



QIB (UK) plc

**Pillar 3 Disclosures for the year ended
31 December 2010**



European Finance House Limited

Change of name on the 30 July 2010 to



QIB (UK) plc

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1 Overview

BIPRU 11 Pillar 3 disclosure for QIB (UK) plc; formerly known as European Finance House Limited (“the Bank or QIB”).

1.1 Background

The European Union Capital Requirements Directive came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10. Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority (“the FSA”). Among them are disclosure requirements applicable to banks and building societies, which are known as Pillar 3.

These regulatory requirements are designed to promote market discipline by providing market participants with key information on a Bank’s risk exposures and risk management processes. Pillar 3 also aims to complement the minimum capital requirements described under Pillar 1 of Basel II, as well as the supervisory review processes of Pillar 2.

The Bank has adopted the Pillar 1 standardised approaches for credit risk and Market risk capital requirements and the basic indicator approach for Operational risk. The Bank became subject to Pillars 2 and 3 from 1 January 2008.

QIB offers a balanced range of Shari’a compliant investment products and services to our clients. The Bank has 4 main business streams:

- Treasury
- Corporate and Trade Finance
- Real Estate Finance and Management
- Asset Management

Drawing on the expertise of our parent company, Qatar Islamic Bank, we have a range of Islamic investment tools suitable for high-net worth individuals, institutions and companies, whether they have a Muslim background or not.

In some cases, our Shari’a compliant products may offer benefits over conventional banking.

The following services are offered by QIB:

- Islamic financing for corporate and institutional customers, including money and capital market structures
- Corporate finance and advisory services
- Finance for real estate investment and development
- Project finance
- Trade finance
- Development and placement of liquidity, fixed income, real estate and equity funds
- Development and issuance of structured notes
- Fund management

1.2 Basis and Frequency of Disclosures

This Pillar 3 disclosure document for QIB has been prepared by the Bank's management in accordance with the requirements of BIPRU 11 of the FSA's rule book. Unless otherwise stated, all figures are as at 31 December 2010 our financial year-end. Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Annual Report and Accounts.

1.3 Scope

QIB is a subsidiary of Qatar Islamic Bank. QIB was approved by the FSA as a deposit taking institution on the 29th January 2008. As a FSA regulated institution the Basel II Framework therefore applies to the Bank and the requirement to calculate and maintain regulatory capital ratios on an "unconsolidated" basis.

1.4 Location and Verification

This disclosure document has been reviewed by the Bank's Audit & Risk Committee. This disclosure is available on the QIB website (www.qib-uk.com). This disclosure document is not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's Annual Report and Accounts.

2 Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

The Bank recognises that risk management is important and seeks to continuously comply with industry standards and regulatory and statutory requirements. The Bank has various committees in place, to identify, understand and manage the risks associated with its business.

The primary objectives of the Bank's risk strategy are to:

- ensure a risk management culture in its day-to-day activities
- ensure that limits are approved in accordance with the policies of the Bank and that these are consistently implemented and adhered to, and
- give the Board assurance that the risks to which it is exposed are identified, measured, controlled, monitored and reported

The Bank shall only transact business in products approved by the Shari'a Supervisory Committee. Therefore no transactions that are considered under Shari'a law to be speculative in nature, illegal, immoral or contrary to community interests will be permitted.

2.2 Risk Management Framework

The Board of Directors is ultimately responsible for all risks within the Bank. The Bank has a strong risk awareness and culture throughout, which is entrenched into all day-to-day activities.

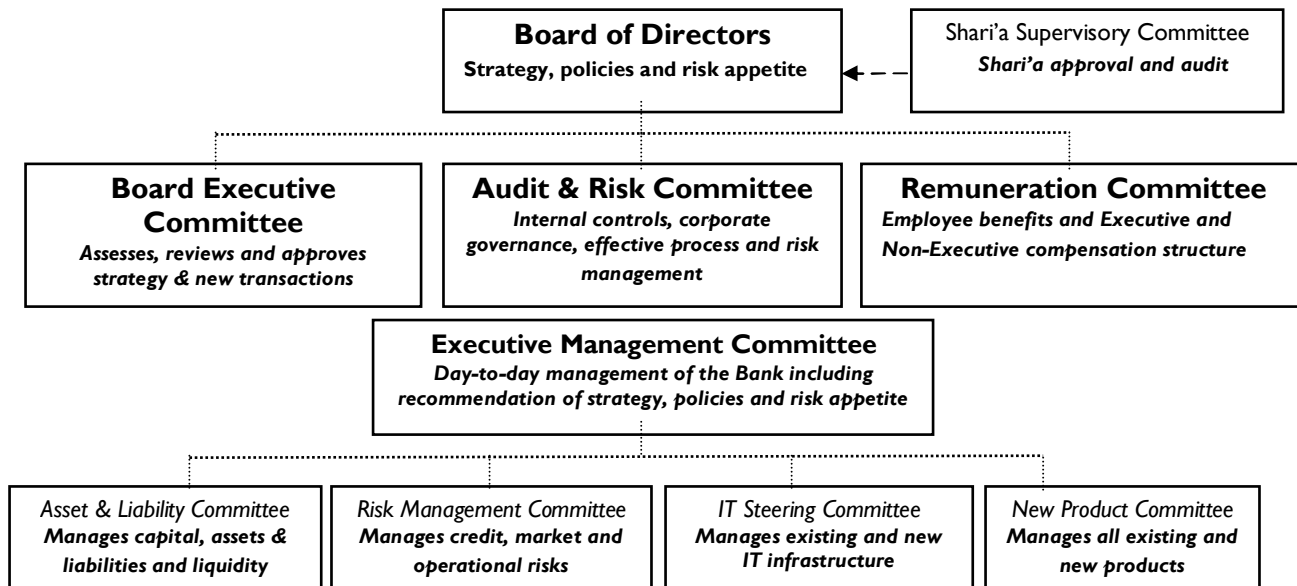
To assist the Board in managing these risks a 'Risk Management Framework' has been developed to ensure that the Bank:

- sets a risk management structure within the Bank that determines the roles of the Board, the executive and line management, including the delegated authority for the Investment Committee and Risk Management Committee
- identifies and understands the risks that the Bank is likely to encounter in the course of conducting its business
- implements the necessary processes to measure and control these risks to an acceptable degree and in accordance with the risk policies approved by the Board, and
- identifies the means of monitoring and reporting these risks to ensure compliance with the requirements of the Board, the Executive management and Financial Services Authority

2.3 Structure and Organisation of Risk Management

Bank governance structure

The Board and management committees are structured as follows:



The Board approves the composition of all committee charters (terms of reference) in order to set the risk management framework for the Bank. To assist the Board in executing its risk management function, it has established the following Board sub-committees:

- Board Executive Committee
- Audit & Risk Committee
- Remuneration Committee
- Shari'a Supervisory Committee

The Board has also established management committees and will, at least annually, review and approve the composition and charters for the following management committees:

- Executive Management Committee ('EXCO')
- Asset & Liability Committee ('ALCO')
- Risk Management Committee ('RMC')
- New Product Committee ('NPC')
- Information Technology Committee ('ITC')

The Risk Management Framework is implemented through the Board sub-committees, including the Board Executive Committee and Audit & Risk Committee. The day-to-day management is undertaken by the EXCO, which has established the RMC to assess all credit, market and operational risks; whilst ALCO is responsible for Balance Sheet management, profit-rate risk and liquidity risk.

These management committees are responsible for developing policies, approving risks and limits within its delegated authorities and regularly reviewing the Bank's exposures to all risk classes. The Bank's risk management policies are established to identify, measure, control, manage and report the risks faced by the Bank, this includes setting appropriate risk limits and controls, and to monitor risks within approved limits and report all risks to the Senior Management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

This model is applied to all risks identified by the Board which could have a significant negative impact on the Bank if they were to materialise. Such material risks represent the Bank's "Risk Profile" and are reviewed and reassessed at least annually as a part of the Internal Capital Adequacy Assessment Process (ICAAP). The Board has assessed that the Bank's most significant risk categories are market risk, credit risk, and operational risk. For each risk, the following risk management practices have been adopted in line with the Risk Management Framework:

Risk policy

For all material risks within the Bank's Risk Profile the Board's approach to risk management is documented within a set of detailed risk management policies which are owned and approved by the relevant mandated Committees and are supported by comprehensive limits, triggers and processes.

Risk measurement

All Risk policies have detailed methodology uses to calculate and report the risks. Robust and discriminatory internal ratings systems are used to measure the Bank's credit risk exposures. All risks are assessed using appropriate quantitative and qualitative methodologies to measure the Bank's material risk exposures, in line with industry standards.

Risk control

The Bank has instilled a strong risk awareness and culture in all business lines and operations. Control of the Bank's current and future exposure to risk is managed by granular limits, triggers and mandates, which are embedded within Risk Policies and set by the relevant Risk Committee. This provides a clear hierarchical structure for identifying and managing risk against Risk Appetite.

Risk mitigation

Due to the nature of Islamic Banking all activities comply with Shari'a principles.

Credit risk exposures, whether fully performing or otherwise, are reviewed at least annually. All exposures are monitored and continuously assessed using statutory financial data, interim reporting, MIS/management accounts from obligors and/or market data. The Bank continuously assesses whether the level of credit given to the borrower remains acceptable.

It is the responsibility for all Heads of Business to manage all material risks within their specific business units and ensure that appropriate mitigation techniques are undertaken to minimise the Bank's exposure to each risk type. Heads of Business units are individually accountable and responsible for minimising losses arising from the materialisation of a risk within their units.

Risk monitoring and reporting

The Risk & Compliance Department is responsible for measuring and reporting performance against capital targets, as well as the limits, triggers and mandates contained within the relevant Risk Policies and procedures.

Management information is provided to the Executive Management and to the Board of Directors, these include:

- Daily/weekly reports (depending on transaction flows), includes information on all credit exposures, country risk, market risk, liquidity risk and profit rate risk.
- Monthly Board Risk report includes a summary of all major risks, including the direction of these risks. Additional details are provided for all risks that are deemed to be 'High' in order for the Board to consider appropriateness and appetite in these risk areas. Specific information is provided on Credit Risk (Geographical, Obligor and industry concentrations), Liquidity Risk (up to 180 days) and Enterprise Risk Management (covering Market risk, Operational Risk and Stress testing results).

At all levels of reporting, if past or future forecast business performance appears to have moved, or is likely to move, outside of agreed parameters, or there is a breach or near-breach of policy limits, the Risk & Compliance Department would, after discussions with the business Head and Chief Executive Officer, refer the breach to the relevant committee which will ensure that the most appropriate course of action is implemented.

Responsibility for risk management lies with the Business units. Responsibility for risk governance and oversight lies with the Risk & Compliance Department and relevant Board committees.

Key Risks - The nature of the business exposes the Bank to various risks, defined hereunder:

- **Shari'a risk**, the risk of not complying with Shari'a laws which could have a reputational and financial implication on the Bank.
Approach – All transactions will be in accordance with Shari'a principles
Mitigation - QIB has appointed Shari'a advisors to assist with day-to-day Shari'a compliance and audits
QIB also has three Shari'a scholars appointed on its Shari'a Supervisory Board
- **Credit risk**, arising from the uncertainty of an obligor/counterparties ability to meet its obligations. Credit risk is associated with:
 - direct financing or placements with the approved customers
 - unsettled currency, securities and Islamic derivative transactions
 - issuer risk of underlying Islamic bonds
 - contingent liabilities such as guarantees and letters of credit

Approach – QIB uses the Standardised methodology to calculate risk weighted exposures. QIB has adopted a conservative approach to credit risk in line with market conditions

Mitigation – QIB does not intend to be a large lending bank due to limited capital and risk appetite but manages credit risk by monitoring the individual obligor, group and country exposures against limits. Credit Risk is managed through the RMC, Board Executive Committee, Audit & Risk Committee and the Board.

- **Market risk**, the risk of an asset changing in value due to fluctuations in prices associated with:

- currency exposure
- Islamic bonds/profit rate positions
- equity & commodity positions
- any derivative on the above

Approach – QIB uses the Standardised methodology to calculate position risk. QIB has expanded its trading book activities to include a sukuk portfolio which has increased the Banks' exposure to market risk in line with our business model and market conditions

Mitigation – QIB manages the positions daily in the trading book within prudent limits and triggers. Market Risk is managed through the RMC and the Board.

- **Operational risk**, the risk of loss resulting from inadequate or failed internal processes and systems, or from people related or external events. Operational risk is associated with:

- fraud
- employment practices and workplace safety
- clients, products and business practices
- damage to physical assets
- business disruption and system failures
- execution, delivery and process management

Approach – QIB uses the 'Basic Indicator Approach' to calculate the capital requirements. QIB has put in place 'Operating Models' and Self-Assessments to manage this risk

Mitigation – QIB has a strong control and risk awareness culture within the bank to prevent operational risks. Operational Risk is managed through the RMC and the Board.

- **Liquidity risk**, the ability of the bank to fund its on-and-off balance sheet commitments through the normal course of business. Liquidity risk is associated with:

- managing the bank's assets and liabilities
- measuring and monitoring net funding requirements
- managing market access
- having a contingency plan in the event of crisis

Approach – QIB manages liquidity risk daily with strict gapping limits in place

Mitigation – QIB has limited appetite or need for gapping with restricted off-balance sheet exposure. Liquidity Risk is managed through the ALCO and the Board.

- **Profit Rate risk** is the potential loss as a result of a change in interest/profit rates. Profit rate risk is associated with:

- the margin between profit earned on assets and paid on liabilities
- the re-pricing of assets and liabilities at different points in time, resulting in mismatches in various time bands
- the period over which these differences persist

Approach – QIB manages profit rate risk daily within gapping and sensitivity limits

Mitigation – QIB has limited appetite or need for gapping with limited off-balance sheet exposure. Profit Rate Risk is managed through the ALCO and the Board.

- **Legal and regulatory risk**, the potential that the bank has a financial loss or reputational damage arising from failing to comply with laws, regulations or codes applicable to the financial services industry

Approach – QIB is a small bank with senior management involved in all transactions

Mitigation – QIB has a strong risk and regulatory culture as a foundation. Legal and regulatory Risk is managed through the EXCO and the Board.

- **Reputational risk**, is the potential that negative publicity will cause a decline in the customer base, litigation or revenue reductions

Approach – QIB is part of the Qatar Islamic Bank Group and has the following values that are part of each individuals performance appraisals

Mitigation – Reputational Risk is managed through the EXCO and the Board.

- **Integrity** - We will act fairly, honestly and professionally in all our business transactions
- **Optimism** - We will take a positive attitude at all times and in all that we do
- **Teamwork** - We will support each other and value our colleagues' contributions at all times
- **Excellence**- We will strive to achieve excellence in every area and to provide our customers with first class, personal and responsive service
- **Creativity** - We will be creative and innovative both in developing opportunities and in solving problems
- **Delivery** - We will build a bank that our customers, shareholders and staff can be proud of

The above list of risks does not include all risks types but are interrelated and will be affected by other risks such as strategic risk, concentration risk, political risk, environmental risk and product risk. The inter-relationships of the various risks necessitates that they are not reviewed in isolation.

3 Capital Resources

3.1 Total Available Capital

The Bank's capital requirements are set and monitored by the FSA. The Bank's regulatory capital position as at 31 December was as follows:

£ millions

Tier 1 Capital	2008	2009	2010
Share Capital	25.00	25.00	25.00
Retained deficit	(5.15)	(6.81)	(8.02)
	-----	-----	-----
Total Capital	19.85	18.19	16.98
<u>Less deductions from Tier 1 capital</u>			
Intangible Assets	(0.69)	(0.39)	(0.13)
Total capital in place	19.16	17.80	16.85
	=====	=====	=====

Total capital requirements

£ millions

Pillar 1 Capital requirement	3.76	3.41	3.81
Total capital in place	19.16	17.80	16.85
	=====	=====	=====
Head room	15.40	14.39	13.04

Note –

- *Intangible assets comprising mainly of software and licenses do not qualify as capital for regulatory purposes and are deducted.*
- *No part of the available capital comprises of Tier 2 and Tier 3 capital.*

4 Capital Adequacy

4.1 Capital Adequacy overview

The Bank is a newly established Islamic financial institution that has sufficient capital to cover existing and future business. The Bank has a capital plan in place for the next five years which does include raising additional capital once the Bank has established itself as the leading Islamic financial institution in Europe.

4.2 Capital Management

The Bank has adopted the standardised approach to both credit and market risk, whilst using the 'Basic Indicator Approach' for operational risk to calculate the Pillar 1 minimum capital requirement.

An internal assessment of capital requirements is undertaken at least annually through the 'Internal Capital Adequacy Assessment Process' (ICAAP) which is assessed by the FSA who set the Bank's 'Individual Capital Guidance' amount. The ICAAP process includes the assessment of all Pillar 1 risks and other material risks including liquidity, profit rate, concentration, strategic, reputational, business cycle and macroeconomic risks. This assessment is used to present the Internal Capital Assessment document (ICA) to determine the capital requirement over a 3 year period and includes stress testing to satisfy the Boards and regulatory requirements. The Pillar 1 capital requirements are measured using the prescribed regulations as defined in the FSA's rule book. Regulatory capital covers all Pillar 1 risks (i.e. credit risk, market risk and operational risk) for the Bank's portfolio. QIB determines its minimum Capital Resource Requirement (CRR) using a regulatory capital calculator which is compliant with the BIPRU rules.

As at the 31 December 2010 the CRR calculations were as follows:

Minimum Capital Requirement	£ millions		
	2008	2009	2010
Credit Risk - Standardised Approach	1.77	2.22	2.18
Market Risk - Standardised Approach	0.01	0.00	0.44
Operational Risk - Basic Indicator Approach	1.98	1.19	1.19
Total Pillar 1 Capital Requirements	3.76	3.41	3.81
Total own Funds	19.16	17.80	16.85
Excess of own funds over Capital Requirement	15.40	14.39	13.04

QIB has adopted the **standardised approach for Credit Risk** which aligns regulatory capital requirements more closely with the key elements of banking risk by introducing a wider differentiation of risk weights and a wider recognition of credit risk mitigation techniques, while avoiding excessive complexity.

QIB uses major External Credit Assessment Institutions (“ECAI’s” see page 17 for details) and Internal Risk Ratings to map exposures to FSA prescribed risk weights for assets.

	£ millions		
Credit Risk - Standardised Approach	2008	2009	2010
Credit Risk Capital Requirements	1.771	2.221	2.177
Governments & Central Banks	0.038	0.118	0.000
Institutions	0.794	1.230	0.810
Corporate	0.392	0.655	0.786
Real Estate	0.515	0.218	0.546
Other	0.032	0.000	0.036

QIB use the **standardised approach for market risk** which includes capital requirements for interest rate risk and equity risk positions in the trading book, whereas the capital requirements for currency risk and commodity risk are added to the bank’s total positions.

	2008	2009	2010
Market Risk - Standardised Approach			
Market Risk Capital Requirements	0.007	0.003	0.439
Interest Rate PRR	0.000	0.000	0.435
Foreign Exchange PRR	0.007	0.003	0.004
Equity PRR	0.000	0.000	0.000
Commodities PRR	0.000	0.000	0.000

QIB uses the **basic indicator approach to calculate its capital requirement for operational risk.**

	£ millions		
Operational Risk - Basic Indicator Approach	2008	2009	2010
Operational Risk Capital Requirements	1.983	1.190	1.190
Basic Indicator	1.983	1.190	1.190

This calculation is based on a fixed percentage of the average annual gross income forecast over three years. As QIB is a new financial institution it has limited historical data to calculate this capital requirement (see section 7.2 for details on the calculation of the Capital requirement)

5 Credit Risk Measurement, Mitigation and Reporting

5.1 Credit Risk Overview

Credit risk is defined as the risk that a borrower or counterparty fails to pay when due.

QIB uses the standardized approach to measure credit quality and capital requirements. This includes the use of ECAI's to determine this risk weighting used to calculate the capital requirement. QIB has mapped the Regulatory and ECAI's ratings to an Internal Risk Rating matrix – as indicated in the matrix on the right

For the purposes of Pillar 3 disclosure, credit risk is sub-divided into

- Governments/Central Banks,
- Financial Institutions,
- Corporate customers,
- Real Estate (residential & commercial) and
- Other lending (including HNWI & other contingent liabilities).

FSA ratings	FITCH	Moody's	Internal Rating
1	AAA	Aaa	1
	AA+	Aa1	
	AA	Aa2	
	AA-	Aa3	
2	A+	A1	2
	A	A2	
	A-	A3	
3	BBB+	Baa1	3
	BBB	Baa2	
	BBB-	Baa3	
4	BB+	Ba1	4
	BB	Ba2	
	BB-	Ba3	
5	B+	B1	5
	B	B2	
	B-	B3	
6	Below CCC+	Below Caa1	6

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent across most of the Bank's activities. Adverse changes in the credit quality of borrowers or a general deterioration in Global economic conditions could affect the recoverability and value of the Bank's assets and therefore its financial performance. Comprehensive risk management methods and processes have been established as part of its overall governance framework to measure, mitigate and manage credit risk within the Bank's risk appetite.

5.2 Minimum Capital Requirement: Credit Risk

The following table shows the Bank's overall minimum capital requirement for credit risk under the standardised approach (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes) at 31 December 2010:

Average	Exposure	Dec-10	Risk Weighted Assets		Credit Capital Requirement	
2009	2010		2009	2010	2009	2010
4.169	4.186	3.993	1.483	0.000	0.119	0.000
25.107	18.750	24.285	15.369	10.126	1.229	0.810
6.530	8.267	9.120	8.188	9.829	0.655	0.786
13.233	15.520	13.257	2.730	6.822	0.218	0.546
0.811	0.861	0.446	0.000	0.446	0.000	0.035

5.3 Exposures

Gross Credit exposure by exposure class

The gross credit risk exposure as at 31 December 2010 (based on the definition for regulatory capital purposes, before credit risk mitigation) and the average for the year are summarised as follows:

£ millions	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Average
Governments & Central Banks	7.512	6.365	2.660	0.000	3.969	3.825	3.825	3.840	3.750	6.826	3.666	3.993	4.186
Institutions	17.926	18.315	24.154	26.107	18.740	17.692	17.692	17.168	12.903	14.203	15.810	24.285	18.750
Corporate	7.894	8.147	7.888	7.845	8.120	8.055	7.655	8.737	8.372	8.436	8.930	9.120	8.267
Real Estate	13.800	13.800	13.800	15.600	18.882	18.882	19.282	19.211	13.212	13.257	13.257	13.257	15.520
Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	3.295	3.248	3.340	0.446	0.861

'Average exposure' is calculated using the average of month-end exposures.

Geographical distribution by exposure class

The geographical distribution of these exposures as at 31 December 2010 is as follows:

£ millions	Dec-09	UK	GCC	Rest of World	Dec-10
Governments & Central Banks	7.416	0.000	3.993	0.000	3.993
Institutions	22.942	1.986	16.899	5.400	24.285
Corporate	7.250	5.275	3.845	0.000	9.120
Real Estate	13.800	13.257	0.000	0.000	13.257
Other	0.000	0.000	0.000	0.446	0.446

Residual Maturity by exposure class

The following table shows the residual maturity of exposures as at 31 December 2010:

£ millions	Dec-09	Past Due	up to 12 months	1-5 years	5 -10 years	Dec-10
Governments & Central Banks	7.416	0.000	0.000	3.993	0.000	3.993
Institutions	22.942	0.000	17.425	6.860	0.000	24.285
Corporate	7.250	1.961	0.406	6.753	0.000	9.120
Real Estate	13.800	0.000	0.000	13.257	0.000	13.257
Other	0.000	0.000	0.446	0.000	0.000	0.446

Distribution of exposure by industry & exposure class

As at 31 December 2010, the Bank's assets were dispersed across the following economic sectors:

£ millions	Sovereign	Corporate	Real Estate	Institutions under 1 year	Institutions over 1 year	Other	Dec-10
Individuals & Trusts	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Financial Institutions	3.993	0.000	0.000	17.425	6.860	0.446	28.724
Development, buying/selling real estate	0.000	0.000	13.257	0.000	0.000	0.000	13.257
Transport	0.000	2.220	0.000	0.000	0.000	0.000	2.220
Wholesale trade, excluding vehicles	0.000	0.928	0.000	0.000	0.000	0.000	0.928
Retail trade	0.000	4.088	0.000	0.000	0.000	0.000	4.088
Oil & Gas	0.000	1.884	0.000	0.000	0.000	0.000	1.884

Credit risk quality

The Bank's credit quality is managed by the RMC and Board. Credit quality is assessed using techniques that include information from the major ECAI as well as specific financial data in order to determine the Bank's internal risk ratings. The table below shows the breakdown of credit quality as at 31 December 2010.

£ millions	Dec-09	Internal Risk Rating	External Risk Rating	Exposure Values	Exposure Values after mitigation
Governments & Central Banks		1	AAA to AA-	3.993	3.993
Institutions		1	AAA to AA-	7.284	7.284
		2	A+ to A-	16.582	16.582
		3	BBB+ to BBB-	0.419	0.419
Corporate		4	not rated	7.159	8.670
		8	not rated	1.961	1.961
Real Estate		3	not rated	13.257	10.606
Other		3	not rated	0.446	0.446

Note – exposure values after mitigation only includes regulatory accepted security

5.4 Credit Risk Mitigation

The Bank uses Shari'a compliant techniques to reduce the credit risk of its financing arrangements. The most basic of these is performing an assessment of the ability of an obligor to service the proposed level of borrowing without distress. However, the risk can be further mitigated by obtaining security for the funds advanced.

Shari'a principles are considered for all products, structures and financing agreements. This includes assessing security and collateral taken to mitigate potential losses.

The bank continues to look for Shari'a compliant ways to mitigate credit risk inherent to its business; some of the generally accepted methods used by the bank including the taking of collateral in the form of:

- First legal charges over freehold or long leasehold property
- Cash balances
- Assignments
- Shares
- Guarantees
- Fixed & floating security charges over assets (Debentures)

The Bank monitors the fair value of its collateral on an ongoing basis which, dependent upon the collateral type, can vary from daily, monthly, annually or when any changes in the market or other circumstances occur.

As at 31 December 2010, 28% of the Bank's assets benefitted from the provision of customer collateral.

£ millions	Cash	Residential Property	Commercial Property	Raw Materials/ Inventory	off balance sheet	Dec-10
Governments & Central Banks	0.000	0.000	0.000	0.000	0.000	0.000
Institutions	0.000	0.000	0.000	0.000	0.000	0.000
Corporate	0.502	0.000	0.000	0.430	0.000	0.932
Real Estate	0.137	9.900	3.357	0.000	0.000	13.394
Other	0.000	0.000	0.000	0.000	0.000	0.000
Total risk mitigation	0.639	9.900	3.357	0.430	0.000	14.326

The Bank's standard legal and Shari'a approved documentation is used at all times. The documentation allows for security to be re-valued at the customer's expense at any time, if required. All standard documentation is subject to independent legal review and sign-off in order to ensure that the Bank's legal documentation is robust and enforceable.

5.5 Impairment Provisions

As at 31 December 2010, QIB had one account that is past due and has raised a provision against the recovery of this exposure.

£ millions	Sovereign	Corporates	Real Estate	Institutions
Current exposure	3.993	7.159	13.257	24.731
Total past due	0.000	1.961	0.000	0.000
Up to 12 months	0.000	0.000	0.000	0.000
over 12 months	0.000	1.961	0.000	0.000
Provisions 2009	0.000	0.925	0.000	0.000
Provisions 2010	0.000	0.562	0.000	0.000
Total provisions	0.000	1.487	0.000	0.000

The Board has approved a Provisioning Policy which is a sub-policy to the Credit Risk Policy. Past due loans are defined as when commitments are not met within 30 days.

The Bank is firmly committed to the management of credit risk in both its financing and treasury market activities. A proactive approach to the identification and control of exposure impairment is maintained, with challenge and oversight provided by the Risk Management Committee with further oversight by the Audit & Risk Committee.

The Bank has established policy and procedures to monitor impairment events that could lead to losses in its asset portfolio. These policies and procedures cover specific loss events for individual exposures as well as for events that relate to collective losses on groups of homogenous assets that have yet to be identified and assessed individually for impairment.

The Bank writes off a balance (and any related allowances for impairment) when the Risk Management Committee determines that the balance is uncollectable, normally after 180 days. This determination would be reached after considering information such as the occurrence of significant changes in the obligor's financial position or that proceeds from collateral will not be sufficient to pay back the entire exposure.

6 Market Risks

6.1 Market Risk Overview

The FSA's rule book requires that all currency or commodity exposure across the Bank be treated in accordance with prescribed rules in BIPRU 7 for the calculation of market risk capital requirements.

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

The market risk within the Bank is managed in accordance with FSA Rule book, in particular BIPRU 7 which includes:

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

6.2 Minimum Capital Requirements – Market risk

QIB uses the standardised approach for market risk which includes capital requirements for interest rate risk and equity risk positions in the trading book, and currency risk and commodity risk across the bank's total positions.

As at 31 December 2010, QIB had positions in interest rate and foreign exchange currencies but no positions in commodities or trading book positions in equity products.

Market Risk - Standardised Approach	2008	2009	2010
Market Risk Capital Requirements	0.007	0.003	0.439
Interest Rate PRR	0.000	0.000	0.435
Foreign Exchange PRR	0.007	0.003	0.004
Equity PRR	0.000	0.000	0.000
Commodities PRR	0.000	0.000	0.000

6.3 Interest Rate Risk

This risk is the sensitivity of financial positions to adverse movements in interest rates.

In Islamic Banking, interest rate risk is still a risk factor and is known as 'Profit Rate Risk'. This risk arises in the trading book due to financial instruments held with the intention to benefit from the coupons and capital gains from increases in the prices. The capital requirement for the trading book requires capital to be held for both general risk (market) and specific risk (credit quality) of the positions.

These capital requirements are calculated using the standardised approach as per the prescribed tables in BIPRU 7.2 (44 for specific risk and 57 for general risk). The total capital requirement for trading book interest rate risk, on a sukuk portfolio of £10.9 million the sum of :

Specific Risk	£0.137m
General Risk	£0.298m

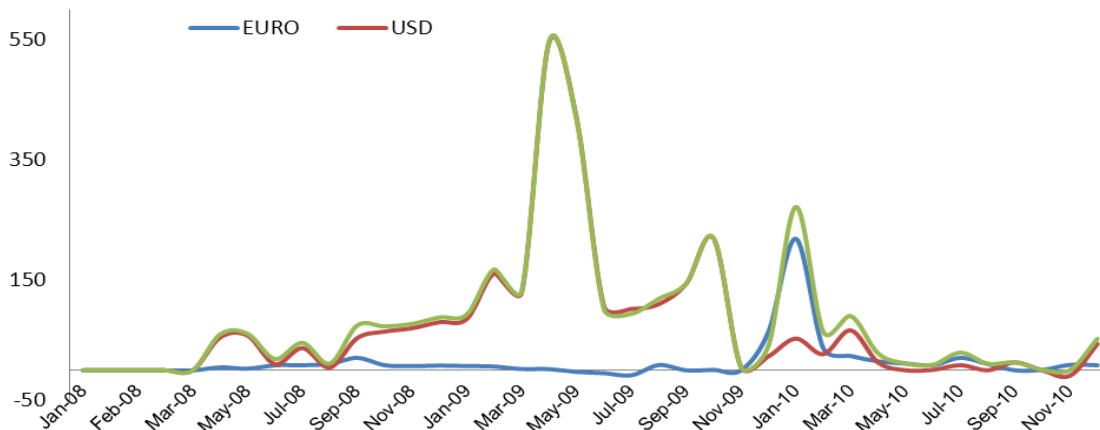
Position Risk Requirement £0.435m

64 Foreign Exchange Rate Risk

This risk 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 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.

As at 31 December 2010, the Bank's net open position was £0.053 million



7 Operational Risk

7.1 Operational Risk Overview

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 documented within the Bank's Operational Risk Policy under the guidance of the Risk Management Committee.

Operational risk management is considered to be the responsibility of all staff. The following outlines the governance structure for the Bank's operational risk framework:

- the Board of Directors approve the strategy and policy documents
- the following operational risk factors are monitored by the Risk Management Committee
 - High Risk areas as defined by Departmental Quality Self Assessments
 - Organisational deficiencies
 - Inadequate policies and procedures
 - Key Risk Indicators
 - Loss information

7.2 Minimum Capital Requirements – Operational risk

QIB has adopted the basic indicator approach to calculate the Bank's capital requirement for operational risk. This capital requirement is a fixed percentage of QIB's 3 year average income. As a start-up financial institution, QIB used forecasted gross income for all or part of the 3-year period when calculating the relevant capital requirement.

	£ millions		
Operational Risk - Basic Indicator Approach	2008	2009	2010
Operational Risk Capital Requirements	1.983	1.190	1.190
Basic Indicator	1.983	1.190	1.190

8 Profit Rate Risk

8.1 Profit Rate risk Overview

The Board has delegated the management of profit rate risk to the ALCO. This committee meets monthly to manage the Banks balance sheet, liquidity and profit rate risk positions.

This risk arises from the effects on changes in profit rates on the re-pricing of assets and liabilities, and covers both fixed and variable profit rates. The Bank manages such risks through the uses of gap analysis and the economic value methodology using the profit rate sensitivity to changes in the 1 month LIBOR rates.

As at 31 December 2010, the Bank's gap analysis reflects a defensive position.

8.2 Profit Rate Risk Sensitivity Analysis

The profit rate sensitivity is measured and monitored against revenue and capital on a daily basis in the daily Risk Report which is distributed to Treasury and ALCO. A detailed report is distributed monthly to EXCO and the Board of Directors.

An analysis of profit rate movement reflects the following impact on the portfolio

Profit Rate Risk

Total Portfolio	1bp	25bps	50bps	75bps	100bps	200bps
2009	£2,293	£110,204	£220,395	£204,966	£440,776	£881,538
2010	£103,656	£222,225	£348,484	£474,729	£600,975	£1,105,957
Breakdown as at Dec 2010						
GBP	-£1,504	£116,273	£239,809	£363,345	£486,882	£981,027
USD	-£2,250	£4,164	£11,873	£19,568	£27,264	£58,046
EURO	£835	£0	£0	£0	£0	£0
QAR	£106,575	£101,788	£96,802	£91,816	£86,829	£66,884

9 Liquidity Risk

9.1 Liquidity risk Overview

The Board has delegated the management of liquidity risk to the ALCO. This committee meets monthly to manage the Banks balance sheet, liquidity and profit rate risk positions.

Liquidity risk is defined as the inability to repay liabilities when due at an acceptable cost within a reasonable time period.

9.2 Monitoring and control

Cash flows are managed on a daily basis and a portfolio of liquid assets is maintained consisting of cash and short term bank deposits. Liquidity risk management is the responsibility of ALCO.

An internal assessment of liquidity (Internal Liquidity Adequacy Assessment) (ILAA) is currently being implemented.

Liquidity is managed within the FSA's prudential limits as follows:

Limit	Sight: 0 %	Sight to 1 month: - 5%
31-Dec-09	158%	25%
31-Dec-08	134%	189%
31-Dec-10	378%	132%

The liquidity profile of the bank reflects a strong position, which Group Funding at 98%. The profile out to 180 days is shown as follows:

