory Committee. These ensure the Bank's operations are conducted in an effective manner with appropriate challenge and supervision at both management and Board level.

Figure 2 below outlines the Bank's Corporate Governance structure that ensures appropriate delegation of authority from the Board. All key committees are governed by formal Terms of Reference which are reviewed and updated on a regular basis. Minutes are also prepared for all key committee meetings.

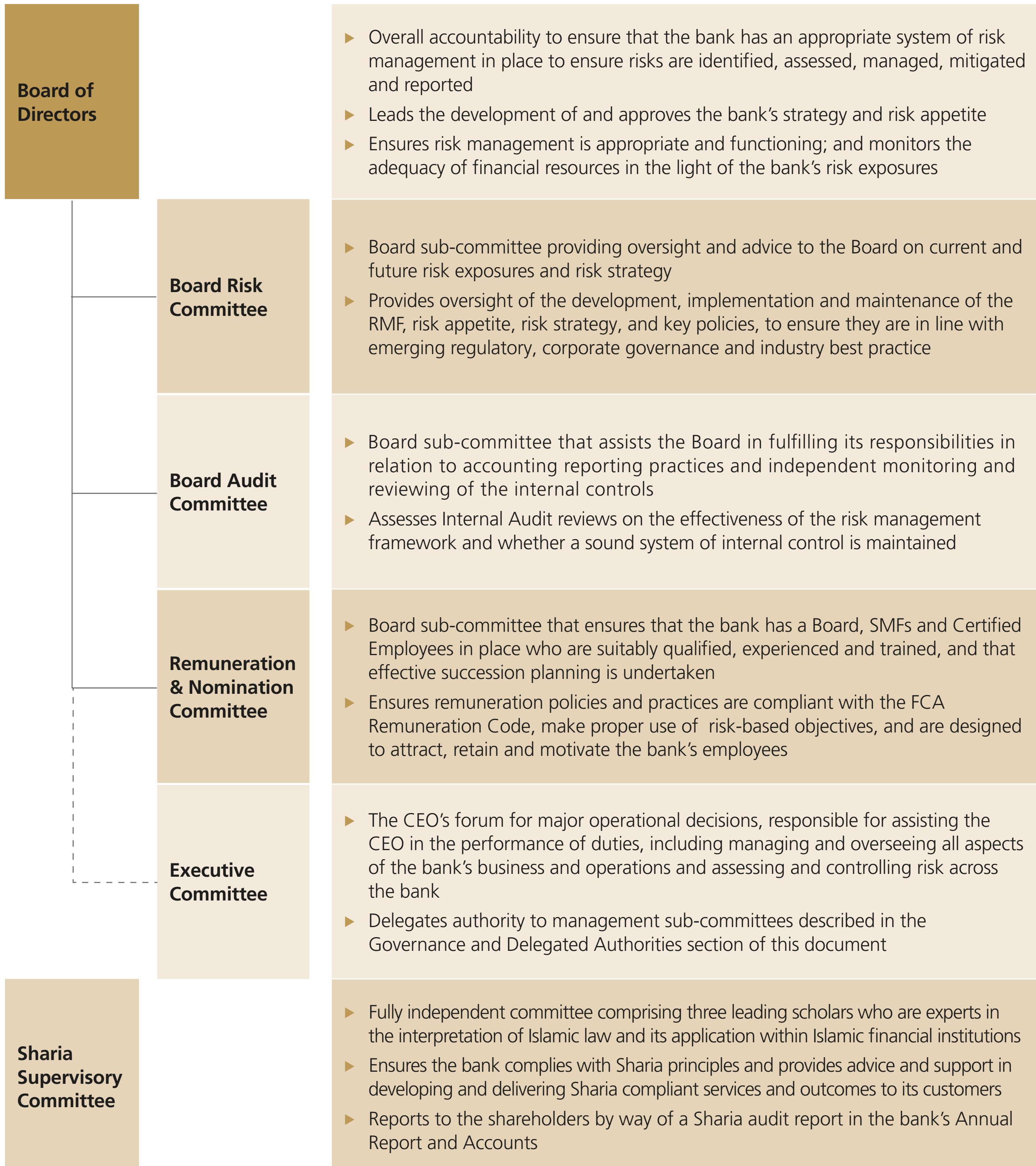
Figure 2: Al Rayan Bank Corporate Governance Structure



1.10 Board of Directors and Board level committees

The Board has overall accountability to ensure that the Bank has an appropriate system of risk management in place to ensure risks in the Bank are identified, assessed, controlled / effectively managed, monitored and reported. The Board's risk governance is supported through a series of sub-committees, or by Management, operating under delegated mandates for the oversight of management of risks within the Bank. The roles of the permanent Board committees are outlined in Figure 3 below:

Figure 3: Role of the Board and its relationship to key committees



1.11 Executive/Management level committees

Executive Committee ('ExCo')

The ExCo is the Chief Executive Officer's (CEO) forum for major operational decisions and is responsible for assisting the CEO in the performance of their duties, including:

1. The development, implementation and execution of strategy, the strategic plan, risk appetite, operational plans, policies, procedures and budgets for consideration by the Board
2. The monitoring of operating and financial performance
3. The assessment and control of risk
4. The prioritisation and allocation of resources; and
5. The monitoring of competitive forces in each area of operation.

Assets & Liabilities Committee ('ALCO')

The ALCO is a management committee that is primarily responsible for monitoring market, capital and liquidity and funding risks. This includes monitoring risks associated with profit rates in the banking book, open foreign exchange positions, the composition of assets and liabilities, funding mismatches, capital adequacy, liquidity, wholesale credit risk, the results of liquidity stress tests, and the approval of new products. It is chaired by the CFO and is also responsible for the ongoing development and maintenance of the ICAAP, and through ExCo its annual submission to the Board. To be quorate, the ALCO meeting must have representative present from the second line of defence. This is either the CRO, or Head of Risk as delegate.

Two further sub-management committees also report to the ALCO, which are the Profit Allocation Committee and the Product Pricing & Development Group.

Executive Risk Committee ('ERC')

The ERC is the principal 2nd Line risk oversight committee and is chaired by the CRO. It has full authority to act on all material and / or enterprise-wide risk and control matters across the Bank. ERC provides executive input on risk management issues to the Board, BRC and ExCo, including recommendations on risk appetite, policies and risk management strategies. It is also the principal risk monitoring forum for all of the Bank's primary risks.

Credit Sanctioning Committee ('CSC')

The CSC is a sub-committee of ExCo, chaired by the CEO. The principal purpose of the CSC is to review and opine on applications for Property Finance facility requests presented by the Business, in accordance with the discretionary limits set by the Board.

Credit Risk Committee ('CRC')

The CRC is a sub-committee of ERC, chaired by the CRO. The principal purpose of the CRC is to review appropriate management information, policies and papers as required relating to credit risk across the Bank, including those related to Expected Credit Loss ('ECL') in line with IFRS9 requirements.

Legal & Regulatory Compliance Committee ('LRCC')

The LRCC is a sub-committee of ERC and is chaired by the Head of Compliance. Its primary purpose is to provide summarised upwards reporting to the ERC on relevant legal, regulatory and compliance risks and/or recommendations for approval, including as a minimum: management information, new and emerging risks, horizon scanning, policies, compliance monitoring reports, regulatory interactions, Consumer Duty related management information, mandatory regulatory reporting, and changes to the management responsibilities map and SMCR developments.

Operational Risk Committee ('ORC')

The ORC is a sub-committee of the ERC and is chaired by the Head of Risk or their delegate. Its primary purpose is to provide summarised input to the ERC on relevant operational risk and/or recommendations for approval, including as a minimum: risk appetite – significant breaches of supporting metrics, Risk and Controls Self-Assessment ('RCSA') output, business incident reporting, development of the Operational Risk Plan and oversight of other in-scope risk types.

Change and Projects Committee ('CPC')

The CPC is a sub-committee of ExCo and is chaired by the Chief Operating Officer ('COO'). The Committee is responsible for the initial authorisation, ongoing oversight and decision making on all significant projects within the Bank. It also monitors the Bank's overall project delivery plan, ensuring sufficient resources are allocated to each project and provides oversight on financial and risk management of projects. The Committee is also responsible for reviewing and maintaining oversight, monitoring and assessing performance against the transformation plan and managing all change activity within the bank. Accountability for projects rests with the Executive sponsor of each project.

Environment, Social and Governance Committee ('ESGC')

The Environmental, Social and Governance Committee ('ESGC') is a sub-committee of ExCo and is chaired by the Chief People & Sustainability Officer ('CPSO'). Its primary purpose is to oversee the Bank's approach to integrating environmental, social, and governance practices into its business strategy and operations, and its impact and sustainability. The ESGC is the Bank's principal forum for developing core ESG objectives and metrics to ensure appropriate monitoring and reporting to all key stakeholders and at appropriate governance forums including the Board or Board sub-committees as appropriate. The committee monitors and assesses current and emerging ESG trends, relevant national standards and legislative requirements; and identifies how these are likely to impact on the strategy, operations, and reputation of the Bank; and determine whether and how these are incorporated into or reflected in the Bank's ESG policies and objectives.

Risk Management Framework

The Bank's Risk Management Framework (RMF) as illustrated in Figure 4 below, outlines the Bank's approach to identifying, assessing, controlling / effectively managing, monitoring and reporting risks the Bank is, or might be exposed to, and provide adequate internal control mechanisms that are consistent with, and promote, sound and effective risk management. The purpose of the RMF is to provide an effective, consistent and transparent approach to managing risks across the Bank. The RMF is supported by a more in-depth suite of policies that detail how risks are controlled and effectively managed across the bank on a more granular basis.

Sound risk management supports the business strategy and enables the bank to minimise losses (both financial and reputational), provide a fair and appropriate service to its customers and deliver returns for shareholders in a Sharia compliant manner.

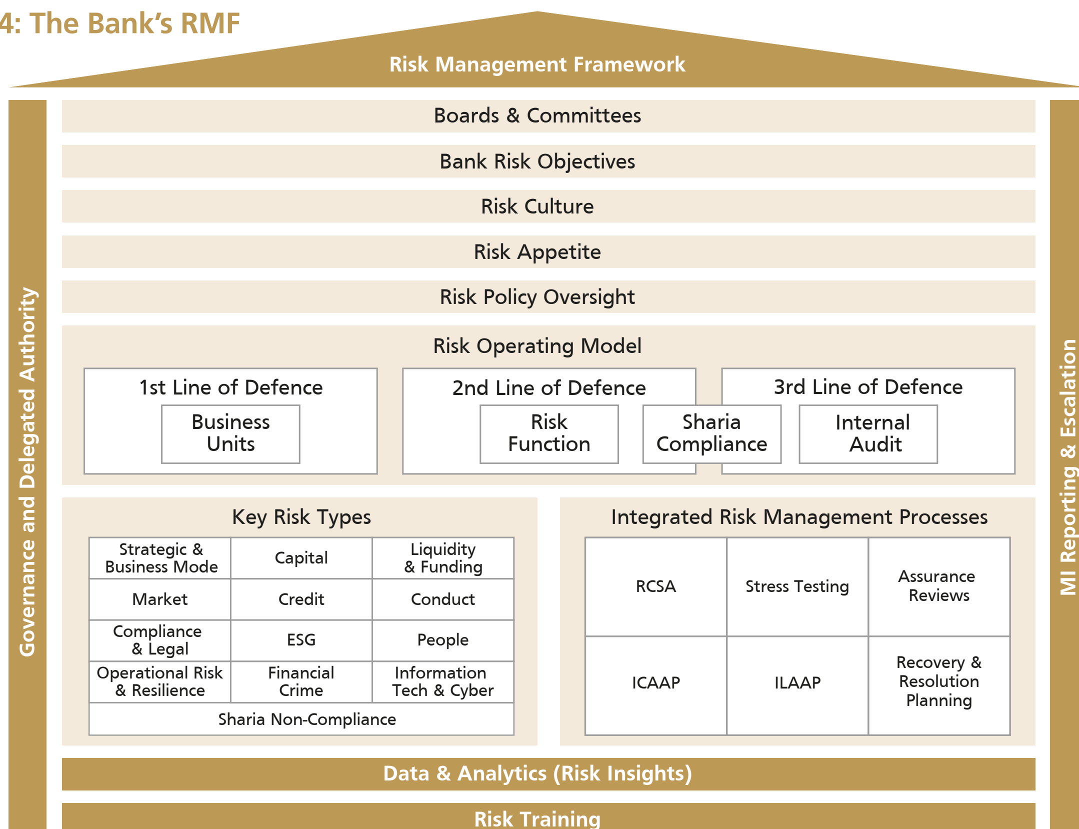
The Bank's approach to risk management supports and complements its overall strategic aims, but also seeks to add value through challenge and independent oversight of business activities. Through the deployment of a robust RMF, the Bank aims to deliver the following risk objectives:

1. Support the establishment of a strong, empowered risk management culture, together with risk management and control arrangements embedded throughout the Bank.
2. Promote a risk aware culture across the Bank, driving an environment where individuals take responsibility and ownership for both risk and high standards of customer conduct.
3. Ensure all risks are identified, assessed, controlled / effectively managed, monitored, and reported through appropriate governance, with clear accountability and responsibility for risk management across the Bank.
4. Maintain positive stakeholder confidence and reputation with customers, colleagues, shareholders, the Sharia Supervisory Committee, rating agencies and regulators.
5. Ensure sustainability and ongoing viability through continuing capital and liquidity strengths, and operational stability and resilience, including that of third party providers.

The adoption of, and compliance with, the RMF evidences the Bank's ongoing focus on embedding effective risk management and emphasises the Board's commitment to incorporating the management of risk into everyday thinking, behaviours, processes and business practices. The responsibility for ensuring effective implementation and monitoring of the RMF compliance lies with the Bank's CRO, overseen by the management level ERC.

The figure 4 below articulates the Bank's RMF, which is described in more detail in the RMF document.

Figure 4: The Bank's RMF



1.12 Primary Risks

The main tool of risk classification is the Bank's risk taxonomy, whereby the Bank defines (at a high level) the primary types of risk that the Bank is exposed to. This supports the clear allocation of ownership of risk, and provides structure to risk reporting across the Bank. The Bank has categorised risks into thirteen Primary Risk Types supported by dedicated risk management policy documents. Figure 5 below outlines the Bank's Primary Risk Types and associated descriptions for each.

Figure 5: Primary risk types within the RMF

Primary risk type		Description
1	**Strategic & Business Model Risk**	Loss resulting from a failure to define, deliver, or execute the Bank's strategic goals and objectives, or that result in impacts to the Bank's business model viability.
2	**Capital Risk**	Loss arising from a sub-optimal quantity and quality of capital, or a breach of regulatory capital requirements
3	**Liquidity & Funding Risk**	Loss arising from an inability to meet liquidity obligations as they become due, from an unstable funding profile or from a lack of availability of funds
4	**Market Risk**	Loss arising from reductions in earnings and/or value from unfavourable market movements
5	**Credit Risk**	Loss resulting from (a) the failure of other parties to meet their financial obligations to the Bank and (b) the deterioration of creditworthiness of parties to which the Bank is exposed
6	**Conduct Risk**	Loss resulting from unfair customer outcomes
7	**Compliance and Legal Risk**	Loss resulting from failing to comply with laws, rules, regulations, standards and codes of conduct, or from litigation
8	**Environmental, Social, & Governance ('ESG') Risk**	Loss resulting from failure to manage environmental risks such as physical and transitional climate risks, and from failure to manage corporate behaviour appropriately across all stakeholder groups, market practices, and wider society.
9	**People Risk**	Loss resulting from failure to recruit, retain, train, manage, reward and incentivise appropriately skilled staff to achieve business objectives
10	**Operational Risk and Resilience**	Loss resulting from inadequate or failed internal processes, people, systems or from external events
11	**Financial Crime Risk**	Loss resulting from engaging with or facilitating criminal conduct in breach of financial crime laws, rules and regulations
12	**Information & Cyber Risk**	Loss resulting from the compromise of information relating to its confidentiality, integrity or availability
13	**Sharia Non-Compliance Risk**	Loss resulting from failing to comply with Sharia requirements

Note that the Bank defines 'loss' in these descriptions to include financial losses, unfair customer detriment, reputational damage and regulatory sanction.

1.13 Three Lines of Defence approach to risk management

Whilst the Board is ultimately accountable for the Risk Management Framework, everyone in the Bank has responsibility for risk management. The Bank operates a Three Lines of Defence model in order to embed clear risk management roles and responsibilities. These are outlined as follows:

First line of defence: Line management within each business area is responsible for the identification, measurement, monitoring, mitigation, management and reporting of the risks within the Bank's risk appetite, ensuring appropriate controls are in place and operating effectively.

Second line of defence: Risk and Compliance functions provide risk management expertise and challenge managers and staff in their performance of risk management activities through independent reviews, monitoring and testing.

Specific Sharia compliance monitoring activities performed by the Sharia Compliance Department fall within the second line of defence. The Sharia Compliance Department also conduct an independent Sharia audit on an annual basis to provide assurance to the Sharia Supervisory Committee ('SSC') on the appropriateness and operational effectiveness of Sharia governance, Sharia non-compliance risk management and internal Sharia compliance controls.

Third line of defence: The Bank's Internal Audit function is responsible for independently reviewing the effectiveness of the risk management structure and providing assurance on the effectiveness of internal controls across both the first and the second line of defence.

The Internal Audit function reports directly to the Chair of the BAC. The BAC approves the internal audit work programme and receives reports on the results of the work performed. The Internal Audit function is also supported by resources from the MAR Internal Audit function on certain audits, as and when required.

1.14 Risk Appetite

A key pillar of the Bank's risk strategy is its Risk Appetite Statement (RAS), and its application to strategic and day-to-day decision-making processes. The RAS articulates the nature and level of risk that the Bank is prepared to accept in order to meet its strategic objectives, the business plan and regulatory obligations, before action is deemed necessary to reduce the risk.

The Bank's Board of Directors (Board) considers and approves the types and levels of risk it is willing to accept, or seeks to avoid or limit, in pursuit of the Bank's business strategy and objectives. This is articulated to the business through a series of risk appetite statements and limits. Management then seek to embed these into all business activities through effective process design and appropriate risk governance.

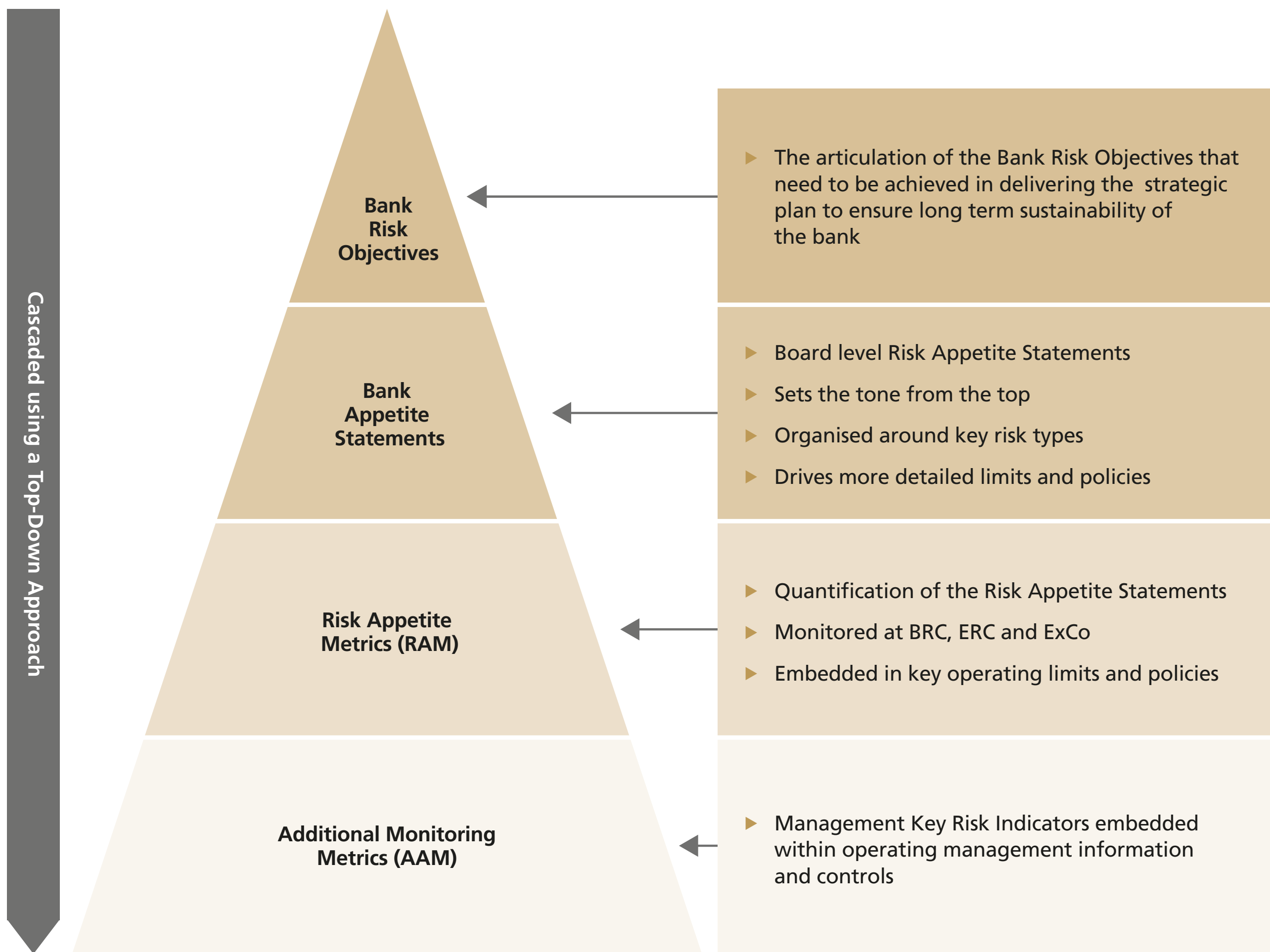
The Bank takes a proactive approach to risk management and endeavours to develop and maintain a healthy business within its defined risk appetite. Articulating the amount of risk taking that is acceptable to the Bank and helping colleagues to understand the relative significance of the risks faced allows for more efficient and effective risk management.

The Bank's RAS drives business and risk-based decision-making across the Bank, which is achieved by cascading it down on day-to-day risk-taking activities and decision-making. In the process, an integrated and coordinated approach is followed to embed a risk culture throughout the Bank with the active involvement of the risk owners and other stakeholders, including the Board.

The RAS is integral to the Bank's overall risk management approach as outlined in its RMF. The RAS has been set by the Board and is used throughout the Bank in the implementation and execution of the agreed strategy on a day-to-day basis. The RAS is reviewed on an annual basis or more frequently in the event of material changes within the Bank or in the external environment.

The risk appetite framework is organised by risk type and cascaded using a top-down approach as illustrated in Figure 6 below. Board level Risk Appetite Metrics ('RAMs') and Additional Monitoring Metrics ('AMMs'), are used to ensure that supporting risk appetite statements are embedded throughout the business. The continual monitoring, reporting and escalation of these metrics and AMMs supports the Bank in identifying drivers behind the higher-level Board risk appetite statements.

Figure 6: Risk Appetite Framework



Risk Appetite Statements are approved by the Board and aligned to the Bank's strategic plans. These are defined as the maximum level of risk tolerance the Board considers appropriate in meeting its strategic business objectives. The Risk Appetite statements are shown in Figure 7 below:

Figure 7: Risk Appetite Statements

	Primary Risk Type	Risk Appetite Statements
1	**Strategic & Business Model Risk**	The Bank's strategic and business model risk appetite is to ensure an effective operating model is in place at all times, that will maintain a sustainable business over the long term and provide appropriate returns to customers and shareholders.
2	**Capital Risk**	The Bank's capital risk appetite is to maintain a prudent level of capital resources that is sufficient to cover the requirements of the business plan and has the ability to absorb capital movements under severe but plausible stress scenarios without breaching regulatory requirements.
3	**Liquidity & Funding Risk**	The Bank's liquidity and funding risk appetite is to maintain sufficient levels of liquidity and funding, through High Quality Liquid Assets, and diversified sources and tenors of funding. This enables the Bank to meet current and forecasted obligations as they fall due, under business as usual and severe but plausible stress scenarios and operate in line with regulatory requirements.
4	**Market Risk**	The Bank's market risk appetite is to ensure risks relating to the effect of changes in market rates are minimised where it is economically viable, such that it avoids incurring any losses beyond approved limits, or excess volatility in either the economic value of equity (EVE) or the consolidated statement of profit and loss. The Bank accepts a low level of volatility in the assets in which it invests and avoids holding proprietary positions.
5	**Credit Risk**	The Bank's credit risk appetite is to maintain a well-diversified property finance portfolio by location and type of property, secured with conservative Finance-To-Value's ('FTV') relative to the security type. This is supported by an assessment that customers are creditworthy.
6	**Conduct Risk**	The Bank conducts business ethically, with honesty and integrity. The Bank seeks to ensure customers are provided with good outcomes from the business they undertake with ARB, as well as being supported in achieving their financial objectives.
7	**Compliance and Legal Risk**	The Bank will comply with all laws, rules and regulations, including those related to information and data, in a manner proportionate to its nature, scale and complexity and engages with its regulators in an open and transparent manner. When faced with litigation from customers or third parties, the Bank will take a balanced view and defend its position where there is the chance of material financial, reputational or commercial consequences.
8	**Environmental, Social and Governance (ESG) Risk**	The Bank maintains a strong commitment to environmental, social, and governance (ESG) principles and will priorities sustainable practices, social responsibility, and ethical governance throughout its operations. The Bank's ESG Risk Appetite aligns with these commitments, ensuring that it assesses and manages ESG risks effectively and responsibly.
9	**People Risk**	The Bank recruits, develops, supports and retains a committed, capable, diverse employee base, which displays the organisational culture, values and behaviours expected of all.
10	**Operational Risk and Resilience**	The Bank maintains robust and resilient processes and systems to support the services that are provided to customers and employees, that are regularly assessed to ensure they remain within approved impact tolerances.
11	**Financial Crime Risk**	The Bank has no appetite for systematic weaknesses in its financial crime systems and controls or any breach of the financial crime laws and regulations applying to its business and activities. The Bank does not undertake business with individuals or entities that it suspects are subject to sanctions or are engaged in and/or exposed to activities relating to financial crime.
12	**Information & Cyber Risk**	The Bank adopts strong, risk-based cyber security practices and technological solutions that will aim to prevent the risk of a material cyber security event occurring. The Bank will comply with all relevant laws and regulations in a manner proportionate to the nature, scale and complexity of the Bank.
13	**Sharia Non-Compliance Risk**	The Bank operates in a manner which is compliant with Sharia principles and rules.

Credit risk

Credit Risk is defined as loss resulting from (a) the failure of other parties to meet their financial obligations to the Bank and (b) the deterioration of creditworthiness of parties to which the Bank is exposed. Credit Risk losses can arise as a result of customer actions (intended or otherwise), weaknesses in security held, or outside influences such as macroeconomic factors.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Risk Committee and the Executive Risk Committee. The Chief Risk Officer is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with other business units, covering credit assessments, collateral requirements, risk reporting, legal requirements and compliance with regulatory and statutory requirements.
- Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.
- Reviewing and assessing credit risk prior to agreements being entered into with customers.
- Limiting concentrations of exposure to counterparties, countries or sectors and reviewing these limits.
- Ongoing assessment of exposure and implementation of procedures to reduce this exposure.
- Providing advice, guidance and specialist skills to all business areas to promote best practice throughout the Bank in the management of credit risk.

Adherence to country and counterparty limits, for amounts due from other banks, is monitored on an ongoing basis by the Bank's Treasury department, with a detailed review of all limits at least annually. Senior management receive regular reports on the utilisation of these limits.

The Bank maintains a dynamic approach to credit risk management and aims to take necessary steps if specific issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to customer, economic or sector-specific weaknesses.

The Bank applies the Standardised Approach ('SA') in order to calculate its credit risk capital requirements in accordance with Title II, Chapter 2 of the CRR, and any relevant derivations applied by the PRA.

Table 7 shows the credit risk exposures and the composition of the Pillar 1 capital requirements for credit risk as at 31st December 2023 and 31st December 2022:

Table 7: Pillar 1 capital requirements: credit risk: 31 December 2023 (£m)

Asset Class	IFRS Balance Sheet	Credit risk exposure	Average credit risk exposure	Risk Weighted Assets	Minimum capital Requirements	% of total RWA
Treasury assets	401.6	401.6	355.7	94.7	7.6	9.9%
Investment securities	148.7	148.7	142.4	18.8	1.5	2.0%
Home purchase plans	993.1	993.1	1,041.3	360.6	28.8	37.8%
Commercial property finance[3]	899.7	899.7	870.5	434.8	34.8	45.6%
Other assets[4]	50.1	42.1	39.4	41.1	3.3	4.3%
Sub-total	2,493.2	2,485.2	2,449.3	950.0	76.0	99.6%
Commitment to finance[3]		0.3	0.2	0.5	0.0	0.1%
Sharia compliant derivatives		11.2	7.2	3.2	0.3	0.3%
Total	**2,493.2**	**2,496.7**	**2,456.7**	**953.7**	**76.3**	**100%**

Table 8: Pillar 1 capital requirements: credit risk: 31 December 2022 (£m)

Asset Class	IFRS Balance Sheet	Credit risk exposure	Average credit risk exposure	Risk Weighted Assets	Minimum capital Requirements	% of total RWA
Treasury assets	353.1	353.1	294.5	85.2	6.8	9.1%
Investment securities	108.8	108.8	116.8	1.2	0.1	0.1%
Home purchase plans	1,099.7	1,099.7	1,143.3	391.9	31.4	41.9%
Commercial property finance[3]	789.4	789.4	748.4	418.6	33.5	44.7%
Other assets[4]	49.3	37.9	17.7	36.7	2.9	3.9%
Sub-total	**2,400.3**	**2,388.9**	**2,320.7**	**933.6**	**74.7**	**99.7%**
Commitment to finance[3]		8.0	5.3	2.8	0.2	0.3%
Sharia compliant derivatives		0.6	1.3	0.1	0.0	0.0%
Total	**2,400.3**	**2,397.5**	**2,327.3**	**936.5**	**74.9**	**100%**

Table 9: Movements in RWAs for credit risk from 1 January 2023 to 31 December 2023

Asset Class	£m
Increase in Treasury assets	9.5
Increase in investment securities	17.6
Decrease in home purchase plans	(31.3)
Increase in commercial property finance	13.9
Other	4.4
Sharia Compliant Derivatives	3.1
Credit Risk RWAs increase for 2023	17.2

[3] These two amounts have been combined and reported as Commercial property finance in all the following tables.

[4] Other asset credit risk exposures exclude deferred tax (£4.8m) and intangibles (£3.2m), which are deducted from own funds.

Table 10: 31 December 2023 Exposures subject to Standardised Approach (£m)

Asset Class	Financing – Individuals	Financing – Commercial	Financial	Sovereign	Other Assets	Total
Treasury assets	-	-	297.6	104.0	-	401.6
Investment securities	-	-	-	148.7	-	148.7
Home purchase plans	993.1	-	-	-	-	993.1
Commercial property finance	-	900.0	-	-	-	900.0
Other assets	-	-	-	-	42.1	42.1
Sharia compliant derivatives	-	-	11.2	-	-	11.2
Total	**993.1**	**900.0**	**308.8**	**252.7**	**42.1**	**2,496.7**

Table 11: 31 December 2022 Exposures subject to Standardised Approach (£m)

Asset Class	Financing – Individuals	Financing – Commercial	Financial	Sovereign	Other Assets	Total
Treasury assets	-	-	273.6	79.5	-	353.1
Investment securities	-	-	-	108.8	-	108.8
Home purchase plans	1,099.7	-	-	-	-	1,099.7
Commercial property finance	-	797.4	-	-	-	797.4
Other assets	-	-	-	-	37.9	37.9
Sharia compliant derivatives	-	-	0.6	-	-	0.6
Total	**1,099.7**	**797.4**	**274.2**	**188.3**	**37.9**	**2,397.5**

Table 12: 31 December 2023 Standardised Approach by risk weight percentage (£m)

Asset Class	0%	20%	35%	50%	75%	100%	150%	Total
Treasury assets	104.0	180.5	-	117.1	-	-	-	401.6
Investment securities	54.6	94.1	-	-	-	-	-	148.7
Home purchase plans	-	-	973.0	-	0.3	19.8	-	993.1
Commercial property finance	-	-	736.3	-	-	135.9	27.8	900.0
Other assets	1.0	-	-	-	-	41.1	-	42.1
Sharia compliant derivatives	-	7.9	-	3.3	-	-	-	11.2
Total	**159.6**	**282.5**	**1,709.3**	**120.4**	**0.3**	**196.8**	**27.8**	**2,496.7**

Table 13: 31 December 2022 Standardised Approach by risk weight percentage (£m)

Asset Class	0%	20%	35%	50%	75%	100%	150%	Total
Treasury assets	79.5	172.0	-	101.6	-	-	-	353.1
Investment securities	103.0	5.8	-	-	-	-	-	108.8
Home purchase plans	-	-	1,088.8	-	0.2	10.7	-	1,099.7
Commercial property finance	-	-	594.7	-	-	181.6	21.1	797.4
Other assets	1.2	-	-	-	-	36.7	-	37.9
Sharia compliant derivatives	-	0.6	-	-	-	-	-	0.6
Total	**183.7**	**178.4**	**1,683.5**	**101.6**	**0.2**	**229.0**	**21.1**	**2,397.5**

1.15 Credit Concentration Risk

Credit concentration risk is the risk of loss arising from inadequate diversification of credit risk across sectors. The risk arises due to exposure to specific geographical locations, industry sectors or particular customers or institutions.

The Board sets counterparty, country, and regional limits in respect of treasury assets and adherence to these limits is monitored daily. The Credit Risk Committee monitors both sectoral and geographic concentration for each finance asset class and regularly reviews counterparty, country, and regional limits in respect of treasury assets. The minutes of the Credit Risk Committee and ALCO meetings are available to the Board.

Geographic distribution of credit risk exposures

The Bank's credit risk exposures, based on the location of the asset being financed, are largely within the UK, however as at 31st December 2023, £285.4 million of the Bank's assets were held outside the UK (31 December 2022: £205 million) of which £285.2 million account for Treasury assets.

Table 14: Credit risk exposures analysed by exposure class: 31 December 2023

Asset Class	UK (£m)	Middle East (£m)	Rest of the World (£m)	Global Supra-national (£m)	Total (£m)
Treasury assets (bank counterparties)	264.4	137.2	-	-	401.6
Investment securities	0.7	-	94.1	53.9	148.7
Home purchase plans	992.9	-	0.2	-	993.1
Commercial property finance	900.0	-	-	-	900.0
Sharia compliant derivatives	11.2	-	-	-	11.2
Total	**2,169.2**	**137.2**	**94.3**	**53.9**	**2,454.6**

Table 15: Credit risk exposures analysed by exposure class: 31 December 2022

Asset Class	UK (£m)	Middle East (£m)	Rest of the World (£m)	Global Supra-national (£m)	Total (£m)
Treasury assets (bank counterparties)	221.5	131.6	-	-	353.1
Investment securities	35.9	7.0	5.8	60.1	108.8
Home purchase plans	1,099.5	-	0.2	-	1,099.7
Commercial property finance	797.1	-	0.3	-	797.4
Sharia compliant derivatives	0.6	-	-	-	0.6
Total	**2,154.6**	**138.6**	**6.3**	**60.1**	**2,359.6**

Distribution of Credit risk exposures by residual maturity

Table 16: Residual contractual maturity of credit risk exposures: 31 December 2023

Asset Class	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury placements and cash balances with banks	401.6	-	-	401.6
Investment securities	131.8	16.9	-	148.7
Home purchase plans	31.0	144.8	817.3	993.1
Commercial property finance	142.9	708.4	48.7	900.0
Sharia compliant derivatives	11.2	-	-	11.2
Total	**718.5**	**870.1**	**866.0**	**2,454.6**

Table 17: Residual contractual maturity of credit risk exposures: 31 December 2022

Asset Class	< 1 year (£m)	1 – 5 years (£m)	More than 5 years (£m)	Total (£m)
Treasury placements and cash balances with banks	353.1	-	-	353.1
Investment securities	29.4	79.4	-	108.8
Home purchase plans	37.9	171.1	890.7	1,099.7
Commercial property finance	99.5	631	66.9	797.4
Sharia compliant derivatives	0.6	-	-	0.6
Total	**520.5**	**881.5**	**957.6**	**2,359.6**

Impairment of financial assets

Impairment of financial assets is based on a forward-looking expected credit loss (ECL) approach for financial assets classified as amortised cost and Fair Value through Other Comprehensive Income (FVOCI).

The ECL approach utilises historical information, current conditions and forecasts of future economic conditions to generate the expected credit loss for assets. Multiple economic scenarios are modelled and weighted as part of the ECL calculation using a variety of future economic assumptions, including a central scenario which is based on the assumptions used in the Bank's financial planning process, updated for any changes to the prevailing economic conditions at year end. At initial recognition, financial assets are categorised as stage 1 and an impairment provision is required for ECL resulting from default events expected within the next 12 months (12-month ECL).

The Bank assesses exposures to be in stage 2 when the accounts are more than 30 days past due or there has been a significant increase in credit risk compared to initial recognition. The Bank considers both quantitative and qualitative factors based on early warning indicators and expert credit risk assessment when making the determination. For assets in stage 2, the ECL recognised is equal to the expected loss calculated over the life of the exposure.

Financial assets are included in stage 3 when there is objective evidence that the exposure is credit impaired, with expected credit losses still calculated on a lifetime basis. Exposures may be deemed to be impaired if they are more than 90 days past due or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). Criteria of application is consistent with the definition of default used for internal credit risk management purposes. The impairment provision is determined using the same calculation as stage 2, but with the Probability of Default (PD) set to 100%. However, Profit income is calculated by applying the EPR to the net amortised cost of the financial assets (that is, net of credit allowance).

The Bank does not hold any purchased or originated credit-impaired (POCI) assets, which would be classified separately from stage 1, 2 or 3 assets.

Assets in stage 2 or 3 can be transferred back to stage 1 or 2 once the criteria which resulted in classification in stage 2 or 3 (significant increase in credit risk or impairment) are no longer met. For financing subject to other adverse events such as forbearance, accounts must first be up to date for a period of 90 days before they can be transferred back to stage 1 or 2, with consideration taken of other qualitative and quantitative factors including credit ratings.

A movement of amount between stages 1 to 3 for the year 2023 can be found within Annex 2 as well as a table showing finance assets which are past due.

1.16 Market Risk (including Profit Rate Risk in the Banking Book and FX Risk)

Market Risk is defined by the Bank as the risk of loss arising from reductions in earnings and/or value from unfavourable market movements.

The Bank accepts a degree of market risk in the banking book but does so in a way that manages and controls market risk exposures to optimise return on risk while maintaining a limited and clearly controlled market risk profile consistent with the Bank's relatively small size and complexity.

The Bank does not run a proprietary trading book, and therefore for Pillar 1 purposes is only required to calculate a market risk requirement in respect of its foreign currency positions. The Bank has no appetite to undertake trading activities or to take proprietary positions in financial instruments.

The base currency of the Bank is GBP, and any net positions in other currencies than GBP results in a foreign currency risk own funds requirement.

The Bank's assets are mainly denominated in GBP and funded through GBP deposits. However, a portion of GBP assets is funded through USD deposits. These USD deposits are converted to GBP using sharia-compliant forward rate FX swaps to address the currency mismatch. These swaps are prefunded, and the Bank may need to provide additional collateral if its position is negatively affected.

As of 31st December 2023, as the Bank's overall net FX position was less than 2% of its total own funds, the Bank has not reported any capital requirement for Pillar 1 and the Bank expects to remain under this de minimis threshold in the future.

Market risk for the Bank is primarily associated with Profit Rate Risk in the Banking Book ('PRRBB'). PRRBB is the risk (today or in the future) to the Bank's capital and earnings resulting from adverse movements in profits rates, due to changes in rate indices (i.e. Bank of England Base Rate) which are used as a benchmark only by the Bank.

All profit rates and re-pricings are reviewed at ALCO or its sub-committees. ALCO is principally responsible for monitoring market risk, and it also reviews sensitivity of the Bank's assets and liabilities to standard and non-standard changes in achievable effective rates.

The net profit income sensitivities are indicative and based on scenarios and shocks prescribed in Rule 9.4A of the PRA Rulebook: CRR Firms: Interest Rate Risk[5] Arising from Non Trading Activities Instrument 2020. They are also in accordance with Article 448(1) of the European Capital Requirements Regulation (CRR).

Calculations are performed under the following scenarios (where an immediate shock of +/- 200 basis points ('bps') to the current market implied path of profit rates across one year are applied):

- Parallel up;
- Parallel down;

The EVE sensitivities are based on the six Basel Standard Outlier shocks (which apply an immediate shock off +/- 250 bps to the current market implied path of profit rates across one year):

- Parallel up;
- Parallel down;
- Steepener (short rates down and long rates up);
- Flattener (short rates up and long rates down);
- Short rates up; and
- Short rates down.

1.17 Operational Risk

Operational risk is defined by the Bank as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

The Bank aligns with industry standards and regulatory expectations for the management and oversight of Operational Risk with additional governance and controls in relation to Sharia-compliance.

The Bank's Operational Risk Management Policy requires operational risks to be identified, mitigated, monitored and reported upon with the objective to effectively manage the Bank's operational risks and mitigate against operational losses.

The Bank has defined risk appetite metrics against each of its primary risk types within Operational Risk. These metrics are monitored and reported to ORC and LRCC, ERC and BRC as appropriate.

The Bank has applied the Basic Indicator Approach ('BIA') in accordance with Title III Chapter 2 of the CRR in order to calculate its Pillar 1 operational risk capital requirement.

According to the CRR, under BIA, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator.

The relevant indicator is calculated following the prescription in Article 316 of the CRR. It is the sum of the elements listed below considered with their positive or negative signs:

3. Profit/rent receivable and similar income
4. Profit/rent payable and similar charges
5. Income from shares and other variable/fixed-yield securities
6. Commissions/fees receivable
7. Commissions/fees payable
8. Net profit or net loss on financial operations
9. Other operating income

The Bank employs a range of risk management tools and techniques to ensure the effective identification and mitigation through the RCSA process. The Bank also undertakes a range of scenario analysis, and compares this to historical or realised operational losses, in order to consider the level of operational risk capital required in addition to the Pillar 1 requirement.

[5] The term "Interest Rate Risk" is a legal terminology refers to Profit Rate Risk, which accurately reflects the operational nature of Al Rayan Bank.

Table 18 and 19 below show movements in RWAs for operational risk during 2023 and 2022:

Table 18: Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2023

	£m
RWAs at 1st January 2023	85.9
Increase in revenue generation	19.5
RWAs at 31st December 2023	105.4
Operational risk Pillar 1 capital requirement at 31st December 2023	8.4

Table 19: Operational risk RWAs flow statement and minimum Pillar 1 capital requirement 2022

	£m
RWAs at 1st January 2022	78.8
Increase in revenue generation	7.1
RWAs at 31st December 2022	85.9
Operational risk Pillar 1 capital requirement at 31st December 2022	6.9

1.18 Liquidity & Funding Risk

Liquidity & Funding risk is defined by the Bank as the loss arising from an inability to meet liquidity obligations as they become due, from an unstable funding profile or from a lack of availability of funds. The Bank's business model and balance sheet requires long-term assets to be funded by contractually shorter-term liabilities, creating a risk of not meeting liabilities as they fall due, should significant liability outflows occur.

The Board has established the Bank's Treasury Policy, and associated limits, with the intention of achieving the following objectives:

- To operate within the Bank's Liquidity and Funding Risk appetite.
- To meet obligations as they fall due.
- To manage and control the impact of maturity mismatches.

The Bank's risk appetite for liquidity and funding risk is to ensure that we maintain prudent levels of liquidity which are more than sufficient to meet the Bank's obligations as they fall due, including forecast requirements and manage the overall funding mix to ensure stability on an ongoing basis.

Assessment

The Bank's ILAAP sets out how it manages liquidity risk and the appropriate amount of liquidity the Bank should hold. The ILAAP is an integral part of the liquidity risk management framework and is updated at least annually, and more frequently if there are significant changes to business profile, business plan or operating environment.

As part of the ILAAP, the Bank maintains a High Quality Liquid Asset ('HQLA') buffer consisting of the Level 1 assets (Central government and Multilateral development Assets) and Level 2A assets (Public sector assets). In the event of a liquidity crisis these assets could be liquidated via outright sale, and management recognise that a haircut may be experienced on liquidation of the assets, particularly the Level 2A assets.

The Bank's HQLA portfolio, which is analysed (post haircut) at 31 December 2023 and at 31 December 2022 as follows:

Table 20: HQLA portfolio

	31 December 2023 (£m)	31 December 2022 (£m)
Central Bank Reserve Account	94.1	70.7
Central governments	96.4	79.0
Regional governments and central banks	0.7	-
Multinational development banks	52.5	29.4
Corporates	0.0	0.0
Cash	1.0	1.2
Total	**244.7**	**180.3**

Liquidity Ratios

The CRR provides for two liquidity safeguards: the Liquidity Coverage Ratio ("LCR") which aims to improve the resilience of banks to liquidity risks over a 30-day period. The Net Stable Funding Ratio ("NSFR") which aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one-year period of extended stress.

Liquidity Coverage Ratio

The Bank's approach to calculating its LCR in accordance with the provisions of the PRA Rulebook: CRR Firms: Liquidity (CRR), and PRA Rulebook: CRR Firms: Liquidity Coverage Ratio (CRR) (the "LCR Rules", and together the "Liquidity Rules") is explored in this section.

The LCR Rules contains the following calculation for LCR:

Liquidity Coverage Ratio (%) =	**Liquidity Buffer**
	Net Liquidity Outflows over a 30-day calendar day stress period

The objective of the LCR is to ensure the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock (liquidity buffer) of unencumbered HQLAs that can be converted easily and immediately into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The LCR ratio of 100% or more means that the Bank will have sufficient liquid assets to meets its obligations as and when they fall due, even in case of a severe stress for a period of at least 30 calendar days.

The Bank's LCR as at 31st December 2023 was 786% (31st December 2022: 458%) which is in excess of the minimum standard of 100% mandated by the PRA. A breakdown showing the average of the calculation for both 2023 and 2022 can be found in Annex 1 template KM1.

Net Stable Funding Ratio

The Bank has used the NSFR to analyse the stability of its funding profile. The NSFR requires the Bank to hold enough stable funding to cover the duration of long-term assets. The NSFR was introduced through the Basel III framework, and in July 2021, the PRA published PRA Rulebook (CRR) Instrument 2021, which formally introduced the NSFR as a requirement from 1 January 2022.

Available Stable Funding ('ASF') is measured based on the broad characteristics of the relative stability of the Bank's funding sources, including contractual maturities of all liabilities and the differences in the propensity of different types of funding providers to withdraw their funding. Generally, higher weighting is given to liabilities that have residual maturity of over 1 year (i.e. the longer dated liabilities are given a favourable treatment, compared to shorter term liabilities).

Net Stale Funding Ratio (NSFR) =	**Available Stable Funding**	**> 100%**
	Required Stable Funding	

The Bank's NSFR as of 31st December 2023 is calculated to be 160% which is in excess of the regulatory requirement of 100%. A breakdown showing the average of the calculation for both 2023 and 2022 can be found in Annex 1 template KM1.

Asset Encumbrance

As of 31st December 2023, the Bank had not undertaken any securitisation activities. Furthermore, the finance assets and securities are unencumbered, with the intention for this to remain the status quo going forward. However, in the past the Bank has been able to successfully securitise a portion of its finance assets in order to raise funds.

The Bank successfully executed two sharia compliant repo transactions as part of its funding initiatives as of 31st December 2023.

1.19 Sharia non-compliance risk

Sharia non-compliance risk is the risk associated with the failure to adhere to Sharia principles in conducting banking activities and operations. The Bank's primary objective is to provide banking products and services that are compliant with Sharia to its customers. Consequently, the Sharia-compliant nature of each transaction, product, and service offered is pivotal to the Bank's success.

The Bank's risk appetite for Sharia non-compliance risk is such that we must operate in a manner which conforms with Sharia principles and rules.

Oversight of Sharia compliance for transactions, products, and services is achieved through a robust Sharia governance framework. This framework includes the independent Sharia Supervisory Committee (SSC), which is tasked with ensuring the Bank's operations are in alignment with Islamic law. The SSC, comprising experts in the interpretation of Islamic law and its application in modern Islamic financial institutions, meets regularly to review contracts and agreements related to the Bank's transactions, certifying each product offered by the Bank from a Sharia perspective. In addition, the Bank's Sharia Compliance Department works on a daily basis with all departments within the Bank to ensure compliance with Sharia principles in their operations. The department also conducts regular Sharia Compliance audit reviews.

1.20 Group Risk

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

Though the Bank has a majority shareholder (Masraf Al Rayan), the Bank operates as a stand-alone entity in the UK and does not operate shared functions or systems . Moreover, the Bank is not reliant at all on funding from the Parent companies as there are no formal Group arrangements in place; if this funding were to be unavailable, the Bank would be able to raise funding from the market, either through retail deposits or through the capital market.

1.21 Financial Risks from Climate Change

The Bank's Environmental, Social and Governance (ESG) Policy acts as the overarching document detailing roles and responsibilities, and the Bank's approach to managing the risks associated with ESG, including financial risks from climate change. This Policy sets out the principles and standards that Al Rayan Bank will adopt in response to the potential material financial impacts it faces from exposure to climate related financial risk and ensures that it aligns itself with industry and governmental expectations to achieve a net zero economy by 2050. Furthermore, it forms the basis for managing and monitoring climate change risk and establishes the framework required to ensure that climate change risk management and sustainability is embedded in the Bank's longer-term strategy

In order to review the current potential environmental risks posed to the Bank's real estate finance portfolio, the Bank engaged with an external specialist in 2022/23 to provide a preliminary climate change assessment. Overall, the Bank's review found that the impact of climate change was deemed to be negligible.

1.22 Conduct Risk

Conduct Risk at Al Rayan is defined as the risk of loss resulting from poor Customer Outcomes.

Achieving good outcomes for our customers is at the heart of Al Rayan's vision, mission, strategic plans and values. The Bank's core values are Trusted, Empowered, Able and Motivated which support the achievement of the Bank's vision. They also promote and support the proactive identification and management of Conduct Risk, which is critical to ensuring the successful delivery of the Bank's proposed business plan, fair outcomes and protection of customers.

The Consumer Duty requirements came into force for open products and services on 31 July 2023. Under these rules, the Bank must act to deliver good outcomes for retail customers. The Consumer Duty is focussed around four key outcomes that reflect the entire customer journey, and include:

- Products and services
- Price and value
- Understanding
- Support

The Bank conducted a project to implement Consumer Duty, which completed in July 2023 and was confirmed by the Board. The Bank continues to work towards the July 2024 deadline which includes closed products and MI to evidence on-going compliance.

Al Rayan has a conduct risk framework that fully encompass the requirements of the FCA Consumer Duty regulation. The Bank has a structured and disciplined approach to the management of Conduct Risk and it has been designed to ensure:

- The Bank has processes in place to identify, measure, manage and report on Conduct Risk ensuring that customers are treated fairly throughout the customer journey and defined Customer Outcomes are achieved.
- Appropriate governance and oversight arrangements are in place across the business in relation to Conduct Risk.
- Roles and responsibilities are clear, there is appropriate challenge, and the customer is at the heart of governance and decision-making processes.
- Conduct Risk Appetite has been defined to ensure the Bank only carries out business where Conduct Risk has been evaluated and the residual risk exposure is within the Conduct Risk Appetite.
- All employees are educated to ensure they aim to always deliver good Customer Outcomes.
- Conduct Risk is considered as part of the Bank's Business Change/transformation framework and process.
- The Bank's 3rd parties and vendors apply the principles of Conduct Risk and seek to achieve ARB defined Customer Outcomes.
- Compliance with applicable laws and regulations.

1.23 Financial Crime Risk

Financial Crime Risk is defined at the Bank as the loss resulting from engaging with or facilitating criminal conduct in breach of financial crime laws, rules and regulations.

The Bank has no appetite for systematic weaknesses in its financial crime systems and controls or any breach of the financial crime laws and regulations applying to its business and activities. The Bank does not undertake business with individuals or entities that it suspects are subject to sanctions or are engaged in and/or exposed to activities relating to financial crime.

The Bank has invested significantly in the management of financial crime risk since 2018 and the controls in managing this risk are now materially stronger. However, financial crime is a material non-financial risk across the industry. This has been exacerbated in recent times (e.g., market-wide increases in fraud), so remains a prominent risk within the Bank's Pillar 2A operational risk assessment.

Capital Requirements and Resources

In line with regulatory guidance, Pillar 1 capital requirements are derived from the Bank's assessment of the Capital Requirement for Credit Risk, Operational Risk and Market Risk ('Pillar 1 Capital Requirement').

The Bank adopts the standardised approach to credit risk and the basic indicator approach to operational risk to calculate the minimum Pillar 1 capital requirement. As the Bank's overall net foreign-exchange position was less than 2% of its total own funds, the Bank has not reported any capital requirement for Pillar 1.

In addition to the risks covered under Pillar 1 (credit, market and operational risks), all other material risks to which the Bank is exposed were assessed as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP). Financial and capital forecasts were prepared covering a three-year period incorporating all current and planned strategic initiatives, products and services, enabling the Board to assess the level of capital required to support both current and future activities.

The ICAAP is undertaken at least annually and more frequently should the Bank's strategic plans, forecasts or risk profile change. The results of the ICAAP indicate the minimum capital required to be maintained by the Bank to support current and future activities. The results are documented and approved by the Board and are assessed by the PRA as part of its supervisory review of the Bank.

The ICAAP is integrated in normal business activities. The impact on capital requirements of new, and changes to existing, business processes, products and services are assessed. Strategic decisions are made following an assessment of their impact on capital, ensuring adequate capital is maintained at all times and that it is efficiently utilised.

The ICAAP is considered by the PRA as part of its Supervisory Review and Evaluation Process (SREP) and is used in part to determine the Total Capital Requirement (TCR) for the Bank. The Board approved ICAAP will highlight risks faced by the business for which additional capital above Pillar 1 (8.00% of total risk weighted assets) is required. The additional capital will be part of the Bank's Pillar 2A requirement which forms part of the organisation's overall TCR requirement. Further information for years 2023 and 2022 can be found within Annex 1, template KM1.

Capital adequacy is monitored as per risk appetite by ALCO and reported to ERC, BRC and the Board.

1.24 Pillar 1 Capital

The Bank's overall capital requirement under Pillar 1 is calculated by adding together the capital requirements for credit risk, market risk, and operational risk. However, as per Article 351 of the CRR, the net foreign exchange holding of the Bank is below the de minimis and thus the Bank does not hold Pillar 1 capital for market risk.

The following table shows the Bank's capital requirement and capital surplus under Pillar 1 as at 31st December.

Table 21: Pillar 1 requirement and total capital resource

	2023 (£m)	2022 (£m)
Total Capital Resource	205.5	178.4
Total Pillar 1 Capital Requirement	84.7	81.8
Surplus over Pillar 1 requirements	120.8	96.6

1.25 Total Capital Resources

The following table shows the composition of the Bank's regulatory capital position as at 31st December 2023 and at 31st December 2022.

Table 22: Overview of RWA & Pillar I (calculated using standardised approach)

	31 December 2023 RWA (£m)	Pillar 1 Capital Requirement (£m)	31 December 2022 RWA (£m)	Pillar 1 Capital Requirement (£m)
Credit risk	953.7	76.3	936.4	74.9
Operational risk	105.4	8.4	85.9	6.9
Total requirement	**1,059.1**	**84.7**	**1,022.3**	**81.8**
Capital resources		205.5		178.4
Capital resources surplus over Pillar 1 requirement		120.8		96.6

As at 31st December 2023, total capital resources have increased by £27.1 million to £205.5 million (2022: £178.4 million) over 2023 as a result of the inclusion of the Bank's 2023 audited total comprehensive income for the year in retained earnings offset by the increase in deferred tax assets and mark-to-market of sukuk.

The table below shows movements in regulatory capital during 2023.

Table 23: Movement in regulatory capital during 2023

	£m
Total Capital at 01st January 2023	178.4
Increase in retained earnings	22.7
Increase in intangible asset deduction	(0.1)
Decrease in deferred tax deduction	3.5
Decrease in mark-to-market	5.1
Increase in additional value adjustment	(0.1)
Amortisation of Tier 2 balance	(4.0)
Total Capital at 31st December 2023	**205.5**

Reconciliation of statutory equity to regulatory capital resources

Table 24: Reconciliation of statutory equity to total regulatory capital resources

	31-Dec-23 (£m)	31-Dec-22 (£m)
Equity per statement of financial position	195.0	167.2
Regulatory adjustments		
Add: tier 2 issuance	18.7	22.7
Less: deferred tax assets	(4.8)	(8.3)
Less: intangible assets	(3.2)	(3.1)
Less: additional value adjustment	(0.2)	(0.1)
Total capital resources	**205.5**	**178.4**

Regulatory capital requirement buffers CRD IV buffers

The Bank is subject to a number of CET1 capital buffers over and above the required minimum CET1, Tier 1 and total capital ratios. These capital buffers were implemented under CRD IV. The buffers applicable to the Bank include the capital conservation buffer (CCB) of 2.5% and the counter-cyclical buffer (CCyB). The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer which creates a cushion for banks to absorb potential losses in the event of a stress.

As at 31st December 2023, the institution specific CCyB rate for the Bank is 1.33% (2022: 0.65%). The buffer requirement is based on the relevant risk weight assets multiplied by the specific buffer rate. This incorporates the FPC announced increase in the UK countercyclical capital buffer from 1% to 2% which became effective from July 2023.

Further information for years 2023 and 2022 can be found within Annex 1, template KM1.

PRA buffer

The stress testing conducted in the Bank's ICAAP forms the basis for the PRA buffer assessment. Following their review, the PRA sets a PRA buffer, which in combination with the CRD IV combined buffer is held to ensure the Bank can withstand an adverse economic downturn.

This is set by the PRA and is not disclosed.

Further information for years 2023 and 2022 can be found within Annex 1, template KM1.

1.26 Leverage ratio

The leverage ratio measures the relationship between the capital resources of the Bank and its total assets. The leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items.

At present, the Bank has no minimum leverage requirement as it is currently not within the scope of the UK Leverage Framework Regime as its deposit levels are less than £50 billion. However, the Bank maintains the ratio well above the minimum leverage ratio requirement.

The Bank's Leverage ratio as at 31st December 2023 is 7.8% (2022: 6.8%). Further information for years 2023 and 2022 can be found within Annex 1, template KM1.

Remuneration Code Disclosures

The financial services regulator issued its Policy Statement SS2/17 (February 2023) and UK CRR Article 450, which set out their requirements in this regard. The Remuneration Code (Code) is set out in SYSC 19A of the FCA Handbook.

Approach to remuneration and policy

Al Rayan Bank PLC qualifies as a Tier 3 firm under the Code. It is required to disclose certain qualitative items and quantitative remuneration items.

This statement sets out the disclosures required under the Code as they apply to the Bank. The Remuneration and Nomination Committee (Remco) is responsible for the governance and implementation of the Code and the annual review of adherence to it. The Remco is comprised of three non-Executive Directors. The Company Secretary or their nominee is secretary of the committee but carries no vote in decision making. The majority of non-Executive Directors are regarded as being independent of Al Rayan Bank and possess the necessary skills to exercise the appropriate judgement. The Remco has recently reviewed and approved the Bank's remuneration policies.

Board recruitment

Appointment of Executive Directors

A new Executive Director would be recruited on terms in accordance with the approved Remuneration Policy at that time. The Bank's Remuneration Policy balances the need to have appropriate remuneration levels with the ability to attract high-performing individuals to the Bank. With this in mind, the starting point for the Remco in setting a remuneration package for a new Executive Director will be to structure a package in accordance with the firm's Remuneration Policy, based on the individual's knowledge and experience.

Remco recognises that, when recruiting externally in particular, it may be necessary to compensate an individual to ensure that they are remunerated effectively. The areas where Remco may exercise its discretion in order to achieve this are set out in the Remuneration Policy. This may arise in particular in relation to bonus and incentive plans given that variable performance-related pay is widely used in the financial services industry to incentivise senior management.

Appointment of Non-Executive Directors

A new Non-Executive Director would be recruited on terms in accordance with the approved Remuneration Policy at that time. The Board has delegated specific powers and authority to Remco to lead the appointments process for nominations to fill Board vacancies. It is also responsible for keeping the size, structure and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary.

Remco also formulates succession plans for the Chairman, Non-Executive Directors, and the senior Executives. Before an appointment is made by the Board, Remco evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, Remco will:

- use open advertising or the services of external advisers to facilitate the search;
- consider candidates from a wide range of backgrounds; and
- consider candidates on merit and against objective criteria, including reference to the FCA and PRA's "fit and proper" test, and the competence and capability criteria set out as part of their approach to approving individuals. Care is also taken to ensure appointees have enough time available to devote to the position on an ongoing basis.

Responsibility for determining the individual remuneration and benefits package of each of the Bank's Executive Directors and the Chairman lies with the Remco.

The remuneration of Non-Executive Directors is set by the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

Diversity & Inclusion

The Bank is committed to diversity and ensuring that all of Al Rayan Bank's colleagues are offered equal opportunities throughout their career. Further, the Bank ensures that employees are not discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board. The Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. However, the Board does not have a measurable target for gender representation on the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

	£m (where applicable)		a MB[6] Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff	8	6	-	13
2		Total fixed remuneration	£0.4	£1.6	£-	£1.5
3		Of which: cash-based	£0.4	£1.6	£-	£1.5
9	Variable remuneration	Number of identified staff	8	6	-	13
10		Total variable remuneration	£-	£1.5	£-	£0.3
11		Of which: cash-based	£-	£1.5	£-	£0.3
12		Of which: deferred	£-	£0.4	£-	£-
17	**Total remuneration (2 + 10)**		**£0.4**	**£3.1**	**£-**	**£1.8**

The Code requires that banks identify senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile and designate them as "Identified Staff".

In total, 24 Identified Staff have been recognised as being employed during the year. Additional restrictions apply to the remuneration of Identified Staff. All Directors (Executive and Non-Executive) and Senior Managers have been identified as Identified staff. Our highest paid director had either variable or total remuneration in excess of £500,000.

The Bank has in place a discretionary bonus scheme and the payment of awards is linked to achievement of the Bank's overall business objectives, as well as affordability based on the end of year financial results. Bonus awards under the schemes qualify as "variable remuneration" as defined in the Code. The Bank's performance year runs from 1 January to 31 December. This bonus scheme is in place to reward staff for performance during the current performance year. The purpose of the scheme is to recognise and reward staff for their individual contribution towards the Bank achieving its business objectives.

A retention scheme was also put in place in 2022 for selected colleagues and is due to be paid in 2025 if certain criteria is met. The scheme was put in place as a retention tool for key colleagues.

At the beginning of each performance year, objectives are agreed for each individual based on the Bank's corporate objectives and linked to their specific job role. Achievement of these objectives is reviewed periodically throughout the performance year as part of the Bank's performance management process and at the end of the year an assessment is made of each individual's overall performance against the agreed objectives. All individual ratings are calibrated as part of the annual performance management cycle. Whether any awards will be payable at the end of the performance year will depend on whether the Bank has met its overall business objectives, including mandatory risk management objectives and the end of year financial results.

For all SMF roles 25% of any awarded bonus will be deferred over a set 3-year period. A third of the deferred bonus would be paid to the Executive SMF's each year over the 3-year period. As a Level 3 firm the Bank can disapply the bonus deferral provision however the Bank believes it is best practice to implement bonus deferral which can be subject to claw back. Guaranteed bonuses are not offered as part of Al Rayan Bank's current performance award arrangements, except where agreed during a hiring process.

[6] MB is an abbreviation for Management Body in line with definitions found within article 3 (1) Capital Requirements Directive 2013.

Annex I

Key Metrics Template – KM1

		a	e
		31/12/2023 (£m)	31/12/2022 (£m)
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	183.9	152.7
2	Tier 1 capital	186.9	155.7
3	Total capital	205.5	178.4
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	1,059.1	1,022.3
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	17.36%	14.93%
6	Tier 1 ratio (%)	17.65%	15.23%
7	Total capital ratio (%)	19.41%	17.45%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	1.80%	2.82%
UK 7d	Total SREP own funds requirements (%)	9.80%	10.82%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	1.33%	0.65%
11	Combined buffer requirement (%)	3.83%	3.15%
UK 11a	Overall capital requirements (%)	13.63%	13.97%
12	CET1 available after meeting the total SREP own funds requirements (%)	44%	28%
Leverage ratio			
13	Total exposure measure excluding claims on central banks	2,399.4	2,306.6
14	Leverage ratio excluding claims on central banks (%)	7.8%	6.7%
Additional leverage ratio disclosure requirements			
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	202.1	173.6
UK 16a	Cash outflows - Total weighted value	132.4	159.4
UK 16b	Cash inflows - Total weighted value	266.6	255.1
16	Total net cash outflows (adjusted value)	33.1	39.8
17	Liquidity coverage ratio (%)	641%	442%
Net Stable Funding Ratio			
18	Total available stable funding	2,071.3	1,982.3
19	Total required stable funding	1,321.3	1,280.8
20	NSFR ratio (%)	157%	155%

Overview of risk weighted exposure amounts – OV1

		a	b	c
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31/12/2023	31/12/2022	31/12/2023
		£m	£m	£m
1	Credit risk (excluding CCR)	950.5	936.3	76.0
2	Of which the standardised approach	950.5	936.3	76.0
6	Counterparty credit risk - CCR	3.2	0.1	0.3
7	Of which the standardised approach	3.2	0.1	0.3
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	105.4	85.9	8.4
UK 23a	Of which basic indicator approach	105.4	85.9	8.4
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	**Total**	**1,059.1**	**1,022.3**	**84.7**

Annex II

Impairment and provisions

Please see below a breakdown of past due exposures by asset class and movement in impairment provisions for the year.

Table 25: Past due exposures for the year to 31 December 2023

	Treasury assets (£m)	Investment securities (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	401.6	148.7	861.8	967.0	2,379.1
Past due but not impaired:	-	-	-	-	-
Up to 3 months	-	-	-	10.8	10.8
3 to 6 months	-	-	-	7.3	7.3
6 to 12 months	-	-	25.3	3.8	29.1
Over 12 months	-	-	12.6	4.2	16.8
Total gross exposure	**401.6**	**148.7**	**899.7**	**993.1**	**2,443.1**

Table 26: Past due exposures for the year to 31 December 2022

	Treasury assets (£m)	Investment securities (£m)	Commercial property finance (£m)	Home purchase plans (£m)	Total (£m)
Neither past due nor impaired	353.1	108.8	780.8	1,084.0	2,326.7
Past due but not impaired:	-	-	-	-	-
Up to 3 months	-	-	-	4.8	4.8
3 to 6 months	-	-	0.2	5.2	5.4
6 to 12 months	-	-	-	2.1	2.1
Over 12 months	-	-	8.4	3.6	12.0
Total gross exposure	**353.1**	**108.8**	**789.4**	**1,099.7**	**2,351.0**

Table 27: The movement in impairment provisions for the year ended 31 December 2023

ECL Stage	Stage 1 (£m)	Stage 2 (£m)	Stage 3 (£m)	Stage 4 (£m)
Balance at 1st January 2023	2.5	0.1	1.0	3.6
Charge for the year	(2.2)	0.1	3.6	1.4
Amounts written off during the year	-	-	-	-
Balance at 31st December 2023	**0.3**	**0.2**	**4.6**	**5.1**

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