TOLKIEN FUNDING SUKUK NO. 1 PLC

Annual Report and Financial statements

For the period from incorporation on 27 November 2017 to 31 December 2018

Company registration number: 11084430

Contents

Officers and professional advisors

Directors	Mark Filer L.D.C. Securitisation Director No.1 Limited L.D.C. Securitisation Director No.2 Limited
Secretary	Law Debenture Corporate Services Limited
Company number	11084430
Registered office	Fifth Floor, 100 Wood Street, London, EC2V 7EX
Auditors	Deloitte LLP
Bankers	Elavon Financial Services DAC, acting through its UK Branch
Sharia Compliance adviser	Al Rayan Bank Plc

Strategic report

The directors present their strategic report for Tolkien Funding Sukuk No.1 Plc (the "Company") for the period from incorporation on 27 November 2017 to 31 December 2018.

General company information

The Company was incorporated in England and Wales on 27 November 2017 as a Private Limited Company with the registered number of 11084430. As this is its first accounting period there are no comparative figures.

Principal activities and review of business

The Company was set up purely for the purpose of entering into a securitisation transaction for Home Purchase Plans ("HPP").

A Home Purchase Plan is a Sharia compliant alternative to a conventional mortgage, and does not involve interest. As a Sharia compliant product, Home Purchase Plans are based on joint ownership and lease agreements arranged using two separate principles of Islamic finance. Each Home Purchase Plan has four elements – a Diminishing Co-Ownership Agreement, a Lease Agreement, a HPP Service Agency Agreement and a Legal Charge Agreement

On 22 February 2018 the Company entered into a transaction to allow it to finance and acquire certain HPP originated by Al Rayan Bank Plc ("Al Rayan Bank"). . The purchase of the HPP was financed by the issue of certificates which are listed on both the Irish and London stock exchanges. The certificates are limited recourse in nature and repayment is restricted to the income received by the Company on the underlying HPP acquired and is secured against the assets of the Company, with U.S. Bank Trustee Limited acting as Security Trustee. All payments made by the Company are subject to a payment waterfall as set out in the transaction documents. Elavon Financial Services DAC, acting through its UK Branch act as the facility agent and cash manager.

Al Rayan receives a monthly payment from a customer under the HPP, comprised of acquisition amounts (governed by the Diminishing Co-Ownership Agreement) and rent (governed by the Lease Agreement). Each HPP contains a payment schedule detailing the monthly payments to be made by a Customer in the form of acquisition amounts and rent, which varies on a case by case basis. Amounts due to Al Rayan under a HPP are secured by a first ranking legal charge (governed by the Legal Charge Agreement).

Details of the certificates held at year end were as follows:

Initial Principal Amount	Issue Price	Reference Rate on Certificates	Relevant Margin prior to Step-Up Date (20 April 2021)	Relevant Margin from and including Step-Up Date (20 April 2021)	Final Dissolution Date
£250,000,000	100%	Three-Month Sterling LIBOR	0.8% per annum	1.6% per annum	20 July 2052

As part of the transaction the Company has entered into a servicing agreement with Al Rayan Bank to service and administer the underlying HPP for which they receive a servicing fee.

Legal ownership of the HPP acquired under the transaction fails the recognition criteria of IFRS 9: "Financial Instruments" because Al Rayan Bank retains all the risks and rewards of ownership. It is entitled to any residual cash flows after payment of all other expenses of the Company. Accordingly, the beneficial interest in the HPP is recognised as a deemed loan to Al Rayan Bank in the Company's financial statements and the HPP remain on the balance sheet of Al Rayan Bank.

Performance in the period

The Company had net income from Islamic financing transactions of £197,000 after paying out £4,325,000 residual income during the period.

Future outlook

The Company intends to continue with its securitisation programme.

Strategic report (continued)

Principal risks and uncertainties

The main risks that could affect the Company's ability to continue as a going concern are credit risk, liquidity risk, market risk, and capital management risk. These include the correct and timely receipt of profit and principal on the deemed loan.

Credit risk management

Credit risk is the risk that the Company will not be able to repay the respective certificate holders as a result of Al Rayan Bank not being able to meet its obligations on the deemed loan as they fall due.

The major asset of the Company is a deemed loan to Al Rayan Bank. The recoverability of the deemed loan is linked to the performance of the underlying HPP and therefore, the directors assess the performance of the HPP for credit risk.

The underlying HPP are required to adhere to specific lending criteria and are subject to regular reviews by Al Rayan Bank (the originator and servicer of the mortgages) to ensure credit risks are identified on a timely basis and losses are minimised. The cash manager also produces quarterly portfolio performance reports which are reviewed by management.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient resources to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to the Company's position. All payments are made in strict order using a payment waterfall set out in the transaction documents and the funding raised by the Company is limited recourse in nature which means that it is only obliged to pay amounts falling due to the extent that it has received income from the HPP underlying the deemed loan. The Company also maintains a reserve fund which can be utilized in case of a liquidity shortfall.

Market risk management

Market risk is the risk of reductions in earnings and/or value, from unfavourable market movements. The Company manages market risk by matching profit rates for assets and liabilities.

The UK is set to exit the European Union (Brexit). The Company faces some risks from the impact of Brexit. The full impact of this is not yet clear but it could result in some borrowers of the underlying HPP losing their jobs and defaulting on their obligations and this will in turn the reduce the cash flows that the Company will receive on the deemed loan. This however will not necessarily affect the Company's ability to continue as a going concern due to the limited recourse nature of the transaction.

Capital management risk management

The Company considers its capital to comprise of its equity share capital plus retained profits. The Company's objectives when maintaining capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to certificate holders and shareholders.

Strategic report (continued)

Key performance indicators (KPIs)

The recoverability of the Company's deemed loan is linked to the performance of the underlying HPP and therefore the net profit and performance of the underlying HPP are key performance indicators. The Company monitors the monthly servicer reports that contain a range of data on the performance of the HPP portfolio including payment arrears, Loan to Value percentages and restructured HPP. As at 31 December 2018, the KPIs show that there were no underlying HPP greater than 30 days in arrears and no restructured HPP. There are no alternative performance measures used.

Approved and signed on behalf of the board:

Mark Filer
Director
24 March 2019

Directors' Report

The directors present their report and the audited financial statements of the Company for the period from incorporation on 27 November 2017 to 31 December 2018. The Company was incorporated in England and Wales on 27 November 2017 as a Private Limited Company with 1 ordinaray share issued to Tolkien Holding Sukuk No 1 Limited. On the 12th of December, Tolkien Holding Sukuk No 1 Limited subscribed for a further 49,999 shares, which were each quarter paid.

Results and dividends

Under the terms of the securitisation transaction, the Company is entitled to a pre-determined retained profit. The profit before tax for the period ended 31 December 2018 amounted to £5,625. The Company paid no dividends during the period and the directors do not recommend a final dividend.

Directors

The directors of the Company who were in office during the period and for the period up to the date of signing the financial statements were:

Mark Filer (appointed 27 November 2017)
L.D.C. Securitisation Director No.1 Limited (appointed 27 November 2017)
L.D.C. Securitisation Director No.2 Limited (appointed 27 November 2017)

None of the directors who held office during the period and up to the date of this report held any beneficial interest in the share capital of the Company and nor did they have any material contract or arrangement with the Company.

The Company has no employees.

Future outlook

See strategic report.

Principal risks and uncertainties

See strategic report.

Financial risk management

See strategic report.

Going concern

Due to the way in which the transaction underlying the sole purpose of the Company has been structured, the Company is only required to repay the funding to the extent that it receives income from the HPP underlying the deemed loan.

The UK is set to exit the European Union (Brexit). The Company faces some risks from the impact of Brexit. The full impact of this is not yet clear but it could result in some borrowers of the underlying HPP losing their jobs and defaulting on their obligations and this will in turn the reduce the cash flows that the Company will receive on the deemed loan. This however will not necessarily affect the Company's ability to continue as a going concern due to the limited recourse nature of the transaction.

After reviewing the latest performance of the underlying HPP, and discussing the outlook with Al Rayan Bank, the directors are satisfied that the Company will have adequate resources to continue in business for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements.

Events after the reporting date

There were no significant events after the reporting date.

Directors' indemnities

The directors are provided by Law Debenture Corporate Services Limited under a Corporate Services Agreement which contains certain indemnities for the directors which were in place during the year and remain in force at the date of this report. Law Debenture Corporate Services Limited maintains its own insurance for the services it provides.

Directors' Report (continued)

Statement of Disclosure to Auditor
In so far as the directors are aware there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all steps that they ought to have taken, as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware;

and

- each director has taken all the steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Events after the reporting date
There were no significant events after the reporting date.

Signed on behalf of the board:

Mark Filer
Director
24 March 2019

Directors' Responsibility Statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

The Companies Act 2006 requires the directors to prepare financial statements for each financial year. Under that act the directors have elected to prepare the financial statements in accordance with FRS 101 "The Reduced Disclosure Framework". 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's profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with FRS101, subject to any material departures disclosed and explained in the financial statements;
- prepare the Company financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOLKIEN FUNDING SUKUK NO. 1 PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Tolkien Funding Sukuk No. 1 plc (the 'company'):
- **give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the period then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current period was the loan loss provision.
Materiality	The materiality that we used in the current period was £2,300,000 which was determined on the basis of 1% of loan certificate balance as per the statement of financial position.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in 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 company'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.	**We have nothing to report in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss provision	
Key audit matter description	Under the guidance of IFRS 9 "Financial Instruments", the Company has adopted Expected Credit Loss ("ECL") method to assess impairment of its financial assets. This is a new and complex accounting requirement which has required considerable judgement and interpretation in its implementation. The deemed loan asset balance of £221,208,000 equates to the par value of the Home Purchase Plan ("HPP") assets sold to the Company by Al Rayan Bank Plc. As discussed in Note 1, the underlying HPP assets are not recognised by the Company because Al Rayan Bank Plc has retained significant risks and rewards of ownership. The deemed loan is classified as loans and receivables under the applicable accounting standard. For financial assets held at amortised cost, IFRS 9 requires the carrying value of the asset to be assessed for impairment using unbiased forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimation on assumptions relating to customer default rates, exposure at default, loss given default, assessing significant increases in credit risk and macroeconomic scenario modelling. These assumptions are informed using historical behaviour and experience as well as credit bureau data. They are also affected by management's consideration of the future economic environment including the potential effect of the withdrawal of the United Kingdom from the European Union. The Company held £nil of impairment provisions at period end against the deemed loan asset. As discussed in note 1.11 and 1.13 to the financial statements, Management assesses at each reporting date whether there is expectation

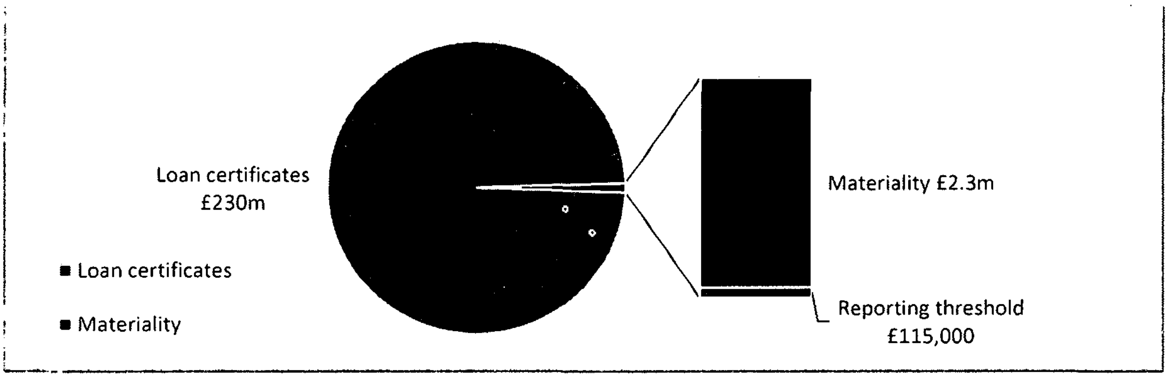
	that the deemed loan is impaired. The assessment requires management judgement to determine the recoverability of the deemed loan asset, which is dependent on the effective credit enhancement provided by the loan certificates which suffer any first loss incurred on the underlying HPP assets and exercising judgement to determine the recoverability of the HPP assets which are in arrears. We identified a key audit matter that the HPP assets may have shown particular indications of impairment which had not been identified or reflected in management's assessment of impairment. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.
How the scope of our audit responded to the key audit matter	We first understood management's process and key controls around loan loss provisioning by undertaking a walkthrough. Following identification of the key controls placed by management to review the impairment provision, we evaluated the associated design and implementation of such controls. Specifically, we assessed the key controls that the Company has in place to review the loan loss provisioning methodology. We evaluated the reasonableness of management's assumptions used in their impairment assessment. This was carried out through the review of the HPP assets for indicators of impairment, in line with the requirements of IFRS 9. In particular we reviewed the effective credit enhancement provided by the loan certificates, which suffer any first loss incurred on the underlying HPP assets, and the recoverability of the HPP assets which are in arrears. We challenged management's consideration of the future economic environment, including the potential effect of the withdrawal of the United Kingdom from the European Union.
Key observations	Based on the work performed, we consider that the estimated nil provision is appropriate, and we do not note any material departures from the requirements of IFRS 9.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£2,300,000
Basis for determining materiality	1% of the loan certificate balance as per the statement of financial position.
Rationale for the benchmark applied	The loan certificate balance was used as the basis for materiality given it drives the operations and performance of the Company.



We agreed with the those charged with governance that we would report to the them all audit differences in excess of £115,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the 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 our 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including IT and loan loss provision specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in loan loss provisioning; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

Audit response to risks identified
As a result of performing the above, we identified loan loss provisioning as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure
Following the recommendation of management, we were appointed by those charged with governance on 29 October 2018 to audit the financial statements for the period ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the period ending 31 December 2018.

Consistency of the audit report with the additional report to those charged with governance
Our audit opinion is consistent with the additional report to those charged with governance we are required to provide in accordance with ISAs (UK).

Use of our report

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

K. J. Cooper

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
24 May 2019

Statement of comprehensive income

	Note	27 November 2017 to 31 December 2018 £'000
Income from Islamic financing transactions	3	7,851
Returns to certificate holders		(3,329)
Returns to residual holder		(4,325)
Net income from Islamic financing transactions		197
Administrative expenses		(191)
Profit from operations before taxation	4	6
Tax charge	5	(1)
Total comprehensive income for the period		5

All amounts relate to continuing activities.

The notes on pages 21 to 31 form part of these financial statements.

Statement of financial position as at 31 December 2018

	Note	As at 31 December 2018 £'000
Assets		
Deemed loan from Al Rayan Bank	6	221,208
Trade and other receivables		96
Cash and cash equivalents		15,764
Total assets		237,068
Liabilities		
Long term liabilities	8	234,574
Trade and other payables	7	2,439
Total liabilities		237,013
Net liabilities		55
Equity		
Share capital	9	50
Retained earnings		5
Total equity		55

These financial statements were approved by the Board of directors and authorised for issue on 24 March 2019 and signed on behalf of the Board of directors by:

Virginia Duncan
Representing L.D.C. Securitisation Director No.1 Limited
Director

The notes on pages 21 to 31 part of these financial statements.

Statement of changes in equity for the period from incorporation on 27 November 2017 to 31 December 2018

	Ordinary share capital	Retained earnings	Total
	£'000	£'000	£'000
Balance as at 27 November 2017	-	-	-
Issue of shares	50	-	50
Profit for the period	-	5	5
Balance as at 31 December 2018	50	5	55

The notes on pages 21 to 31 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

1.1 General information

Tolkien Funding Sukuk No.1 Plc was incorporated on 27 November 2017 in the United Kingdom under the Companies Act 2006. It is a Public Company limited by shares and registered in England and Wales. The address of its registered office is given on page 3.

The Company is a special purpose company established to act as a securitization vehicle for HPP and to procure financing for this activity.

1.2 Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law.

As the Company's results are consolidated into the Ultimate Parent Company, Masraf Al Rayan Q.P.S.C ("MAR), these financial statements have been prepared in accordance in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

1.3 Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

1 A statement of cash flows and related notes

2 The requirements of IAS 24 "Related Party Disclosures" to disclose related party transactions with MAR and its other subsidiaries as these are disclosed in the MAR financial statements.

3 The detailed disclosure requirements of IFRS 9 "Financial instruments".

4 Disclosure of key management personnel compensation

5 Presentation of comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period

6 The effect of future accounting standards not adopted

1.4 Accounting standards early adopted

The Company was incorporated on 27 November 2017 and it early adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" from the date of incorporation. Both standards were effective from 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation

1.5 Going concern

Due to the way in which the transaction underlying the sole purpose of the Company has been structured, the Company is only required to repay the funding to the extent that it receives income from the HPP underlying the deemed loan.

The UK is set to exit the European Union (Brexit). The Company faces some risks from the impact of Brexit. The full impact of this is not yet clear but it could result in some borrowers of the underlying HPP losing their jobs and defaulting on their obligations and this will in turn the reduce the cash flows that the Company will receive on the deemed loan. This however will not necessarily affect the Company's ability to continue as a going concern due to the limited recourse nature of the transaction.

After reviewing the latest performance of the underlying HPP, and discussing the outlook with Al Rayan Bank, the directors are satisfied that the Company will have adequate resources to continue in business for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements.

1.6 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which they operate (their "functional currency") and are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss. These financial statements are presented in pounds sterling, which is the Company's functional currency.

1.7 Income from Islamic financing transactions

Income from Islamic financing transactions represents rental and other income on the deemed loan. Rental income on the deemed loan is accounted for on an effective profit rate ("EPR") basis, inclusive of directly attributable incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs, discounts and premiums where appropriate. The EPR basis spreads the profit income over the expected life of each instrument. The EPR is the rate that, at the inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EPR, the Company estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider assets' future credit losses. All revenue recorded in the financial statements is generated in the UK and sourced from transactions relating to HPP.

1.8 Returns to certificate holders

Returns to certificate holders represent the cost of financing. This is accounted for on an EPR basis, inclusive of directly attributable incremental transaction costs and fees.

1.9 Return to residual holders

Al Rayan Bank is the residual note holder. It retained the risk and rewards of ownership of the HPP and receives any residual income after payment of all the Company's expenses. The residual income is accounted for on an accrual basis.

1.10 Administration expenses

Administration expenses are recognised in the statement of comprehensive income in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation

1.11 Financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are: the deemed loan, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

While Al Rayan Bank transferred a majority of the rights and interests in the HPP, it retained an exposure to variability in the present values of future cash flows of the finance through the retention of a share in the underlying portfolio, as well as potential trigger thresholds and options for asset repurchase events. AL Rayan Bank also receives continuing fees relating to servicing arrangements for the HPP. As Al Rayan Bank continues to be exposed to the variability of cash flows as well as rights or potential obligations to repurchase the assets, it has been determined that the relevant de-recognition criteria under IFRS 9 have not been met and Al Rayan Bank continues to recognise the HPP in its financial statements. The Company recognises a deemed loan to Al Rayan Banak.

In accordance with IFRS 9, the business model for the deemed loan is to collect contractual cash flows. These contractual cash flows represent solely payments of principal and profit. As a result, the deemed loan is accounted for initially at fair value and subsequently at amortised cost.

Financial assets are de-recognised only when the contractual rights to the cash flows from the financial assets expire or the Company transfers substantially all risks and rewards of ownership.

Financial Liabilities

Financial liabilities are recognised initially at fair value and subsequently at amortised cost. A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Impairment of financial assets

Impairment of financial assets is based on a forward-looking expected credit loss (ECL) approach for financial assets classified as amortised cost and fair value through other comprehensive income. For the deemed loan, the Company looks at the impairment provision of the underlying HPP and also considers the credit enhancement provided by the reserve fund.

1.12 Taxation

The Company is within the permanent regime for taxation of securitisation companies, under which they are taxed by reference to their contractually retained profits (to the extent that they are realised). Taxable profits under the permanent regime will normally equal the contractual profit as defined by the original transaction documentation. Consequently, neither current tax nor deferred tax will be affected by any fair value gains or losses arising on derivatives and other financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation

1.13 Critical accounting estimates and judgements

The preparation of these financial statements in accordance with FRS 101 requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies. Actual results may differ from these estimates.
There were no critical accounting judgements undertaken during the year. The estimations of uncertainties are set out below.

Critical accounting judgements - Treatment of the deemed loan

Management has applied judgement in respect of the underlying HPPs under IFRS 9. As Al Rayan Bank retains exposure to variability of cashflow, management has deemed that the HPPs should not be de-recognised from the Al Rayan Bank financial statements, but instead, the Company should recognise a deemed loan asset receivable from Al Rayan Bank. More details can be found in Note 6.

Critical accounting estimates - Deemed loan impairment provisioning

Assets accounted for at amortised cost are evaluated for impairment on the basis described above.

Management considers the impairment provision on the underlying HPP and takes into account the impact of the credit enhancement provided by the reserve fund. No provision is made for impairment if they consider that the credit enhancement provides enough cover for the HPP impairment.

2. Segmental analysis

The directors consider that the Company has one operating segment due to the similarity of risks faced in relation to the investment of the funding raised in the underlying HPP and therefore is not required to produce additional segmental disclosure.

3. Income from Islamic financing transactions

	27 November 017 to 31 December 2018
	£'000
Profit from underlying HPPs	7,851

4. Profit from operations

The directors received no emoluments in respect of their services to the Company during the period. The Company has no employees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Taxation

	27 November 2017 to 31 December 2018
Tax expense	**£'000**
Current tax	1
Total tax charge	1

Factors affecting the tax charge for the current period:

	27 November 2017 to 31 December 2018
	£000
Profit on ordinary activities before tax	6
Current tax charge at 19%	1
Effects of:	
Accounting loss not taxed in accordance with SI 2006/3296	-
Borrower profit taxed in accordance with SI 2006/3296	-
	1

The charge above has been calculated in accordance with the permanent regime for taxation of securitisation companies.

6. Deemed loan

	As at 31 December 2018 £'000
Deemed loan - due within one year	120
Deemed loan - due between 2 and 5 years	221,088
	221,208

Al Rayan Bank made an IFRS provision of £114,000 for the underlying HPP. No provision has been made on the deemed loan as the Company has the benefit of credit enhancements in the form of the £5million reserve fund which it can utilise for any shortfalls.

The Company has provided security to its certificate holders by granting charges over its rights to receive principal and profit on the HPP underlying the deemed loan. The profit rate on the deemed loan is linked to the profit rate on the underlying HPP which contain both fixed and floating profit rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Trade and other payables

	As at 31 December 2018 £'000
Taxation	1
Accruals	2,438
	2,439

8. Long term liabilities

	As at 31 December 2018 £'000
Certificates	229,574
Reserve fund	5,000
	234,574

The certificates pay a profit on the 20th day of April, July, October and January. The profit is based on 3 months sterling LIBOR plus a margin. The certificates mature on the 20th of July 2052 and are listed on the Irish Stock Exchange.

The certificates are secured on the HPP underlying the deemed loan and any other collateral security relating to those HPP.

Included in the certificate balance above is £8,486,464 principal repayment which was paid in January 2019 together with accrued interest.

The certificates are limited recourse in nature and repayment is restricted to the income received by the Company on the underlying HPP acquired and is subject to a payment waterfall under the transaction documents.

The reserve fund was funded from the proceeds of the certificates. It will be used to pay any revenue and principal shortfalls.

Net debt represents the long term liabilities, less cash at bank and in hand, and excludes unamortised debt issue costs but includes accrued profit relating to the Company's third-party indebtedness. A reconciliation of net debt is:

	As at 31 March 2018 £'000
Certificates	229,694
Deduct: cash as reported in financial statements	(15,764)
Net debt: borrowings less cash	213,930
Add: accrued certificate profit	919
Net debt	214,849

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Share capital

	As at 31 December 2018 £'000
Issued 1 ordinary Share of £1 each	50

The share capital consists of 50,000 £1 ordinary shares of which one is fully paid and 49,999 are quarter paid. The unpaid amount is included in trade and other receivables.

10. Financial Instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are: the deemed loan, cash and cash equivalents, long term liabilities and trade and other payables.

(a) Carrying amount of financial instruments

A summary of the financial instruments held is provided below:

	As at 31 December 2018 £'000
Financial assets at amortised costs	
Cash and cash equivalents	15,764
Trade and other receivables	96
Deemed loan	221,208
Total financial assets	237,068
Financial liabilities at amortised cost	
Long term liabilities	234,574
Trade and other payables	2,439
Total financial liabilities	237,013

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Financial Instruments (continued)

(b) Carrying amount versus fair value

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities as at 31 December 2018:

	As at 31 March 2018 £'000	As at 31 March 2018 £'000
	Carrying amount	Fair value
Financial assets		
Cash and cash equivalents	15,764	15,764
Trade and other receivables	96	96
Deemed loan	221,208	230,254
Total financial assets	237,068	246,114
Financial liabilities		
Certificates	229,694	230,216
Trade and other payables	2,319	2,319
Reserve fund	5,000	5,000
Total financial liabilities	237,013	237,535

Fair value hierarchy

Quoted market prices - Level 1

Financial instruments, the valuations of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. The certificates are classified as level 1 as their price is derived from market prices.

Valuation techniques using observable inputs - Level 2

Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly. The deemed loan is classified as level 2 as its price is derived from that of the certificates less other liquid assets.

Valuation techniques using significant unobservable inputs - Level 3

Financial instruments, the valuation of which incorporate significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

As at 31 December 2018, none of the financial instruments were measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Financial instruments (continued)

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, profit rate risk and Shariah non-compliance risk:

Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's deemed loan and cash and cash equivalents held at banks. The Company's maximum exposure to credit risk by class of financial asset is as follows:

	31 December 2018
Assets	**£'000**
Deemed loan	221,208
Cash and cash equivalents	15,764
	236,972

The Company has appointed Al Rayan Bank Plc to Service the HPP underlying the deemed loan. They manage the Company's exposure to credit losses by assessing borrowers' ability to repay the HPP, the borrowers' risk profile, and their stability during the underwriting process. Impairments are monitored and provided for using various techniques.

The analysis of HPP by Loan to Value (LTV) at 31 December 2018 was as follows:

Current FTV	Current Balance £'000	Current Balance (%)	Number of Accounts	Number of Accounts (%)
0 <=x< 70%	158,291,000	58.36%	1,023	65.24%
70% <=x< 75%	51,469,000	18.98%	256	16.33%
75% <=x< 80%	61,456,000	22.66%	289	18.43%
Total	271,216,000	100.00%	1,568	100.00%

There were no past due nor impaired HPP at 31 December 2018.

The Company holds collateral against the deemed loan in the form of charges over properties underlying the HPP, and any other collateral security relating to those HPP including.

Credit risk relating to cash and cash equivalents is mitigated by having the balances held with suitably rated counterparties.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when fall due without incurring unacceptable losses or risking damage to the Company's position. All payments made by the Company are made in strict order using a payment waterfall set out in the transaction documents and the funding raised by the Company is limited recourse in nature which means that it is only obliged to pay amounts falling due to the extent that it has received income from the mortgages underlying the deemed loan.

10. Financial instruments (continued)

Liquidity risk management (continued)

The tables below show the contractual principal cash flows of the Company's financial assets and liabilities:

As at 31 December 2018	Carrying amount £'000	Amount due within one year £'000	Amount due after one year £'000
Financial assets			
Cash and cash equivalents	15,764	15,764	-
Trade and other receivables	96	96	-
Deemed loan	221,208	120	221,088
Financial liabilities			
Trade and other payables	2,319	2,319	-
Certificates	229,694	120	229,574
Reserve fund	5,000	-	5,000

Profit rate risk management

Profit rate risk exists where assets and liabilities have profit rates set under different bases or which reset at different times. The Company manages profit rate risk by matching the variable rates on the HPP underlying the deemed loan with liabilities of a comparable rate basis.

Sharia non-compliance risk management

This is the risk of a loss in earnings, value or reputation due to products and services or their associated operational systems, conduct and financial processes being non-compliant with Sharia (Islamic law). The Company manages this risk by aligning services, policies, procedures and transactions to Sharia principles and its ethical code and this is managed by an independent Sharia adviser. Products are reviewed prior to changes being implemented to ensure continuing Sharia compliance.

Capital management

The Company considers its capital to comprise of its equity share capital plus retained profits. The Company's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns to bondholders and shareholders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Related party transactions

Law Debenture Corporate Services Limited ("Law Deb") is a corporate service provider to the Company. It charges a management fee for the provision of a range of services including provision of the directors (Mark Filer, L.D.C. Securitisation Director No. 1 Limited and L.D.C. Securitisation Director No. 2 Limited).

The entire issued share capital of the Company is held Tolkien Holding Sukuk No 1 Limited. The entire share capital of Tolkien Holding Sukuk No 1 Limited is held by The Law Debenture Intermediary Corporation Plc, as share trustee, under a declaration of trust for discretionary charitable purposes.

Al Rayan Bank Plc is the originator and servicer of the underlying HPP and the beneficial title holder of the HPP.

The related party transactions between the Company and its related parties (excluding subsidiaries of MAR) are summarised below.

	Related party	27 November 2017 to 31 December 2018 £'000
Statement of comprehensive income		
Corporate service fee	LawDeb	25
		31 December 2018
Statement of financial position		
Accrued corporate service fee	Law Deb	13

12. Ultimate controlling party

The entire issued share capital of the Company is held Tolkien Holding Sukuk No 1 Limited. The entire share capital of Tolkien Holding Sukuk No 1 Limited is held by The Law Debenture Intermediary Corporation Plc, as share trustee, under a declaration of trust for discretionary charitable purposes.

In the opinion of the directors, Masraf Al Rayan Q.P.S.C ("MAR") is the ultimate controlling party of the Company and as such the results of the Company are included in the consolidated financial statements of MAR. Copies of these can be obtained from http://www.alrayan.com/en/Annual-Reports or from PO Box 28888, Doha, Qatar.

13. Events after the reporting date

There were no significant events after the reporting date.