QIB (UK) plc

Annual Report
For the year ended 31 December 2017

Registered number 4656003

Contents

Strategic Report

This was a good year. The exceptional challenges of 2016 were put behind us and the business moved forward in robust fashion.

The green shoots of renewed activity in the real estate market, evident during Q4 2016, continued into 2017 and we were able to increase the financing portfolio by 37% year on year. On the back of this growth our Income from Financing rose by 16% which highlighted the continued focus on de-risking the portfolio by concentrating on lower yielding, and generally lower risk weighted, assets. This will be an ongoing theme for the Bank as we target sustainable long term growth and seek to maximise our capital efficiency.

To facilitate the growth in the business £6m additional Tier II capital was made available by our shareholder during 2017. In a further adjustment to our capital position we repaid £6.25m of Tier II capital and issued £6.25m Tier I equity in order to comply with the Capital Requirements Directive IV (CRD IV) regulations which came into force in January 2018.

The Bank remains committed to the existing business model with its emphasis on Private Banking services and Structured Real Estate finance;

We continued to promote our services to the client base of Qatar Islamic Bank in Doha and during 2017 this has resulted in a 39% increase in our core Private Banking clients.

We decided to build upon the growing utilisation of our cash management services and have set up a project to develop an Omni Channel banking service during 2018. This will improve the customer experience and represents the next phase of our retail product roll out.

We continued to adjust our financing portfolio to reflect a more conservative risk appetite with the emphasis on residential and commercial investment rather than mezzanine and development financing. During 2017 our Private Banking and Treasury teams successfully continued to diversify the depositor base, reducing concentration risk. To further progress this objective we have initiated a project to enter the medium term savings market in the UK which should make a major contribution during 2018. Once again we were able to reduce our cost of funding during the year assisted by increased efficiency in our liquidity management.

The results were materially impacted by adjustments to the asset portfolio: there was an increase in the value of the Bank's premises at 43 Grosvenor Street in line with the revaluation, as required under IFRS. It was not all good news however as, with little positive impact on the oil price during 2017, it was considered necessary to fully provide for the only uncovered Non-Performing Financing in our current portfolio.

The Bank continues to strengthen the governance framework and introduce further control structures to ensure that credit, operational and conduct risk is well managed. Additional information on the Bank's approach to risk management is set out in Note 27 to the Financial Statements.

In co-operation with our parent, Qatar Islamic Bank, we were pleased to support our Qatari clients and visitors attending the Qatar - UK Business & Investment Forum held in March 2017. The events in London and Birmingham were well attended, by business leaders and politicians of both countries, and served to reinforce the strong bonds between the United Kingdom and Qatar.

Principal risks that the Bank will face in 2018 include; the continuing blockade of Qatar by its GCC neighbours, the impact of Brexit and indications that the UK economy is slowing, which may well affect the real estate market. The principal challenges are accessing sufficient diversified and reasonably priced liquidity and the implementation of the latest regulations, notably GDPR, IFRS 9 and PSD 2.

In summary, 2017 has seen the Bank make significant progress, in particular when set against a challenging political and economic backdrop for the Qatar market. Net operating revenues have increased by 15% year on year and this has been supplemented with rigorous cost control.

The financing portfolio is performing well, supported by a successful Asset Quality Review carried out by the Prudential Regulatory Authority in October 2017, and all Non-Performing Financing are now fully provided for.

I am confident that we are well positioned to deliver sustainable long term growth and we will continue to focus on developing our private client real estate lending and improving the return on capital for our shareholder.

By the order of the Board

Duncan Steele-Bodger
Director
16th January 2018

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

Principal activities

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

Financial results

The financial statements for the year ended 31 December 2017 are shown on pages 18 to 52. The profit for the year is £1,760,047 (2016: loss of £3,089,832).

Proposed dividend

The Directors do not propose the payment of a dividend (2016: £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. Guy Priestley	Retired - 6th July 2017
Mr. Duncan Steele-Bodger [3]	
Mr. Gareth Howells	Appointed - 6th July 2017

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

Shariah Supervisory Board

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

Sheikh Walid Ben Hadi (Chairman)
Sheikh Nizam Mohammed Yacoubi
Sheikh Abdussatar Abu Ghuddah

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

Directors' Report (continued)

Going concern

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

Disclosure of information to auditors

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

By order of the Board

Gareth Howells

Secretary

16th January 2018

Statement of Directors' Responsibilities

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

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

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

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

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

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of 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 Report

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

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

For the year ended 31 December 2017

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 2017.

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 2017 are in compliance with the Islamic Shariah rules and principles and fulfil the specific directives, rulings and guidelines issued by us.

We beg Allah the Almighty to grant us all success.

Sheikh Walid Ben Hadi
Chairman of the QIB (UK) SSB

Sheikh Nizam Yaquby

Member of the QIB (UK) SSB

Sheikh Abdussatar Abu Ghuddah

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") for the year ended 31 December 2017 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 2017 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 below. 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Risks of material misstatement	• Improper recognition of Income from financing and investing activities and fees and commission income • Recoverability of financing arrangements • Deferred tax asset • Investment property
Materiality	• Overall materiality of £1.5 million which represents 2% of the Bank's regulatory capital (as per the capital management section of note 27).

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**
Improper recognition of Income Income from financing activities is £15.2 million (2016 £12.5 million). Income from fees and commissions is £1.4 million (2016 £1.2 million). Refer to the accounting policies (note 3) and notes 4 and 6 of the financial statements. The key risks of improper recognition of income arises from: (i) Income recorded from financing activities might not be complete and accurate, and (ii) Fees and commissions can require judgment as to the amount and timing of recognition. There is no change in this risk in 2017.	Our approach focused on: ➢ Assessing the design effectiveness and testing the operating effectiveness of key controls over revenue with the assitance, where required, of EY IT audit professionals; ➢ Checking a sample of calculations of income from financing activities and that the inputs to the calculation accord to the underlying contracts; ➢ Checking a sample of fees and commissions with the underlying contracts, ascertaining the service provided for the fee or commission and determining whether it has been recognised or deferred appropriately; ➢ Performing year-end cut-off testing to ensure revenue is recognised in the correct period; and ➢ Checking to supporting evidence any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments.	As a result of the procedures performed we did not identify any evidence of material misstatement in the recording of income from financing activities or from fees and commissions.

Recoverability of financing arrangements

Financing arrangements amount to £398 million (2016 £291 million) net of credit impairment provisions of £5 million (2016 £2.75 million). A charge of £1.7 million (2016 £1.8 million) was taken to the statement of comrehensive income.

Refer to the strategic report (pages 3 to 4), accounting policies (note 3), and note 27 of the financial statements.

A failure to recognise required credit impairment provisions could have a material impact on the financial statements. Given the subjective nature of the calculation of credit impairment provisions there is hightened risk that the timing and extent of this could be more subject to error or to management bias.

The risk has decreased in 2017 due to full provision being made for the last non-performing financing arrangement in the portfolio.

Our approach focused on:

- Assessing the design effectiveness of key controls for identifying credit events;
- Reviewing the 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 judge to be relevant, in order to assess the appropriateness and adequacy of impairment provisions, focusing on areas where significant estimation is involved; and
- Searching for evidence of impaired financing arrangements that thave not been provided for by reviewing the credit files, arrears statistics, management's watch list and related documentation, the payment history for each financing arrangment, any changes in terms of financing arrangements contracts, financing structures that we considered to be higher risk, and, where appropriate, collateral arrangements and valuations, as well as publicly available information that we judge to be relevant

As a result of the procedures performed we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the credit impairment provisions.

Deferred tax asset

The recognised deferred tax asset is £2.27 million, (2016 £2.7 million) with a charge of £0.4 million being taken to the Statement of Comprehensive income (2016 £0.5 million).

There is also an unrecognised deferred tax asset of £1.75 million, (2016 £1.89 million).

Refer to the accounting policies (note 3) and note 9 of the financial statements.

Under IFRS, A deferred tax asset shall be recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The judgmental nature of profit projections prepared by management to determine the amount of the deferred tax asset to be recognised creates a risk that the recognised deferred tax asset could be materially misstated.

The risk has decreased because the Bank has made a taxable profit in 2017 and is utilising part of its brought forward tax losses.

Our approach focussed on:

- Analysing the evidence supporting key assumptions made by management, sensitivity analysis of those assumptions, and management's history of success at projecting profits, in order to assess the reasonableness of the current profit projections; and
- Utilising EY tax professionals to check the calculations that, based on the profit projections, management used in determining the amount of deferred tax asset to be recognised.

As a result of the procedures that we performed we are satisfied that management's jugements are reasonable and that there is no evidence of material misstatment in the amount of the recognised deferred tax asset.

Investment property The value of the investment property recorded in the financial statements is £10.24 million, (2016 £9.17 million) with a credit of £1.0 million, (2016 charge of £0.3 million) being taken to the statement of comprehensive income. Refer to the strategic report (pages 3 to 4), accounting policies (note 3), and note 18 of the financial statements. The valuation of the investment property requires judgement and estimates by management and external valuers. Inappropriate judgements or estimates could result in a material misstatment. There is no change in this risk in 2017.	Our approach focussed on: With support from the EY property valuation team, we assessed the reputation of the external valuers and confirmed that the external valuers' valuation methodology is consistent with valuation practice given the characteristics of the investment property.	As a result of the procedures that we performed we concluded that the external valuers' report obtained by management supported their assessment of the value of the investment property.

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 the extent of our audit work. This enables us to form an opinion on the financial statements. We take into account size, risk profile, organisation of the Bank, effectiveness of 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.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of any misstatements identified in 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 purposes of our audit of the financial statements to be £1.5 million, which is 2% of the Bank's regulatory capital (as per the capital management section of note 27). We determined our materiality based on regulatory capital because the firm has not been profitable historically. Also, our expectation is that the main users of the financial statements, such as the Prudential Regulatory 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 and past experience with the Bank, together with our assessment of the Bank's overall control environment, our judgement was that an appropriate performance materiality was 75% of our planning materiality, namely £1.1 million.

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

We have agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £75,972, 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 evaluated 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.

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.

In connection with our audit of the financial statements, 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 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 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' reports 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 Bank 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 Bank'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 management either intends to liquidate the Bank or to cease operations, or has 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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and management.

Our approach in respect of irregularities, including fraud, was as follows

- 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 complies with these legal and regulatory 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 identified in the paragraphs above. Our procedures included 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 specialised audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.

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 Bank'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.

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 from 7 November 2013 when our engagement letter was signed.

- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remained independent of the Bank in conducting the audit.

- The audit opinion is consistent with our additional report to the audit committee.

Ernst & Young LLP

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
London
16 January 2018

Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	2017	2016
		£	£
Income			
Income from financing and investing activities	4	**17,391,144**	13,599,099
Returns to banks and customers	5	**(7,241,968)**	(5,712,849)
Net income from financing and investing activities		**10,149,176**	7,886,250
Fees and commissions income	6	**1,378,813**	1,214,184
Fees and commissions expense		**(189,859)**	(1,190,589)
Net fees and commissions income		**1,188,954**	23,595
Net (loss)/gain on financial assets classified as AFS		**(145,408)**	712,361
Gain/(loss) on foreign exchange	27	**33,803**	(9,405)
Rental income		**109,922**	17,950
Total operating income		**11,336,448**	8,630,751
Expenses			
Personnel expenses	7	**(4,568,984)**	(3,977,155)
Depreciation and amortisation	16,17	**(769,185)**	(747,329)
Other expenses		**(2,111,124)**	(3,143,654)
Total operating expenses		**(7,449,293)**	(7,868,138)
Exceptional item	25	**-**	(1,384,950)
Profit / (loss) before provisions for impairment		**3,887,155**	(622,337)
Provisions for impairment	27	**(1,724,839)**	(1,824,275)
Profit / (loss) before taxation		**2,162,316**	(2,446,612)
Taxation	9	**(402,269)**	(643,220)
Profit / (loss) for the year		**1,760,047**	(3,089,832)
Other comprehensive income			
(that will be recycled to Profit & Loss)			
Change in fair value of AFS financial assets net of tax	15	**140,793**	(289,054)
Change in fair value of cash flow hedge net of tax	14	**60,349**	(366,086)
Other comprehensive income		**201,142**	(655,140)
Total comprehensive profit / (loss) for the year		**1,961,189**	(3,744,972)

All activities are derived from continuing operations. The notes on pages 22 to 52 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2017

	Note	2017 £	2016 £
Assets			
Cash and balances with banks	10	**30,751,631**	16,662,446
Due from banks	11	-	90,861,366
Financing arrangements	12	**403,270,277**	293,012,707
Less: impairment on financing arrangements	27	**(4,997,014)**	(2,750,372)
Financial assets held to maturity	13	-	2,422,970
Financial assets available for sale	15	**69,064,158**	77,665,869
Derivative financial instruments	14	-	8,127,029
Property and equipment	16	**15,353,959**	15,826,909
Intangible assets	17	**80,970**	200,542
Investment property	18	**10,240,000**	9,176,071
Other assets	19	**3,729,134**	3,033,107
Deferred tax asset	9	**2,274,425**	2,696,072
Total assets		**529,767,540**	516,934,716
Liabilities			
Due to banks	20	**72,566,143**	49,438,510
Due to customers	21	**366,604,600**	388,377,883
Other liabilities	22	**12,851,817**	11,028,773
Derivative financial instruments	14	**1,694,241**	-
Subordinated Wakala	26	**15,950,000**	16,200,000
Total liabilities		**469,666,801**	465,045,166
Equity			
Share capital	24	**85,807,834**	79,557,834
Fair Value Reserve on AFS financial assets	15	**(457,745)**	(598,538)
Cash flow hedge reserve	14	**(305,737)**	(366,086)
Retained deficit		**(24,943,613)**	(26,703,660)
Total equity		**60,100,739**	51,889,550
Total liabilities and equity		**529,767,540**	516,934,716

The notes on pages 22 to 52 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

Duncan Steele-Bodger
Chief Executive Officer
16th January 2018
QIB (UK) plc
Registered number 4656003

Statement of Changes in Equity
For the year ended 31 December 2017

	Share Capital	Fair Value Reserve on AFS Financial Assets	Cash Flow Hedge	Retained Earnings	Total
	£	£	£	£	£
Balance at 1 January 2016	79,557,834	(309,485)	-	(23,613,828)	55,634,521
Change in fair value of AFS financial assets net of tax	-	(289,053)	-	-	(289,053)
Changes in fair value of cash flow hedge foreign exchange	-	-	(366,086)	-	(366,086)
Profit for the year after tax	-	-	-	(3,089,832)	(3,089,832)
Balance at 31 December 2016	**79,557,834**	**(598,538)**	**(366,086)**	**(26,703,660)**	**51,889,550**
Balance at 1 January 2017	79,557,834	(598,538)	(366,086)	(26,703,660)	51,889,550
Share issuance	6,250,000	-	-	-	6,250,000
Change in fair value of AFS financial assets net of tax	-	140,793	-	-	140,793
Changes in fair value of cash flow hedge foreign exchange	-	-	60,349	-	60,349
Profit for the year after tax	-	-	-	1,760,047	1,760,047
Balance at 31 December 2017	**85,807,834**	**(457,745)**	**(305,737)**	**(24,943,613)**	**60,100,739**

The notes on pages 22 to 52 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2017

	Note	2017 £	2016 £
Cash flows from operating activities			
Profit / (Loss) for the year		**1,760,047**	(3,089,832)
Adjustments for:			
Depreciation	*16*	**637,431**	603,046
Amortisation	*17*	**131,754**	142,719
Fair Value on Building	*18*	**(1,063,929)**	335,768
Taxation	*9*	**402,269**	643,220
Increase/(decrease) in impairments on financing arrangements	*27*	**2,246,642**	2,124,876
(Increase)/decrease in amounts due from banks		**90,861,366**	(21,264,152)
(Increase)/decrease in financing arrangements		**(110,257,569)**	(65,211,042)
(Increase)/decrease in other assets		**(696,030)**	191,339
Increase/(decrease) in amounts due to banks		**23,127,632**	(84,690,446)
Increase/(decrease) in amounts due to customers		**(21,773,283)**	172,360,580
Increase/(decrease) in other liabilities		**1,823,046**	4,815,047
(Increase)/decrease in financial assets held to maturity		**2,422,970**	1,644,551
(Increase)/decrease in financial assets available for sale		**8,822,231**	9,392,574
(Increase)/decrease in derivative financial instruments		**9,821,270**	(7,203,184)
Net cash inflow / (outflow) from operating activities		**8,265,847**	10,795,064
Cash flows from investing activities			
Purchase of property and equipment	*16*	**(164,480)**	(181,163)
Purchase of intangible assets	*17*	**(12,182)**	(48,197)
Net cash outflow from investing activities		**(176,662)**	(229,360)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	*24*	**6,250,000**	-
Proceeds from subordinated Wakala	*26*	**(250,000)**	-
Net cash inflow from financing activities		**6,000,000**	-
Net increase / (decrease) in cash and cash equivalents		**14,089,185**	10,565,704
Cash and cash equivalents at start of year		**16,662,446**	6,096,742
Cash and cash equivalents at end of year	*10*	**30,751,631**	16,662,446

The notes on pages 22 to 52 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 Company's registered office is 43 Grosvenor Street, London W1K 3HL. The Company operates as a Shari'a compliant bank.

2. Basis of preparation

a. Statement of compliance

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

The financial statements were approved by the Board of Directors on the 16th January 2018.

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

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Use of estimates and judgement

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

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

The key sources of estimation uncertainty are:

(i) Provisions for impairment of financial assets

A financial asset is considered to be impaired if there is objective evidence of events since initial recognition of the asset that will adversely affect the amount or timing of future cash flows from the asset. The amount of the impairment loss will be the difference between the carrying value of the financial asset and the present value of the estimated future cash flows. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral or any other means of repayment.

(ii) 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.

e. Going concern

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

3. Significant accounting policies

a. Financial instruments

(i) Murabaha is a contract for the sale of goods at cost plus an agreed profit mark-up. The delivery of the goods from the seller to the purchaser is immediate but payment may be deferred. Such contracts may be used to provide financing. Commodity Murabaha is a specific example of such a 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) Ijara is a contract granting the right to use an asset by one party to another which equates to the leasing of the asset in return for rental payments, and which may include a transfer of ownership title at the end of the rental period. Ijara contracts are typically used for medium to long term financing of equipment, plant and machinery and vessels or aircraft.

(iv) 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.

(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. A wa'ad could be an available for sale asset where it does not meet the definition of a derivative or could be a derivative recognised at fair value.

The above contracts form the basis of financial instruments shown within due from banks, financing arrangements, and due to banks and customers.

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

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

The calculation of the effective yield rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

b. Held to maturity financial investments

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

c. Financial assets available for sale

Financial assets available for sale are initially recognised at fair value. Subsequent to initial measurement, the fair value gain or loss on these assets is reported in other comprehensive income. On sale or impairment of the asset, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to Profit & Loss Account.

d. Derivative financial instruments

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

e. Property financing

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

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

f. Derecognition of financial assets and liabilities

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

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

g. Impairment of financial assets

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted at the assets' original effective yield rate. Losses are recognised in the Statement of Comprehensive Income and reflected against the asset carrying value. When a subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through the Statement of Comprehensive Income.

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

h. Impairment of non-financial assets

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

i. Provisions

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

j. Fees and commissions

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

k. Property and equipment

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

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

The occupied part of the building purchased by QIB (UK) in March 2014 is measured using the revaluation method. Under the revaluation method the value of the building is initially 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 2017, 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

l. Investment property

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

m. Intangible assets

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

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

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

Software	3	Years
Computer licenses	3	Years

n. Taxation

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

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

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

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

o. Employee benefits

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

p. Cash and cash equivalents

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

q. Other receivables

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

r. Lease payments made

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

s. Foreign currency transactions

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

t. Cash flow hedges

Any gains or losses arising from changes in fair value on derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which are recognised in OCI and later reclassified to profit or loss when the hedged item affects profit or loss.

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.

QIB (UK) use FX forwards to hedge the FX exposure and satisfy the criteria for classification as cash flow hedges.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts taken to OCI are transferred to profit or loss when the hedged transaction effects profit or loss, such as when hedged financial income or financial expense is recognised or when the forecast sale or purchase 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 OCI remain separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

u. New and amended standards adopted

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that have had a material impact on the Company.

v. New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9.

IFRS 9 introduces new requirements for classifying and measuring financial assets, new rules for the impairment of financial assets and amendments to the requirements for hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

During 2017, QIB (UK) has assessed the population of financial instruments impacted by the classification and measurement requirements of IFRS 9, and worked alongside QIB Doha to develop an impairment methodology to support the calculation of the Expected Credit Loss allowance. A Group centrally managed Expected Credit Loss tool has been developed during the year to assess significant increase in credit risk and to incorporate both forward looking information and macro-economic factors.

Following the Group's parallel run using data as at 31st December 2017, QIB (UK) estimates that the adoption of IFRS 9 will lead to a reduction in total shareholder's equity of approximately £1.8m before tax. This number is still an estimate and may be subject to change due to further refinements such as market movements and final parameter calibrations.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. There is not any significant change in classification and measurement of financial assets and libilities. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement (Profit and Loss account), unless this creates an accounting mismatch. QIB (UK) have performed an assessment in order to identify how these instruments would be reclassified in accordance with IFRS 9.Under IFRS 9, financial assets available for sale will be classified as financial assets held at fair value through other comprehensive income. Financial assets and liabilities which have been previously measured at amortized cost, will continue to be measured at amortized cost under IFRS 9.

Impairment of Financial Assets

IFRS 9 impairment requirements are applied to financial assets that are measured at amortised costs or FVOCI, and off balance sheet lending commitments. IFRS 9 replaces the IAS 39 incurred loss model with Expected Credit Loss (ECL) methodology. Under this methodology, the impairment loss is recognised from the date of origination depending on the credit quality of the asset. The determination of ECL is a two-step approach.

Step 1: The financial assets are allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition and whether the facility has defaulted. Financial assets which have had not had any significant increase in credit risk since initial recognition are classified as stage 1. Financial assets which have had a significant increase in credit risk but are not impaired are classified as stage 2. Financial assets that are credit impaired are classified as stage 3.

Step 2: ECL is calculated on a 12 month expected loss basis for stage 1 assets, and lifetime expected loss for all assets in stage 2 or stage 3.

This is assessed on an individual transaction basis. The methodology used incorporates risk management indicators, credit ratings changes and days past due to identify whether the risk of a financial asset has significantly increased.

The calculation of expected credit losses comprises three components; probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The Group ECL tool utilises external source data, QIB (UK) transactional data, statistical modelling, macroeconomic data and forecasting methodologies in its calculation.

IFRS 15 Revenue from Contracts with Customers

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

The Bank has assessed the impact of the above and concluded that there will not be any changes required due to the nature of its business.

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

4. Income from financing and investing activities

Income from	2017 £	2016 £
Banks		
Murabaha placements	**1,288,298**	508,761
Wakala placements	**5,243**	32,630
Financing arrangements		
Murabaha financing	**13,687,568**	11,588,966
Wakala financing	**-**	58,897
Musharaka financing	**216,538**	264,492
Mudaraba financing	**-**	34,072
Returns on investments	**1,129,568**	1,447,049
Fair Value adjustment on investment property	**1,063,929**	(335,768)
Total income from financing and investing activities	**17,391,144**	13,599,099

5. Returns to banks and customers

	2017 £	2016 £
Murabaha deposits	**402,610**	633,697
Wakala deposits	**4,520,037**	3,708,441
Notice accounts	**1,913,985**	992,631
Instant access savings accounts	**12,583**	3,260
Subordinated Wakala & Others returns	**392,752**	374,820
Total returns to banks and customers	**7,241,968**	5,712,849

6. Fees and commissions income

	2017 £	2016 £
Property financing fees	**1,111,637**	1,144,435
Other fee income	**267,176**	69,749
Total fees and commissions income	**1,378,813**	1,214,184

7. Personnel expenses

	2017 £	2016 £
Directors' emoluments and fees	**657,963**	512,923
Wages and salaries	**3,001,100**	2,627,720
Social security costs	**451,277**	373,393
Pension contributions	**295,888**	278,992
Other staff costs	**162,756**	184,127
Total personnel expenses	**4,568,984**	3,977,155

The aggregate of the emoluments in 2017 of the highest paid Director was £319,500 (2016: £184,264) and Company pension contributions of £nil (2016: £12,000) were made on his behalf.

The value of services performed by three Doha directors was eatimated by the Board as £75,000 (2016: £75,000). *This amount was not recharged to QIB (UK).*

The number of employees at the end of the year was 36 (2016: 38) and the average number throughout the year was 37 (2016: 35).

8. Profit / (loss) before taxation

Profit / (loss) before taxation is stated after charging:	2017 £	2016 £
Auditor's remuneration		
Fees payable to Company's auditor for the audit of financial statements	**117,000**	113,500
Fees payable to Company's auditor for other services:		
– other services pursuant to legislation	**6,000**	6,000
– other services	**20,750**	12,250
	143,750	131,750

9. Taxation

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

	2017 £	2016 £
Current tax expense / (credit) for period 19.25% (2016: 20%)	**(28,771)**	(34,475)
Deferred tax expense / (credit) relating to:		
Origination and reversal of temporary differences	**394,761**	537,772
Effect of tax rate change	**10,398**	143,052
Prior year adjustment	**25,881**	(3,129)
Total tax expense	**402,269**	643,220

(ii) Reconciliation of the total tax credit

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:

	2017	2016
	£	£
(Loss) / profit before tax	**2,162,316**	(2,446,611)
At standard rate of UK corporation tax of 19.25% (2016: 20%)	**416,246**	(489,322)
Effects of:		
Non-deductible expenses	**106,942**	387,198
Effect of tax rate change	**10,398**	143,051
Deferred tax prior year adjustment	**25,881**	(3,129)
Movement in unrecognised Deferred tax asset	**(157,198)**	605,421
Total tax expense	**402,269**	643,219

(iii) Deferred tax

Deferred tax is calculated on temporary differences using a tax rate of 18.2% (2016: 18.4%). This rate is a hybrid rate based the unwinding of the deferred tax asset recognised taking into account the enacted rate that will reduce to 17% on 1 April 2020. The following are the deferred tax assets calculated by the Company and movements thereon during the current and prior reporting period.

	2017	2016
	£	£
Deferred tax asset as at 1 January	**(2,696,072)**	(3,316,970)
Expensed to the Statement of Comprehensive Income	**394,761**	537,772
Credit to Other Comprehensive Income	**(9,393)**	(56,797)
Effect of rate change	**10,398**	143,052
Prior year adjustment	**25,881**	(3,129)
Deferred tax asset as at 31 December	**(2,274,425)**	(2,696,072)

The deferred tax asset can be analysed as follows:

Decelerating capital allowances	**40,093**	28,560
Other timing differences	**64,840**	(113,878)
Tax losses carried forward	**(2,379,358)**	(2,610,754)
	(2,274,425)	(2,696,072)

The Company utilised tax losses of £1,735,547 in the period. In addition, it has also recognised a portion of previously unrecognised tax losses.

The recognition of a deferred tax asset of £2,274,425 (net) as at 31 December 2017 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 Company has a gross unrecognised deferred tax asset of £10,327,627, net £1,755,697 (2016: £11,147,670, net £1,895,104) 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.

On 1 April 2015, the UK Government introduced legislation in the Finance (No. 2) Act 2015, which restricts the proportion of banks' annual taxable profit that can be offset by certain carried forward tax losses. The restriction applies to relevant tax losses arising prior to this date. Tax losses arising in the first 5 years of the bank commencing a banking activity, as well as tax losses arising in an accounting period prior to the one in which the company began undertaking a banking activity, are not included within the restriction. A further restriction to 25% on the amount of taxable profits that can be relieved by brought forward losses was enacted on 15 September 2016 through Finance Act 2016 and took effect from 1 April 2016. The Company has assessed and included the impact of these regulations on the tax charge and closing deferred tax balances.

10. Cash and balances with banks

	2017	2016
	£	£
Cash	**440,967**	464,892
On demand bank deposits	**30,310,664**	16,197,554
Total cash and balances with banks	**30,751,631**	16,662,446

11. Due from banks

	2017	2016
	£	£
Murabaha placements	**-**	90,861,366
Total due from banks	**-**	90,861,366

12. Financing arrangements

	2017	2016
	£	£
Murabaha financing	**400,687,285**	284,752,637
Musharaka financing	**1,375,000**	7,075,000
Mudaraba financing	**973,548**	973,548
Ijara financing	**172,495**	202,495
Other financing	**61,949**	9,027
Total financing arrangements	**403,270,277**	293,012,707

13. Financial assets held to maturity

	2017	2016
	£	£
Investment in sukuk	**-**	2,442,970
Total financial assets held to maturity	**-**	2,442,970

14. Derivative financial instruments

	2017	2016
	£	£
Gain on fair value of forward foreign exchange contracts	**316,342**	8,302,176
Loss on fair value of forward foreign exchange contracts	**(2,010,583)**	(175,147)
Total derivative financial instruments	**(1,694,241)**	8,127,029

The Company entered into forward foreign exchange contracts to manage its foreign currency exposures. Bank uses foreign currency-denominated borrowings and foreign exchange forward contracts to manage its transaction exposures. The foreign exchange forward contracts are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 12 months. The fair value of £(1,694,241) represents an aggregate net position of £316,342 gains netted against £2,010,583 losses. 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 £305,737 (2016: loss of £366,086).

15. Financial assets available for sale

	2017	2016
	£	£
Value of financial assets available for sale (AFS) as at 1 January	**77,665,869**	87,735,905
Net additions / (disposals) in AFS	**(8,761,883)**	(9,758,660)
Increase / (decrease) in fair value of AFS	**160,172**	(311,376)
Value of financial assets available for sale as at 31 December	**69,064,158**	77,665,869

The balance of the fair value reserve for AFS financial assets as at 31 December 2017 gross and net of tax is £(438,367) and £(457,745) respectively. The movement in the AFS reserve in the year gross and net of tax is £160,172 and £140,793 respectively.

16. Property and equipment

	Building	Computer Equipment	Leasehold Improvements	Fixtures & Fittings/Office Equipment	Total
	£	£	£	£	£
Cost:					
Balance at 1 January 2017	14,269,334	401,626	3,090,056	844,452	18,605,468
Additions	-	31,258	-	133,222	164,480
Balance at 31 December 2017	14,269,334	432,884	3,090,056	977,675	18,769,948
Depreciation:					
Balance at 1 January 2017	(572,438)	(378,278)	(1,291,426)	(536,416)	(2,778,558)
Depreciation charge for the year	(284,528)	(26,747)	(224,170)	(101,986)	(637,431)
Balance at 31 December 2017	(856,966)	(405,025)	(1,515,596)	(638,402)	(3,415,989)
Net book value at 31 December 2017	**13,412,368**	**27,859**	**1,574,460**	**339,273**	**15,353,959**
Cost:					
Balance at 1 January 2016	14,268,702	397,329	3,020,063	738,211	18,424,305
Additions	632	4297	69,993	106,241	181,163
Balance at 31 December 2016	14,269,334	401,626	3,090,056	844,452	18,605,468
Depreciation:					
Balance at 1 January 2016	(285,185)	(357,865)	(1,060,207)	(472,256)	(2,175,513)
Depreciation charge for the year	(287,253)	(20,413)	(231,219)	(64,160)	(603,046)
Balance at 31 December 2016	(572,438)	(378,278)	(1,291,426)	(536,416)	(2,778,559)
Net book value at 31 December 2016	**13,696,896**	**23,348**	**1,798,630**	**308,036**	**15,826,909**

The Company 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 is being marketed but may require further capital investment to present more favourably. The building value disclosed above reflects the floors occupied by the Company. For the value of the remaining floors leased, refer to note 18. Fair value of the building as at 31 December 2017 was £25.6m

17. Intangible assets

	Computer Software £	Computer Licenses £	Total £
Cost:			
Balance at 1 January 2017	1,162,077	464,145	1,626,222
Additions	-	12,182	12,182
Balance at 31 December 2017	1,162,077	476,327	1,638,404
Amortisation:			
Balance at 1 January 2017	(967,299)	(458,381)	(1,425,680)
Amortisation charge for the year	(123,938)	(7,816)	(131,754)
Balance at 31 December 2017	(1,091,237)	(466,197)	(1,557,434)
Net book value at 31 December 2017	**70,840**	**10,130**	**80,970**
Cost:			
Balance at 1 January 2016	1,113,880	464,145	1,578,025
Additions	48,197	-	48,197
Balance at 31 December 2016	1,162,077	464,145	1,626,222
Amortisation:			
Balance at 1 January 2016	(840,585)	(442,376)	(1,282,961)
Amortisation charge for the year	(126,714)	(16,005)	(142,719)
Balance at 31 December 2016	(967,299)	(458,381)	(1,425,680)
Net book value at 31 December 2016	**194,778**	**5,764**	**200,542**

18. Investment property

	£
Balance at 1 January 2017	9,176,071
Fair Value adjustment	1,063,929
Balance at 31 December 2017	10,240,000

An independent valuer was instructed in December 2015 who supported the carrying value of the investment property at £9,511,839.

In 2016 the Investment Property Databank (IPD) Index for London Office Mid-Town & West End was used to measure the fair value. The 2016 adjustment was (3.53%), resulting in a fair value loss adjustment of (£335,768).

CBRE Limited valued the building during October 2017 at £25,600,000, reflecting a value of £10,240,000 for the investment portion. Formal valuations will be conducted in alternate years with an index adjustment for years in between.

This valuation represents level 2 in the fair value hierarchy described in note 28.

19. Other assets

	2017 £	2016 £
Income receivable	**2,723,447**	2,497,780
Fees receivable	**444,205**	-
VAT recoverable	**47,077**	32,074
Prepayments	**216,559**	241,748
Other receivables	**297,846**	261,505
Total other assets	**3,729,134**	3,033,107

20. Due to banks

	2017 £	2016 £
Demand	**102,862**	132,477
Murabaha deposits	**4,928,170**	35,998,841
Wakala deposits	**67,535,111**	13,307,192
Total due to banks	**72,566,143**	49,438,510

21. Due to customers

	2017 £	2016 £
Demand	**34,680,179**	18,573,283
Notice	**113,403,240**	113,925,457
Murabaha Deposits	**-**	414,677
Wakala Deposits	**218,521,181**	255,464,466
Total due to customers	**366,604,600**	388,377,883

22. Other liabilities

	2017 £	2016 £
Returns payable	**8,898,832**	8,350,136
Accruals	**1,069,535**	544,981
Trade payables	**69,727**	97,490
Social security and income tax	**122,549**	118,270
Deferred Income	**2,514,963**	1,756,097
Other payables	**176,211**	161,799
Total other liabilities	**12,851,817**	11,028,773

23. Commitments under operating lease

A new long-term operating lease was signed during the year in relation to an IT rental lease with an annual rental of £23,620. The following shows the total future minimum lease payments under this non-cancellable operating lease:

	2017 £	2016 £
Not later than one year	**23,620**	9,165
Later than one year and not later than five years	**76,765**	16,038
	100,385	25,203

During the year £13,983 (2016: £9,165) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

24. Share capital

During the year 6,250,000 new ordinary shares were issued for £1.00 and fully paid.

	2017 £	2016 £
Authorised		
100,000,000 Ordinary shares of £1.00 each	**100,000,000**	100,000,000
Allotted, called up and fully paid		
Ordinary shares of £1.00 each	**85,807,834**	79,557,834

During the year the Company issued shares totalling £6,250,000 to QIB that were fully paid for. The purpose of the issue was to ensure that sufficient regulatory capital was in place to support asset growth.

25. Exceptional item

There were no exceptional items during the year (2016: £1,384,950). During April 2016 the Prudential Regulation Authority (PRA) imposed a financial penalty of £1,384,950 on QIB, pursuant to section 206 of the Financial Services and Markets Act 2000, on the basis that the Firm contravened Principles 2 and 3 of the Principles for Businesses between 30 June 2011 and 31 December 2012.

26. Related party transactions

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

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

Subordinated Wakala from related party
As at 31 December 2017 there was an outstanding subordinated Wakala balance payable to QIB of £15,950,000 (2016: £16,200,000).

During 2017, the subordinated Wakala balance was increased by £6,000,000. However on 27th December 2017, £6,250,000 of subordinated Wakala was repaid and same amount was issued as share capital.
Total subordinated Wakala returns due to QIB Doha in the year were £392,752 (2016: £374,820) and returns of £110,141 (2016: £101,960) were payable as at the end of the year.

Bank lines
As at 31 December 2017, the Company had £110,950,000 (2016: £161,531,317) of agreed inter-bank borrowing lines and £60,000,000 (2016: £50,000,000) of agreed lending lines with related parties within the QIB Group. These lines are of varying tenor and duration.

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

Due from Banks
As at 31 December, QIB (UK) had placed £nil (2016: £90,861,366) with QIB Doha under a collateralised Murahaba financing arrangement.

Due to banks
QIB Doha held demand deposit accounts with the Bank on an arm's length basis. As at 31 December 2017, total demand deposits due to QIB Doha were £102,862 (2016: £132,477).

QIB also entered into Wakala deposit transactions with the Bank on an arm's length basis. As at 31 December, total deposits from QIB Doha were £44,195,906 (2016: £nil). Total returns due to QIB Doha in the year were £274,561 (2016: £377,779) and returns of £24,949 (2016: £nil) were payable as at the end of the year.

QInvest entered into Wakala deposit transactions with the Bank on an arm's length basis. As at 31 December, total deposits from QInvest were £nil (2016: £nil). Total returns due to QInvest in the year were £32,602 (2016: £2,338 and returns of £nil (2016: £nil) were payable as at the end of the year.

Cash and balances with banks
Demand bank accounts were held with QIB in line with QIB's normal account terms and conditions. As at 31 December 2017, QIB had a balance of £39,161 with QIB Doha (2016: in overdraft by £(29,729)).

Guarantee fees
To support QIB (UK)'s ability to seek external funding, QIB occasionally provide a guarantee to external financiers. In return, QIB charge QIB (UK) guarantee fees. During the year, the guarantee fees charged to the statement of comprehensive income are £167,102 (2016: £1,095,717). The amount outstanding as at 31 December 2017 is £2,509,297 (2016: £2,712,668).

Financing arrangements
As at 31 December 2017, financing arrangements included a balance of £6,000,000 (2016: £6,000,000) and other assets of £33,606 (2016: £32,969) relating to a real estate secured financing transaction made with Mr Abdullah Al-Eida, a Director of QIB, on an arm's length basis. Total returns due to QIB in the year were £201,116 (2016: £212,650).

Key management compensation
Key management of the Company is the Management Committee of the Bank. The Management Committee was reformed in 2016 with an increased number of members. The compensation of key management personnel is as follows:

	2017	2016
	£	£
Emoluments including social security costs	**1,555,196**	1,697,824
Company contributions to pension plans	**92,954**	98,275
	1,648,150	1,796,099

27. Financial risk management

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

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

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

Risk management framework

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

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

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

Elements of the framework are detailed further below:

Governance structure

QIB (UK) Board

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

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

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

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

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

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

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

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

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

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

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

Board Executive Committee ("Board ExCo")
The Board ExCo reviews, rejects, recommends or approves as appropriate new credit exposures within the authority delegated to it. Its principal purpose is to preserve the independence of the members of the Board Audit and Risk Committee from the commercial activities of the Bank.

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

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

Executive Management Committee ("ManCo")
Drawn from the executives of the Company, ManCo is responsible for the operational oversight and management of the Company.

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

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

Sub-Management Committees

The ManCo has three Sub-Management Committees:

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

Their roles and responsibilities are covered below.

Risk Management Committee ("RMC")

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

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

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

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

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

Asset & Liability Committee ("ALCO")

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

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

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

Product and Pricing Committee

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

Capital management

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

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

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

Credit risk

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

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

Management of credit risk

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

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 committee.
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and actioning, as appropriate, any non-performing credits
- monitoring ongoing adherence to country and counterparty limits

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

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

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

Credit risk exposures as at 31 December are shown below.

	2017	2016
	£	£
Balances with Banks	**30,751,631**	16,662,446
Due from Banks	**-**	91,040,290
Other financing	**53,822**	-
Murabaha financing	**399,103,595**	285,037,658
Musharaka financing	**1,383,938**	7,097,068
Financial assets available for sale	**69,064,158**	77,665,869
Financial assets held to maturity	**-**	2,422,970
Total	**500,357,144**	479,926,301
Off Balance sheet:		
Undrawn Commitments	**13,818,622**	14,103,761
Total	**13,818,622**	14,103,761
Total Credit Risk	**514,175,766**	494,030,062

The credit exposures shown above are the maximum credit exposure and gross before 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 credit exposure, showing concentration by geographical location and industry type of counterparties. For geographical sector, allocation of exposures to regions is based on the banks policy definition of country risk based on Credit risk principles.

Geographical sectors:

Geographical sectors

	Europe	Middle East	USA	Other	Total
	£	£	£	£	£
Balances with Banks	15,844,092	44,161	14,863,378	-	30,751,631
Other financing	53,822	-	-	-	53,822
Murabaha financing	398,880,614	222,981	-	-	399,103,595
Musharaka financing	1,383,938	-	-	-	1,383,938
Financial assets available for sale	1,484,451	67,579,707	-	-	69,064,158
31 December 2017	**417,646,917**	**67,846,849**	**14,863,378**	**-**	**500,357,144**
Off Balance sheet:					
Undrawn Commitments	13,818,622	-	-	-	13,818,622
31 December 2017	**13,818,622**	**-**	**-**	**-**	**13,818,622**
Total	**431,465,539**	**67,846,849**	**14,863,378**	**-**	**514,175,766**
Balances with Banks	15,997,003	(29,729)	695,172	-	16,662,446
Due from Banks	-	91,040,290	-	-	91,040,290
Murabaha financing	271,066,086	13,971,572	-	-	285,037,658
Musharaka financing	7,097,068	-	-	-	7,097,068
Financial assets available for sale	5,945,356	71,720,513	-	-	77,665,869
Financial assets held to maturity	-	2,422,970	-	-	2,422,970
31 December 2016	**300,105,513**	**179,125,616**	**695,172**	**-**	**479,926,301**
Off Balance sheet:					
Undrawn Commitments	14,103,761	-	-	-	14,103,761
31 December 2016	**14,103,761**	**-**	**-**	**-**	**14,103,761**
Total	**314,209,274**	**179,125,616**	**695,172**	**-**	**494,030,062**

Industry sectors:

Industry sectors

	Banks	Individuals	Real Estate	Corporates	Other	Total
	£	£	£	£	£	£
Balances with Banks	30,751,631	-	-	-	-	30,751,631
Other financing	-	53,822	-	-	-	53,822
Murabaha financing	-	-	397,442,561	-	1,661,034	399,103,595
Musharaka financing	-	-	1,383,938	-	-	1,383,938
Financial assets available for sale	44,518,630	-	-	5,338,207	19,207,321	69,064,158
31 December 2017	75,270,261	53,822	398,826,499	5,338,207	20,868,355	500,357,144
Off Balance sheet:						
Undrawn Commitments	-	570,500	13,248,122	-	-	13,818,622
31 December 2017	-	570,500	13,248,122	-	-	13,818,622
Total	75,270,261	624,322	412,074,621	5,338,207	20,868,355	514,175,766
Balances with Banks	16,662,446	-	-	-	-	16,662,446
Due from Banks	91,040,290	-	-	-	-	91,040,290
Murabaha financing	-	53,806	283,100,401	-	1,883,451	285,037,658
Musharaka financing	-	-	7,097,068	-	-	7,097,068
Financial assets available for sale	46,415,353	-	-	9,177,659	22,072,857	77,665,869
Financial assets held to maturity	-	-	-	-	2,422,970	2,422,970
31 December 2016	154,118,089	53,806	290,197,469	9,177,659	26,379,278	479,926,301
Off Balance sheet:						
Undrawn Commitments	-	-	14,103,761	-	-	14,103,761
31 December 2016	-	-	14,103,761	-	-	14,103,761
Total	154,118,089	53,806	304,301,231	9,177,659	26,379,278	494,030,062

Credit quality

The credit quality of the Bank's exposures is reviewed and managed by the Bank's Risk Management Department, RMC, Board Exco for Larger exposures and ARC.

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

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

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

During the year, the Bank incurred impairment losses of £1,724,839 (2016: £1,824,275).

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

Total provisions brought forward	(2,750,372)
Additional 2017 provisions	(1,724,839)
Reclassification from other assets	(521,803)
Closing impairment provision as at 31 December 2017	(4,997,014)

An amount relating to income receivables which are fully impaired has been reclassified from other assets to financing arrangements, in order to match its impairment provision which has been presented within impairment of financing arrangements.

Credit Quality

	2017		2016	
	Due from Banks	Financing Arrangements	Due from Banks	Financing Arrangements
	£	£	£	£
Neither past due or impaired	-	405,538,369	91,040,290	294,885,098
Past due but not impaired	-	-	-	-
Gross	-	405,538,369	91,040,290	294,885,098
Impairment	-	(4,997,014)	-	(2,750,372)
Total	-	400,541,355	91,040,290	292,134,726

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

	Investment Grade R1-R4	Standard Monitoring R5-R6	Special Monitoring R7-R10	Total
	£	£	£	£
Balances with Banks	30,751,631	-	-	30,751,631
Other financing	-	-	53,822	53,822
Murabaha financing	348,787,140	50,316,455	-	399,103,595
Musharaka financing	1,383,938	-	-	1,383,938
Financial assets available for sale	67,579,707	1,484,451	-	69,064,158
31 December 2017	**448,502,417**	**51,800,907**	**53,822**	**500,357,145**
Off Balance sheet:				
Undrawn Commitments	3,460,500	10,358,122	-	13,818,622
31 December 2017	**3,460,500**	**10,358,122**	**-**	**13,818,622**
Total	**451,962,917**	**62,159,029**	**53,822**	**514,175,766**
Balances with Banks	16,662,446	-	-	16,662,446
Due from Banks	91,040,290	-	-	91,040,290
Murabaha financing	249,618,926	33,334,926	2,083,806	285,037,658
Financial assets available for sale	76,072,743	1,593,126	-	77,665,869
Financial assets held to maturity	2,422,970	-	-	2,422,970
31 December 2016	**442,914,443**	**34,928,052**	**2,083,806**	**479,926,301**
Off Balance sheet:				
Undrawn Commitments	12,829,486	1,274,275	-	14,103,761
31 December 2016	**12,829,486**	**1,274,275**	**-**	**14,103,761**
Total	**455,743,929**	**36,202,327**	**2,083,806**	**494,030,062**

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

As at 31 December 2017, the Bank had the following impaired assets for which it is undertaking special monitoring:

1) A UK corporate with a total Ijara financing of £172,495 (2016: £202,495). The total impairment provision against this asset as at 31 December is £172,495 (2016: £202,495).

2) A UK corporate with a total Mudaraba financing amount due of £973,548 (2016: £973,548). The total impairment provision against this asset as at 31 December is £973,548 (2016: £973,548).

3) A UK corporate with a total Murabaha financing amount due of £3,842,843 (2016: £3,595,302). The total impairment provision against this asset as at 31 December is £3,842,843 (2016: £1,565,302).

4) A UK individual with a total Qard Hasan financing amount due of £8,127 (2016: £9,027). The total impairment provision against this asset as at 31 December is £8,127 (2016: £9,027).

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

Collateral

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

	2017		2016	
	Exposure	Collateral	Exposure	Collateral
	£	£	£	£
Balances from Banks	30,751,631	30,751,631	16,662,446	16,662,446
Due from Banks	-	-	91,040,290	91,040,290
Other financing	53,822	-	-	-
Murabaha financing	399,103,595	663,955,809	285,037,658	485,971,643
Musharaka financing	1,383,938	2,125,000	7,097,068	12,025,000
Financial assets available for sale	69,064,158	69,064,158	77,665,869	77,665,582
Financial assets held to maturity	-	-	2,422,970	2,422,970
Total Credit Risk	500,357,143	765,896,599	494,030,062	761,039,931

Market risk

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

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

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

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

Exchange rate risk

This is the sensitivity of financial positions to adverse movements in foreign exchange rates. Exchange rate risk does not only arise as a result of direct foreign exchange related dealings, but can also result from foreign currency based transactions such as financing, deposits, Islamic derivative trades or through foreign currency commission payments and receipts. The Bank utilizes a combination of Foreign exchange spot, outright and forward contracts to manage this risk.

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

	USD	EUR	GBP	QAR	Other	Total
	£	£	£	£	£	£
Assets						
Cash and balance with bank	14,918,858	2,009,203	13,812,362	2,383	8,826	30,751,631
Financing arrangements	-	-	400,541,355	-	-	400,541,355
Financial assets available for sale	69,064,158	-	-	-	-	69,064,158
Other Assets	449,365	-	28,961,031	-	-	29,410,395
31 December 2017	84,432,381	2,009,202	443,314,747	2,383	8,826	529,767,540
Liabilities						
Due to Banks	36,166,934	913,707	35,658,487	-	-	72,739,128
Due to other financial institutions	12,772,751	1,953,700	153,422,929	-	-	168,149,379
Due to customers	107,935,050	932,301	95,626,996	-	-	204,494,347
Subordinated Loan	-	-	16,060,140	-	-	16,060,140
Derivative financial instruments	2,009,687	(2,965)	(312,481)	-	-	1,694,241
Other Liabilities	2,544,822	-	3,984,746	-	-	6,529,568
Reserves	(506,866)	-	(256,616)	-	-	(763,482)
31 December 2017	160,922,377	3,796,743	304,184,200	-	-	468,903,320
Net on balance sheet financial position	(76,489,997)	(1,787,542)	139,130,548	2,383	8,826	60,864,220
Forward foreign exchange contracts	74,342,568	1,774,240	-	-	-	76,116,808
Assets						
Cash and balance with bank	-	262	463,333	230	1,067	464,892
Due from Banks	91,698,340	2,297	15,520,340	2,389	14,479	107,237,845
Financing arrangements	-	-	292,134,726	-	-	292,134,726
Financial assets held to maturity	2,422,970	-	-	-	-	2,422,970
Financial assets available for sale	76,620,219	-	1,045,650	-	-	77,665,869
Derivative financial instruments	-	-	8,127,029	-	-	8,127,029
Other assets	462,339	-	28,419,046	-	-	28,881,385
31 December 2016	171,203,868	2,559	345,710,124	2,619	15,546	516,934,716
Liabilities						
Due to Banks	47,430,640	25,366	2,060,263	-	-	49,516,269
Due to other financial institutions	15,256,463	0	206,365,239	-	-	221,621,702
Due to customers	116,016,172	852	55,987,968	-	-	172,004,992
Subordinated Loan	-	-	16,200,000	-	-	16,200,000
Other Liabilities	2,590,114	-	3,112,089	-	-	5,702,203
Reserves	(726,378)	-	(238,246)	-	-	(964,624)
31 December 2016	180,567,011	26,218	283,487,313	-	-	464,080,542
Net on balance sheet financial position	(9,363,143)	(23,660)	62,222,811	2,619	15,546	52,854,174
Forward foreign exchange contracts	9,425,090	-	-	-	-	9,425,090

The Bank has a policy of matching foreign currency assets and liabilities wherever reasonably possible, and as at 31 December 2017, held a £33,803 net gain from FX hedges (2016: £9,405 loss). 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.

Liquidity risk

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

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
	£	£	£	£	£	£
Assets						
Cash and balance with bank	30,751,631	-	-	-	-	30,751,631
Financing arrangements	11,655,386	5,216,441	22,942,985	283,031,702	77,694,841	400,541,355
Financial assets available for sale	69,064,158	-	-	-	-	69,064,158
Other Assets	3,735,467	-	-	25,674,929	-	29,410,396
31 December 2017	115,206,643	5,216,441	22,942,985	308,706,631	77,694,841	529,767,540
Liabilities						
Due to Banks	29,776,314	37,267,812	5,695,002	-	-	72,739,128
Due to other financial institutions	3,201,660	6,732,605	158,215,114	-	-	168,149,379
Due to customers	77,517,893	9,522,931	112,736,315	4,214,145	503,064	204,494,347
Subordinated Loan	-	-	-	-	16,060,140	16,060,140
Derivative financial instruments	470,190	151,156	1,072,895	-	-	1,694,241
Other Liabilities	-	-	6,529,569	-	-	6,529,569
Reserves	(763,482)	-	-	-	-	(763,482)
31 December 2017	110,202,574	53,674,504	284,248,895	4,214,145	16,563,204	468,903,320
Difference	5,004,068	(48,458,062)	(261,305,910)	304,492,486	61,131,637	60,864,220
Assets						
Cash and balance with bank	464,892					464,892
Due from Banks	34,374,493	32,343,972	40,519,379	-	-	107,237,845
Financing arrangements	-	9,374,992	17,762,933	191,125,906	73,870,895	292,134,726
Financial assets held to maturity	-	-	2,422,970	-	-	2,422,970
Financial assets available for sale	77,665,869	-	-	-	-	77,665,869
Derivative financial instruments			8,127,029			8,127,029
Other Assets	204,420		28,676,965			28,881,385
31 December 2016	112,709,674	41,718,964	97,509,276	191,125,906	73,870,895	516,934,716
Liabilities						
Due to Banks	10,211,939	3,235,809	36,068,521	-	-	49,516,269
Due to other financial institutions	9,045,212	2,651,736	209,924,754	-	-	221,621,702
Due to customers	50,158,076	84,137,953	37,708,963	-	-	172,004,992
Subordinated Loan	-	-	-	-	16,200,000	16,200,000
Other Liabilities	-	-	5,702,203	-	-	5,702,203
Reserves	(964,624)	-	-	-		(964,624)
31 December 2016	68,450,603	90,025,498	289,404,442	-	16,200,000	464,080,542
Difference	44,259,071	(48,306,534)	(191,895,166)	191,125,906	57,670,895	52,854,174

Liabilities arising from financing activities

	Balances as at 1 January 2017	Cashflows	Balances as at 31 December 2017
	£	£	£
Due to Banks	49,516,269	23,222,848	72,739,118
Due to other financial institutions	221,621,702	(53,472,323)	168,149,379
Due to customers	172,004,992	32,489,355	204,494,347
Subordinated Loan	16,200,000	(139,860)	16,060,140
Total liabilities arising from financing activities	**459,342,964**	**2,100,020**	**461,442,984**

Profit rate risk (non-trading book)

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

- A material proportion of the real estate portfolio is provided to High Net Worth Individuals who have significant wider income and asset streams to absorb profit rate increases.

- Cases are assessed on a case by case basis using prudent profit rate assumptions, with buy to let / Residential Investment typically having a blocked deposit account (holding 6 months profit costs as a contingency) providing additional comfort.

From a liability perspective, following the withdrawal of a large fixed rate deposit during 2016, the remaining deposits are structured on a floating rate basis.

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

	2017	2016
Parallel rate shock risk		
• ±2% rate shock	**£1,845,335**	£2,522,937
• Impact on Regulatory capital	**(2.5%)**	(3.9%)

Operational risk

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

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

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

The **First Line of Defence** is the business unit, which manages the relationship with the customer. Its primary responsibility is to understand customer requirements to mitigate the risk of default or early withdrawal of deposits and to maintain and improve the processes through which QIB (UK) serves the customers to mitigate operational failures leading to loss or damage to reputation.
The **Second Line of Defence** is the risk control functions of Risk Management (including the CRO), Financial Control, Compliance and Operations. These are responsible for establishing a robust risk management and control framework, conducting independent assessments and oversight and challenge to the first line of defense teams and activities.

The **Third Line of Defence** contains the assurance functions, namely Internal Audit. They are responsible for checking and reporting compliance with Regulatory requirements and internal policies

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

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

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

The Bank conducts Fire Drills so that staff are aware of the procedures to be followed in cases of emergency and has an off-site Business Continuity Planning & Disaster recovery facility based in Basildon, which is periodically tested by Bank staff to ensure that they can perform their functional duties away from the Bank headquarters should it be required at any given point in time.

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. Sharia approval is a necessary condition prior to the settlement of any transaction.

28. Fair value of financial assets and liabilities

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

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy. Bank follows 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 Company considers relevant and observable market prices in its valuations where possible.

The fair value for investments in Sukuk and funds under 'financial assets available for sale' are based on quoted prices as defined in level 1 under IFRS 7. The fair value of investments in structured notes is based on observable market prices as defined in level 2 under IFRS 7. 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 2017	£	£	£	£
Derivative financial instruments	-	(1,694,241)	-	(1,694,241)
Financial assets available for sale				-
- Debt instruments	67,579,707	1,484,451		69,064,158
Total Assets	**67,579,707**	**(209,789)**	-	**67,369,917**

	Level 1	Level 2	Level 3	Total
31 December 2016	£	£	£	£
Derivative financial instruments	-	8,127,029	-	8,127,029
Financial assets available for sale				
- Debt instruments	76,072,743	1,593,126		77,665,869
Total Assets	**76,072,743**	**9,720,155**	-	**85,792,898**

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 2017.

30. Immediate and ultimate controlling party

Qatar Islamic Bank (QIB) is the immediate and ultimate controlling party by virtue of the fact that it holds 100% of the issued share capital and voting rights in the Company. The financial statements of the immediate and controlling party can be obtain from the QIB'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 Company falls within the scope of these regulations and accordingly the disclosures for the year ended 31 December 2017 are set out below.

	UK	*Total*
a) Entity name	QIB (UK) plc	
b) Nature of activities	Shari'a compliant bank	
c) Operating income (£)	£11,336,448	£11,336,448
d) Average number of employees	37	37
e) Profit before tax (£)	2,162,316	2,162,316
f) Corporation tax paid (£)	-	-
g) Public subsidies received (£)	-	-

Appendix: QIB (UK) Pillar 3 Declaration

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

1. Introduction

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

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

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

This declaration follows BIPRU rules for capital disclosures as of 31 December 2017, the effective date of the declaration. The BIPRU rules form part of the FCA Handbook and PRA Handbook which implements Basel III in this respect.

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

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

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

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

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

2. Scope

As of 31 December 2017 the Bank had no active subsidiaries or joint ventures. All banking activities are reflected in the Bank's balance sheet.

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

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

This Pillar 3 report is based on the Bank's Annual Report and Accounts for the year ended 31 December 2017, and is consistent with its accounting policies.

Frequency

The Board of Directors (the "Board"), after due consideration of the size and complexity of the Bank, do not feel it is necessary to produce Pillar 3 disclosures any more frequently than annually unless there is a material change in the business plan or permissions from the Regulator. The disclosures will therefore be made annually on QIB UK's website (https://www.qib-uk.com) as soon as practicable after the approval of the annual report and accounts of the Bank.

Verification

The Pillar 3 disclosure has been prepared in accordance BIPRU 11 and reviewed and approved by Board of Directors on 16 January 2018.

3. Risk Management

3.1 Risk Management Objectives

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

3.2 Risk Management Framework

This includes

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

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

To support the risk management framework, the Bank operates a "three lines of defence" model:

- The first line of defence lies with customer-facing departments, who manage risk by maintaining and observing appropriate systems and controls.

- The second line of defence is comprised of governance and oversight. Governance and oversight include the monitoring committees, Compliance and the Risk function.

- The third line of defence is independent assurance checking and challenge, provided by Internal Audit, monitoring committees and the Risk function.

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

3.3 Principal Risks

The Bank faces the following principal risks:

i. Strategic Risk: risks which affect the Bank's ability to achieve its corporate and strategic objectives

ii. Credit Risk: loss from a borrower or counterparty failing to meet their financial obligations to the Bank

iii. Capital Risk: that the Bank has insufficient capital to cover regulatory requirements and/or growth plans

iv. Liquidity Risk: that the Bank is unable to meet its financial obligations as they fall due, or can do so only at excessive cost

v. Profit Rate Risk (similar to Interest Rate Risk for a conventional bank): financial loss through un-hedged or mismatched asset and liability positions sensitive to changes in profit rates

vi. Market Risk: the financial effect of adverse changes in market prices on the value of assets and liabilities

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

ii. Conduct Risk: the risk of detriment to the Bank`s customers due to inappropriate execution of its business activities and processes

iii. Sharia Risk: the risk of products and services offered that are not in compliance with the rules and principles of Shari'a.

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

3.4 Risk Appetite

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

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

<u>Strategic Risk</u>
Performance against the Business Plan and Budget is tracked monthly by Line of Business, and reported to the QIB UK Board.

<u>Credit Risk</u>
As a small, specialist institution the Bank sets credit risk limits at portfolio level for higher risk products, individual counterparty limits and Country Risk limits. These appetites and limits are factored into the budget process.

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

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

<u>Market & Profit Rate Risk</u>
The Bank aims to minimise both these risks, maintaining a hedged book so far as possible. The Bank does not take proprietary trading positions, although some liquid assets which form part of the liquid asset buffer (LAB) carry an amount of mark to market risk which is regularly monitored.

<u>Operational Risk</u>
As a Bank we have a Medium Low appetite to take Operational Risk. Operational Risk takes many forms, so effective control is central to the Bank's Risk Management approach. It maintains robust operational systems and controls and seeks to operate prudently at all times. It holds additional Pillar 2 Capital for certain identified operational risks.

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

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

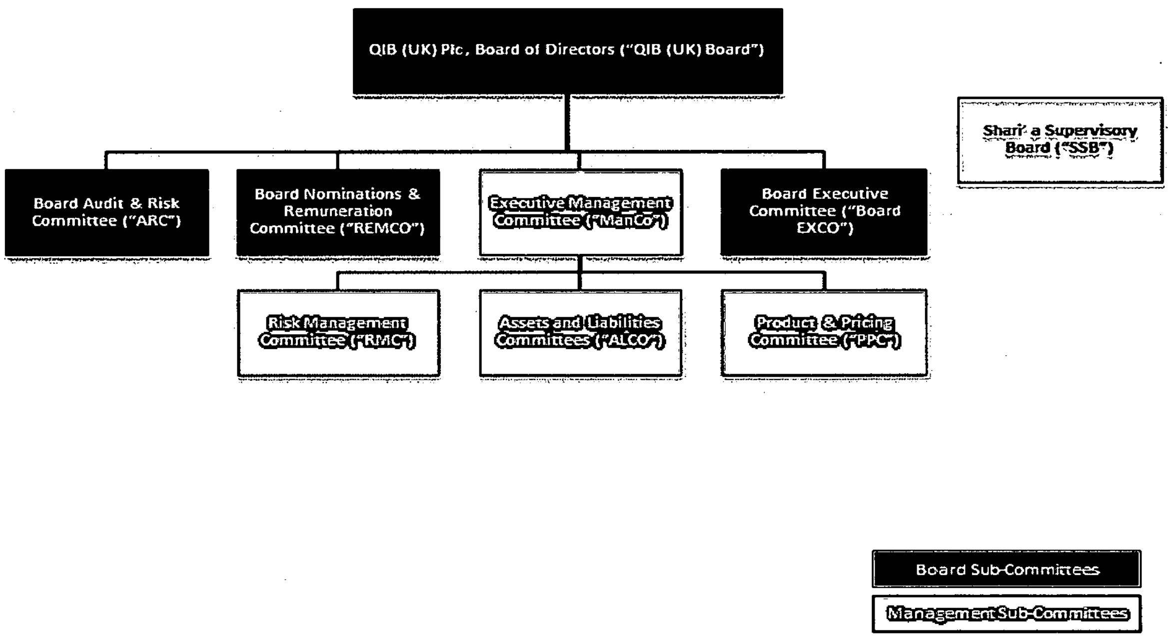
3.5 Risk Oversight, Monitoring and Reporting

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

3.6 Risk Governance Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors.

This governance around this principal responsibility is discharged through the Banks Committee governance structure, which is outlined below:



QIB (UK) Board ('the Board')

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

Board Executive Committee

The Board Executive Committee ("ExCo") is charged with overseeing more material or complex credit risk proposals that exceed the authority delegated to the Risk Management Committee (RMC).

Audit & Risk Committee

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

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

Board Remuneration Committee

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

Management Committee ("ManCo")

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

Risk Management Committee ("RMC")

This Committee is responsible for reviewing and approving credit proposals up to its delegated authority, escalating them if necessary to ExCo.

It also monitors portfolio performance and reviews policy issues such as provisioning and lending policies, then recommending these to the Board or Audit & Risk Committee. The committee meetings take place at least on a monthly basis or when necessary.

Asset & Liability Committee ("ALCO")

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

Product and Pricing Committee

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

4. Capital Resources

As at 31 December 2017, the Bank's capital base was made up of £58 million of Tier 1 capital and £15.9 million of Tier 2 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA's regulatory document GENPRU 2.2.83 R and audited reserves. Tier 2 capital consists of subordinated Wakala notes from the Bank's parent, Qatar Islamic Bank S.A.Q.

The Bank has elected to use the standardised approach for credit risk.

Under Basel III, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements. The Bank must also set aside additional 'Pillar 2' capital to provide for additional risks as directed by the PRA in its Individual Capital Guidance (ICG). The Bank's capital base was in excess of the minimum required under the ICG and wider Regulatory requirements.

4.1 Regulatory Available Capital composition

	£m	**£m**
	2017	2016
Share capital	86	80
Fair value reserve on AFS financial assets	(1)	(1)
Retained deficit	(25)	(26)
Intangible assets	0	0
Deferred tax asset	(2)	(3)
Total CET1	**58**	**49**
Additional Tier 1		
Capital instruments eligible as AT1 Capital	0	0
Total Tier 1 Capital	58	49
Tier 2		
Sub-ordinated Wakala	16	16
Total Tier 2 Capital	16	16
Total Regulatory Capital resources	**74**	**65**

4.2 Regulatory Capital Required

Risk weighted Assets- Pillar 1		
Credit Risk	316	249
Market Risk	1	1
Operational Risk	18	14
Total	**335**	**264**

Capital ratios

	2017		**2016**	
	Capital	**QIB UK%**	**Capital**	**QIB UK%**
CET1 Capital (Regulatory requirement – 4.5%)	£15m	17%	£12m	19%
Total capital requirement including PRA Buffer (Regulatory requirement - 21.21%)	£71m	22%	£60m	25%

4.3 Capital Instruments – features and terms

Tier 1 – Equity Share Capital

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

Issues	1	2	3	4	5	6	7	8	Total
ISIN	not listed	not listed	not listed	not listed	not listed	not listed	not listed	not listed	not listed
Governing law	English	English	English	English	English	English	English	English	English
CRR Rules	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)	Tier 1 Article 26(3)
Instrument type	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital	Share Capital
Regulatory capital value (£m)	25	19	12.5	4.8	13.3	3.7	1.2	6.25	86
Nominal value (£m)	25	19	12.5	4.8	13.3	3.7	1.2	6.25	86
Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity
Date of issue	28/1/2008	9/9/2013	21/8/2014	30/03/2015	31/03/2015	04/06/2015	5/11/2015	27/12/2017	-
Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
Maturity date	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Callable	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Convertible	No	No	No	No	No	No	No	No	No
Coupon rate or any related index	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Tier 2 – Subordinated Wakala (Capital)

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

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

4.4 Capital Risk and Capital Adequacy

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

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

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

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

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

5. Principal Risks:

5.1 Credit Risk

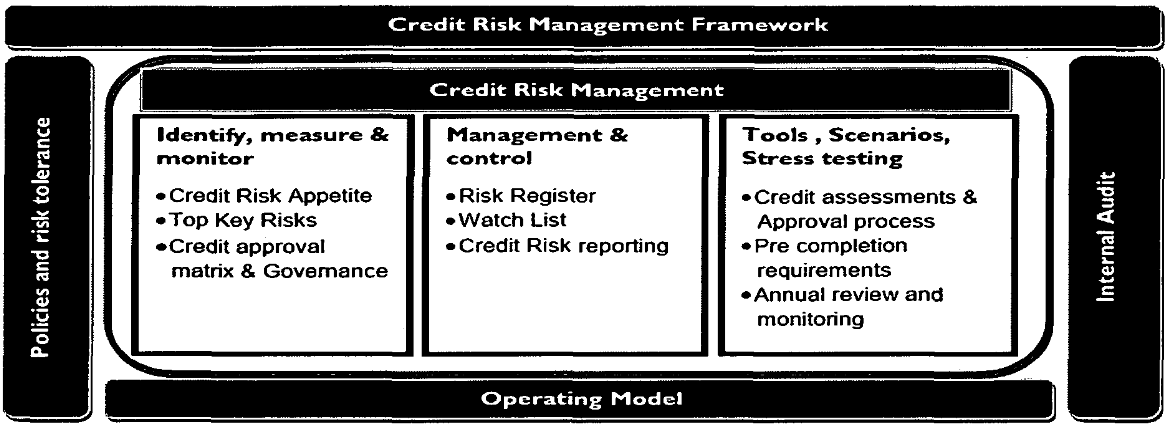
Credit risk is the risk of financial loss arising from a Bank borrower or counterparty failing to meet their financial obligations to the Bank. It arises from the Bank's lending activities and is the most significant risk incurred by the Bank.

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

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

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

The following sets out the Banks Credit Risk Framework:



Credit Risk: Real Estate

The Bank specialises in real estate lending.

The Bank seeks to mitigate credit risk by focusing on finance for prime London investment property, Regulated and Unregulated owner occupier for HNWI Private Banking clients and wider Structured Real Estate facilities for experienced UK based property corporates. The Banks Private Banking activities tend to be focused around HNWI clients from the Middle East, with a specific focus on Qatar noting its parent's strong presence in the jurisdiction.

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

Each proposal is reviewed, subject to an internal Credit Rating assessment by the relationship team, before being reviewed by an independent credit analyst and submitted with a recommendation through Credit Committee Governance.

Credit Risk – Treasury

Credit risk arises from treasury assets where the Bank has acquired securities such as sukuk, or placed cash deposits with other financial institutions. The credit risk of these assets is low, as the Bank limits its investments to high-quality counterparties/issuers. The counterparties tend to be externally rated by either S&P, Fitch or Moody's, subject to regular assessment with action taken where required.

No assets are held for speculative purposes; nor are any actively traded for profit. Certain liquid assets are held as part of the Bank's liquidity buffer.

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

As part of its liquidity buffer the Bank holds a portfolio of high-quality Sukuk. These are highly liquid, highly-rated and accepted by the regulator as a component of the Bank's statutory core liquidity. The amount held in these securities at 31 December 2017 was £63.73 million. These instruments have a 0% risk-weighting.

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 committee
- reviewing and recommending exceptions to delegated limits, where appropriate
- reviewing, monitoring and actioning, as appropriate, any non-performing credits
- monitoring ongoing adherence to country and counterparty limits

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

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

If required under Credit Governance submissions will be escalated to Board EXCO or the QIB (UK) Board.

For **Credit Risk Exposures**, including details of **Geographical** and **Sector Concentration** please refer to the notes section of the Financial Accounts.

Credit quality

The credit quality of the Bank's exposures is reviewed and managed by the Bank's Risk Management Department, RMC, Board Exco for Larger exposures and ARC.

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

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

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

During the year, the Bank incurred impairment losses of £1,724,839 (2016: £1,824,275).

For movement in **Impairment Provisions** and portfolio **Credit Quality** please refer to the notes section of the Financial Accounts.

Collateral

Risk Management assesses exposure against collateral held. This is done as part of the initial credit assessment and then periodically as part of the annual credit reviews. The collateral Murabaha and Musharaka financing exposures are fully detailed in the notes section of the Financial Accounts.

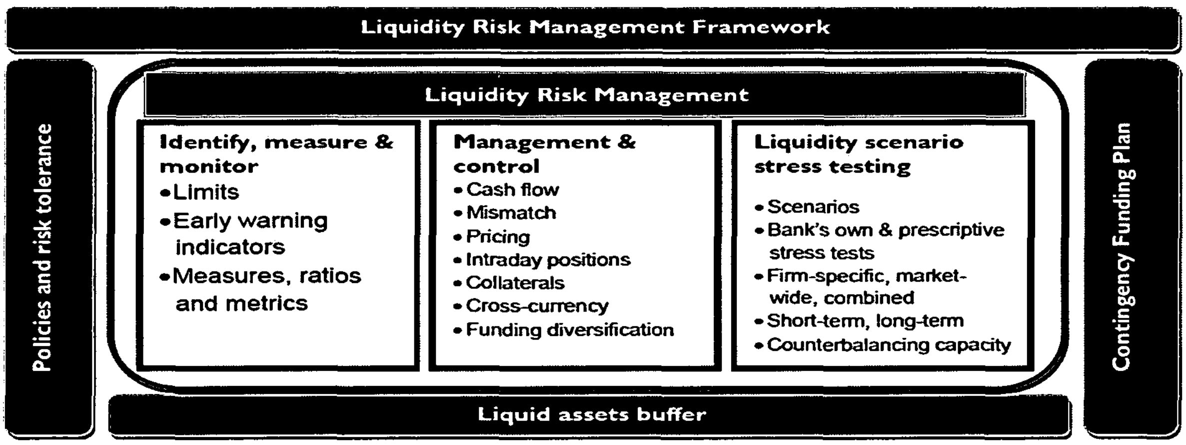
5.2 Liquidity Risk

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

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

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

The following sets out the Bank Liquidity Risk Framework.



Liquidity Risk Drivers

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

Deposit Funding Risk
The risk would arise if depositors elected to withdraw their funds more rapidly than the Bank could liquidate assets. The Bank maintains very conservative liquidity reserves against this possibility; and a proportion of deposits are protected by the government Financial Services Compensation Scheme ("FSCS"). As from 30th January 2017, the insured amount provided by the FSCS will be £85,000 for each depositor.

Wholesale Funding
The Bank benefits from substantial stable funding lines from its parent and wider wholesale entities. These are tracked closely and maturity profiles spread in order to mitigate risk.

Retail Funding
The Bank continues to make good progress in diversifying its funding, with Middle Eastern HNWI providing good levels of deposits.

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

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

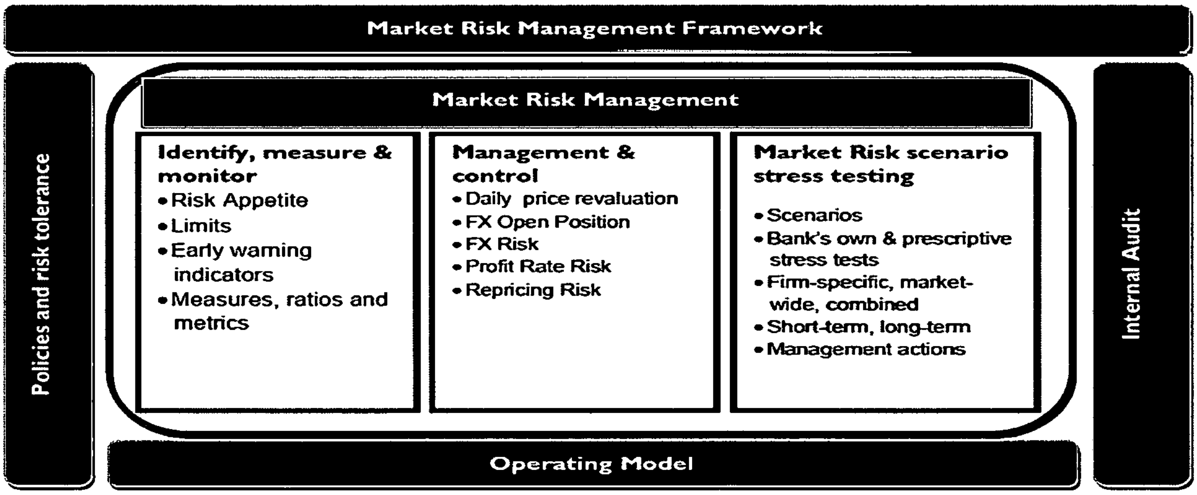
Details of the Bank's net liquid assets are summarised in notes section of the Financial Accounts.

5.3 Market Risk

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

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

The following sets out the Banks Market Risk Framework.



With regard to the Investment portfolio (fixed rate, non-trading book SUKUK), whilst these are valued daily on a mark to market basis, please refer to the notes section of the Financial Accounts for an impact assessment of a 2% shift rate shock based on an effective duration methodology.

5.4 Operational Risk

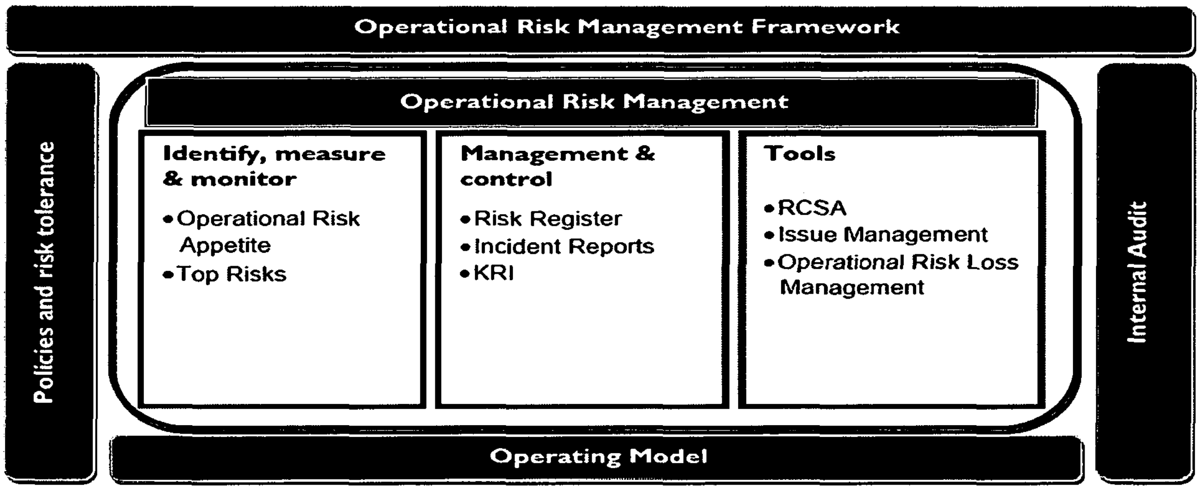
Operational risk is the risk of financial loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk management includes the impact of IT, data security, project, outsourcing, tax, legal, internal and third party fraud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

The operational risk charge for QIB (UK) under Pillar 1 is calculated using the basic indicator approach, whereby a 15% multiplier is applied to the 3 year historical average of net income. The amount calculated under this approach was £4 million for 2017.

Risk Register & Key Risks
The Bank risk register is maintained by the CRO and owned by the Audit & Risk Committee. Key operational risks from the risk register are defined in accordance with Basel III and considered as part of the ICAAP.

Business Continuity Plans ("BCP") and Disaster Recovery ("DR") Plans
The Bank uses an external continuity and disaster recovery site based in Basildon as back up locations for both IT servers and staff. BCP and DR plans are in place and are regularly updated. The plans are tested to ensure that they are robust and fit for purpose.

The following sets out the Banks Operational Risk Framework.



5.5 Conduct risk

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

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

5.6 Pension Obligation Risk

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

5.7 Residual Risk

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

As at the 2017 year-end the Bank does not have any residual value risk exposure.

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

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

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

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

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

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

6. Remuneration

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

This requires QIB (UK) to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities. Firms must maintain a record of Material Risk Takers (staff whose activities may have a material impact on the firm's risk profile) and take reasonable steps to ensure they understand the implications of the remuneration code. The disclosure requirements of Pillar 3 are defined by the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11 as at December 31 2017.

6.1 Overview of approach to remuneration

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

- It is fair and equitable, reflecting QIB (UK)'s commitment to diversity and equality of opportunity.

- It makes good commercial sense for our business, being affordable and proportionate, and sustainable over the long term.
- It represents an attractive reward proposition for our people and potential recruits, and is benchmarked against appropriate external markets.

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

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

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

The Bank's remuneration policy (reviewed annually and any changes approved by Remuneration Committee) focuses on ensuring sound and effective risk management through:

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

6.2 Governance and decision making

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

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

6.3 Material Risk Takers and Control Functions

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

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

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

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

All employees, including senior management and Executive Directors, receive a fixed remuneration package.

6.4 Aggregate remuneration data

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

Total remuneration paid to members of the Management Committee for the year ending 31 December 2017 is £1.6 million (2016 - £1.8 million).