ANNUAL REPORT
2012

مصرف الريان
MASRAF AL RAYAN

**Honor is the reward
for what we give,
not what we receive.**

Contents

His Highness
Sheikh Hamad Bin Khalifa Al-Thani
Emir of the State of Qatar

His Highness
Sheikh Tamim Bin Hamad
Bin Khalifa Al-Thani
The Heir Apparent

Chairman and Managing Director's Statement

"Masraf Al Rayan made the best of the strong Qatari economic growth, and established itself as one of the major banks in the Country during 2012, by improving its market share."

I am pleased to present to you the report of the Board of Directors for the year ended on 31.12.2012, which is the second year of the Board of Directors, who are serving their second term in office.

The European financial crisis escalated during 2012, and had a far-reaching effect on the global financial markets, even though the intensity varied from market to another. The year 2012 ended with forecasts of an US financial crisis mainly due to the debt crisis in the US market.

In spite of the adverse global circumstances, the Qatari economy was able to achieve a growth rate of 6.2% during 2012. Thanks to the wise policy adopted by the government of the State of Qatar and the insightful directives of HH the Emir of Qatar. This, in turn, offered a strong support to the Qatari financial market and reflected positively on the performance of the Qatari banks.

Masraf Al Rayan made the best of the strong Qatari economic growth, and established itself as one of the major banks in the Country during 2012, by improving its market share.

In October 2012 Masraf Al Rayan's ratings were upgraded by Moody's to A2/Prime-1 and its future outlook was changed to STABLE as a result of the improvement of the credit standing of its own financial strength and based on its strong track record of maintaining sound assets, compared to its peers, as well as a strong capital base and liquidity in spite of the steep growth in assets.

Masraf Al Rayan continued its distinguished performance throughout 2012. The Bank's net profit reached QR 1,520 million in 2012, an increase of 7.9% compared to 2011. Total assets increased to QR 61,628 million compared to QR 55,271 million as on 31 December 2011, up by 11.5%. Financing activities increased to QR 42,769 million compared to QR 34,766 million at the end of 2011, an increase of 23%. Customers' deposits increased to QR 45,009 million compared to QR 33,069 million as on 31.12.2011, rising by 36.1%. The total shareholders' equity before distribution reached QR 9,734 million compared to QR 8,504 million, up by 14.5% from the previous year. The book value from share reached QR 12.79, and earnings per share touched QR 2.01.

During its meeting on 27.1.2013, the Board of Directors recommended the distribution of a cash dividend of QR 1 per share.

Masraf Al Rayan continued to engage with the real economy to bolster its income sources and to enlarge its base. It placed pronounced emphasis on diverse investment opportunities, the latest of which was the offer to acquire a large share in a commercial bank in Libya with a view towards transforming it into an Islamic bank and also playing a leading role in its management. This offer will be presented to the extraordinary session of the general assembly. The Bank also continued its efforts to acquire a large share in Islamic Bank of Britain Plc, especially after the Board of Directors decided to forgo acquiring shares in two Qatari companies working in oil and gas maintenance, as the Bank could not reach an agreement with the owners of the companies.

The Board of Directors of Masraf Al Rayan are truly committed to the welfare of the Bank's shareholders as well as its valuable customers. In this regard the Bank continued its drive to provide innovative products and services related to Internet banking, mobile banking and phone banking.

The Board of Directors also concentrated on further developing the capability of the Bank's human resources, especially Qatari nationals. The Bank recently completed a training program which was aimed at identifying future leaders. A reception was held in November 2012 to honor the distinguished trainees of the program. Masraf Al Rayan is also working closely with the Ministry of Labor to attract qualified Qataris to the Bank. In 2012 the Bank maintained a 30% Qatarization level, which is by far one of the best in the industry. The Bank's Qatarization efforts were well appreciated by the Ministry of Labor.

The Bank continued its corporate social responsibility programs and provided financial and technical support to various sports, charitable and social bodies in order to enhance the role of the individual and the community in building the society and upgrade it to the desired level.

In 2012, Masraf Al Rayan opened a new branch in the Olympic Committee building, thereby raising its number of branches to 11. This is in addition to the Al Khor branch which is dedicated to fund transfers.

In 2013 the Board of Directors aim to further enhance its relationship with its customers, especially the small and medium scale companies, and is looking towards improving its market share in the SME sector.

On behalf of the Board of Directors of Masraf Al Rayan I take immense pleasure in extending our most profound gratitude to HH Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar and to HH Sheikh Tamim Bin Hamad Bin Khalifa Al Thani, the Heir Apparent for their far-sighted directives which continues to guide the success of the financial sector. Our sincere thanks are also extended to HE Sheikh Abdullah Bin Saud Al Thani, Governor of Qatar Central Bank and to HE Sheikh Fahad Bin Faisal Al Thani, Deputy Governor of Qatar Central Bank for their valuable contributions towards enhancing the performance of the banking sector and safeguarding the financial stability of the State of Qatar.

I also extend our sincere gratitude to the executive management and employees of Masraf Al Rayan for their unwavering loyalty and commitment towards the ongoing success of the Bank.

I assure our esteemed customers and shareholders that we will continue to work hard to achieve even higher heights of success.

Thank you.

Dr. Hussain Ali Al Abdulla
Chairman & Managing Director

Message from the Group Chief Executive Officer

"While net profits amounted to QR 1,520 million with growth of 7.9% compared to 2011, the growth of total assets amounted to QR 61,628 million compared to QR 55,271 million as at December 31, 2011, and the growth rate reached 11.5%."

While the years march on, the challenges get bigger and more complex. But Masraf Al Rayan has repeatedly proven that it can stand up and overcome these hurdles.

2012 has passed, but not all the 2012 crises have come to an end. The Europe bankruptcies crisis, the USA debt crisis, and the various security crises that took place in most of the region have continued into 2013. We have rallied our forces and abilities to stand up against such crises and achieved satisfactory results.

Our financial results showed growth in net profit to 7.9% during 2012 and Masraf Al Rayan achieved net profit amounting to QR 1,520 million.

Because we continued applying our conservative policies during 2012, we were able to avoid many problems. Meanwhile, we remained focused on the opportunities given by the renaissance and growth of our country, supported by a strong economy and large commitments for several national development and infrastructure projects amounting to more than QR 62 billion.

Financial performance
While net profits amounted to QR 1,520 million with growth of 7.9% compared to 2011, the growth of total assets amounted to QR 61,628 million compared to QR 55,271 million as at December 31, 2011, and the growth rate reached 11.5%.

Masraf Al Rayan worked diligently to increase its local market share. The Bank also managed to increase its finance activities with a total amounting to QR 42,769 million compared to QR 34,766 million as on December 31, 2011, the growth rate reaching 32%.

Customer deposits grew to QR 45,009 million compared to QR 33,069 million as at December 31, 2011, an increase of 36.1%.

Against that background, the Masraf Al Rayan board of directors recommended distribution of dividend of one Qatari Riyal per share for the year ended 31 December 2012.

Total shareholder equity at the end of 2012, before distribution of dividend, amounted to QR 9,734 million compared to QR 8,504 million at the end of 2011, an increase of 14.5%. The book value per share amounted to QR 12.79 and the earning per share was QR 2.01.

Meanwhile, Masraf Al Rayan reserves have doubled in value with the total legal reserve reaching QR 292 million, and risks reserve reaching QR 787 million in addition to QR 9 million of fair value reserve. More than one billion in earnings have been achieved.

Customers services and new products
During 2012, Masraf Al Rayan launched "Al Rayan Mobile Banking Service" using iPhone, iPad, Blackberry applications for individual banking services such as opening accounts, term deposits, foreign exchange, and transfer between customer's accounts. It also launched "Al Rayan Net Service" for wholesale banking services. At the same time, Masraf Al Rayan has extensively supported and enhanced the information security measures for internet-based electronic financial transactions.

Local and global expansion
In regards to local expansion, Masraf Al Rayan continued working according to the board directions by providing its banking services through its twelve branches inside Qatar, including its branch (Class: C) in Al Khor city for money transfer services. During the period, the ATM network increased to reach 48 machines.

Masraf Al Rayan also continued working during 2012 to complete the acquisition of a large share in the Islamic Bank of Britain. We are optimistic about this opportunity because, if God wills, we are in advanced phases to complete it. As for acquisition of a share in a bank in Libya and transforming it into an Islamic bank, we have been working on this opportunity since the later months of 2012. We continue working on these opportunities to reach the targeted results.

Subsidiaries
During 2012, two major events took place. The First one was the official announcement on May 2012 of the start-up of "Al Rayan Financial Brokerage", owned by Masraf Al Rayan.

Al Rayan Financial Brokerage is a company independent from Masraf Al Rayan. It has its own legal identity and a board of directors which

Masraf Al Rayan worked diligently to increase its local market share. It also managed to increase its finance activities with a total amounting to QR 42,769 million compared to QR 34,766 million as on December 31, 2011, the growth rate reaching 32%. Customer deposits grew to QR 45,009 million compared to QR 33,069 million as at December 31, 2011, an increase of 36.1%.

undertakes the responsibility of supervising its business activities according to its own policies and procedures.

Al Rayan Financial Brokerage has recruited qualified employees who have highly developed skills and extensive experience to provide the best solutions and services in the field of financial brokerage in accordance with Islamic Shari'a principles.

Al Rayan Financial Brokerage is subject to the supervisory authority of the Qatar Financial Markets Authority (QFMA). It is also a licensed member of the Qatar

Exchange (QE). And it is also one of the members authorized to sell and buy securities permissible under Islamic Shari'a principles.

The second event was the launch of Qatar Exchange Al Rayan Islamic Index in cooperation with Qatar Exchange and Al Rayan Investment in May 2012.

Qatar Exchange capabilities in relation to indexes have combined with the experience of Al Rayan in the field of investments permissible by Islamic Shari'a principles to select Index-approved companies.

The Index has depended extensively on the shares of the companies listed in the Qatar Exchange, permissible by Islamic Shari'a principles, and approved by Masraf Al Rayan Shari'a Supervisory Committee. The Index has focused on the liquidity of the listed shares and their capitalization value.

The Qatar Exchange Al Rayan Islamic Index is also considered one of the total return indexes. It reflects the price performance as well as the returns from re-investment of share dividends of the listed companies. The calculation of the new Index begins from 2007. Since that date, the Index has achieved an annual return of 14.8%. During 2012, it achieved a return of 14%. The Index also contributes to the launch of exchange traded or listed investment funds in accordance with Islamic Shari'a principles. This shall be launched by Al Rayan Investment after being approved by the Shari'a Supervisory Committee of Masraf Al Rayan.

Development of individuals

The management in Masraf Al Rayan gives great importance to the development of employees. The development of the Masraf Al Rayan workforce is one of its top priorities. During 2012, much effort was exerted to achieve this target. By the end of 2012, new Qatari trainees had successfully completed their training program for future leaders. Meanwhile, we have collaborated with the Qatari Ministry of Labor to attract more young Qatari graduates or candidates to Masraf Al Rayan employment. During 2012, Masraf Al Rayan managed to attract and maintain a high percentage of Qatari employees which reached 30%. For this it received an award from the Ministry of Labor as the best organization attracting Qatari Employees during 2012.

During 2012, Masraf Al Rayan has also participated in Sport Day, a gift granted by the wise leadership of Qatar which gives significant attention to the individual and places human and social development as one of its pillars for its future vision of Qatar. Masraf Al Rayan employees together with their families participated in that day's activities.

Social and humanitarian responsibility

At the humanitarian level, Masraf Al Rayan has continuing important and effective participations. It participated in the blood donation campaign in cooperation with Hamad Medical Corporation which

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organized a field campaign for blood donation in Doha. Masraf Al Rayan employees were very happy to participate in such humanitarian, reflecting the values of Masraf Al Rayan and demonstrating its social responsibility. The participants also expressed their pride in participating in such a campaign which helps mitigate the suffering of many patients.

Masraf Al Rayan also continued its effective participation in initiatives for the welfare of our community in 2012. It provided financial contributions and organized several sports events as well as charitable and social events for the development of the individual and the community which are pillars of Qatar National Vision 2030.

Finally, we emphasize that we could not achieve our success or any of our individual achievements without the collaborative team work of our employees and the wise policies adopted by Qatar under the guidance of HH Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar. This also comes as a result of the support of the officials in the supervisory authorities including HE Sheikh Abdullah Bin Saud, Qatar Central Bank Governor and HE Sheikh Fahed Bin Faisal Al Thani, Deputy Governor.

We are very optimistic about the future. We look forward to achieving even better financial results in the new year.

Adel Mustafawi
Group Chief Executive Officer

Corporate Governance

Another year has been completed with the implementation of the corporate governance guidelines of listed companies in the State of Qatar. Companies earn more trust from their shareholders and clients with the new experiences encountered as greater transparency is achieved and more information is available for everyone, especially with ease of access over the Internet through websites. Implementation of corporate governance is now approaching the international standards set by global organizations specialized in the field. As with the previous two years, throughout 2012, banks and financial institutions in the State of Qatar have complied with the application of the sound corporate governance guidelines set forth by Qatar Central Bank and Qatar Financial Markets Authority.

Leadership in Masraf Al Rayan

Board of Directors

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Sheikh Al Hussein Bin Ali Bin Ahmed Al Thani
Vice Chairman

Sheikh Saleh Ali Abdul Rahman Al Rashed
Board Member

Mr. Jassim Saif Ahmed Al Sulaiti
Board Member
Representing Qatar Armed Forces Fund

Sheikh Nasser Bin Hamad Bin Nasser Al Thani
Board Member

Mr. Faisal AbdulWahid Al Hammadi
Board Member
Representing Qatari Diar Real Estate Investment Company

Mr. Turki Mohammad Al Khater
Board Member
Representing the General Retirement and Social Insurance Authority (Qatar)

Mr. Abdullah Ahmad Al Maleki
Board Member

Mr. Khalaf Sultan Al Dhaheri
Board Member

Senior Management

Adel Mustafawi
Group Chief Executive Officer

Ahmed Sheikh
Chief Operating Officer

Feizal Ali
CEO - Al Rayan Ventures

Mohammed Mursal
GM - Financial Controls

Syed Hasan
GM - Wholesale Banking Group

Abdulla Almulla
GM - HR & Administration

Pichu Chidambaram
AGM - IT Head

Hasan Al Hammadi
AGM - Treasury

Abdelmonem Mohamed El Hasan
General Legal Counsel

Majdi Awouda
Chief Internal Auditor

Khalid Fakhroo
AGM - Engineering

Mohamed Jama
AGM - Chief Risk Officer

Zakaria Glaoui
AGM - Private Banking & Branches

Howaida Al Mohannadi
Acting AGM - Operations

Fawzi Siam
Senior Manager, Shari'a Audit

Dareer Mohammed
Compliance Manager

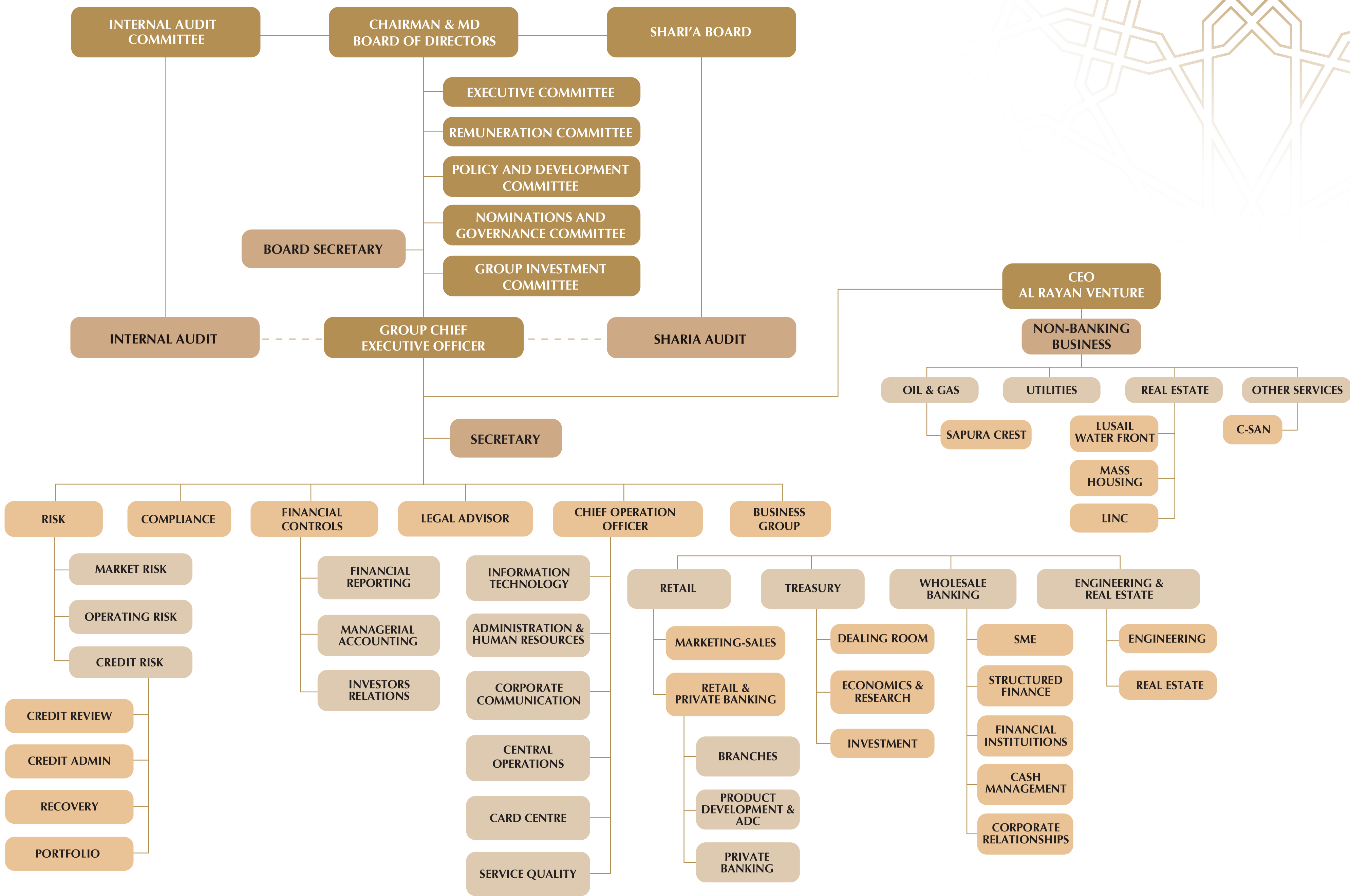
Shari'a Supervisory Board

Sheikh Dr. Waleed Bin Hadi
Chairman

Sheikh Dr. Abdull Sattar Abu Ghuddah
Member

Sheikh Dr. Mohamed Ahmeen
Member

Organizational Chart



Board of Directors' Report on Corporate Governance in Masraf Al Rayan 2012

Introduction

Another year has been completed with the implementation of the corporate governance guidelines of listed companies in the state of Qatar. Companies earn more trust from their Shareholders and clients with the new experiences encountered as greater transparency is achieved and more information is available for everyone, especially with ease of access over the internet through websites. Implementation of corporate governance is now approaching the international standards set by global organizations specialized in the field. As with the previous two years, throughout 2012, banks and financial institutions in the state of Qatar have complied with the application of the sound corporate governance guidelines set forth by the Qatar Central Bank and the Qatar Financial Markets Authority.

Masraf Al Rayan has continued to comply with the governance guidelines, as has the banking sector, as per the second and third articles of the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority.

Masraf Al Rayan Ownership

The largest 10 Shareholders of Masraf Al Rayan as of 31 December 2012 were:

No.	Name	Type	Nationality	Shares	Percent
1.	Qatar Holding Company	Government	Qatar	89,200,200	11.9%
2.	Qatar Armed Forces Portfolio	Government	Qatar	70,522,435	9.4%
3.	Al Mirqab Capital	Commercial	Qatar	17,004,136	2.3%
4.	Pensions Fund – General Retirement and Social Insurance Authority	Government	Qatar	16,615,075	2.2%
5.	Burooq Commercial	Commercial	Qatar	13,950,000	1.9%
6.	Qatar Foundation Fund (QFF)	Government	Qatar	13,400,000	1.8%
7.	Education and Health Fund	Government	Qatar	13,400,000	1.8%
8.	Manazil Trading Company	Commercial	Qatar	11,034,546	1.5%
9.	Qatar National Fund 8	Commercial	Qatar	10,750,000	1.4%
10.	Hamad Abdulla Al Thani	Individual	Qatar	9,800,000	1.3%

Board Charter

There have been no changes to the Board's Charter throughout 2012 and the Board has continued to operate under the same approved Charter which included detailed descriptions of the Board and its responsibilities and the duties of its Board Members based on the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority. The Charter has been published on the electronic website of Masraf Al Rayan to be available for Shareholders and the public.

Board Duties and Responsibilities

Masraf Al Rayan is operated by an effective Board that is collectively responsible for appropriately supervising the Bank's Management.

In addition to the responsibilities stipulated in Board Charter, the Board responsibilities include the following as well:

- Approving the strategic goals of the company and appointing Management, replacing it, setting its bonus, reviewing Management performance, ensuring succession planning for Management.
- Assuring the compliance of Masraf Al Rayan with relevant rules and regulations, the Articles of Association of Masraf Al Rayan, as well taking on the responsibility of protecting Masraf Al Rayan from illegal operations and practices, or that are arbitrary or inappropriate.
- The Board is entitled to delegate some of its authority and to form specialized committees to perform specific roles and functions. In such case, the Board provides detailed instructions about the duty or delegation, subject to preceding Board approval in specific matters. Nevertheless, even if the Board has delegated one or more of its functions, the Board remains responsible for all duties and responsibilities that it has delegated.

Board Members' Entrusted Responsibilities

Each Board Member owes due diligence and care towards executing their responsibility in adherence to relevant rules and regulations, including the Corporate Governance Code for Companies Listed in Markets Regulated By The Qatar Financial Markets Authority, and the Board Charter.

Board Members are required to always operate based on clear information, in good faith, with the due diligence and care required, and assuring the best interests of Company and all Shareholders.

The Board Members are also required to effectively address their obligations towards Masraf Al Rayan.

Chairman of the Board of Directors' Duties

The Chairman of the Board of Directors is responsible for the proper functioning of the Board of Directors, in an appropriate and effective manner; including that Board Members obtain complete and correct information in a timely manner.

The Chairman may not be a Member of any of the Board's Committees as stipulated in Board Charter.

The duties and responsibilities of the Chairman include, but are not limited to, the following:

- Ensure that the Board discusses all core issues in an efficient and timely manner.
- Approval of the agenda for each meeting of the Board of Directors, taking into account any issue raised by any member of the Board of Directors, and the Chairman may delegate this task to a member of the Board; however, the Chairman remains in charge of the said Member executing the task in an appropriate manner.
- Encourages all Members of the Board to participate fully and effectively in the conduct of the affairs of the Board in order to assure that the Council works for the benefit of Masraf Al Rayan.
- Ensure effective communication with Shareholders and delivering their opinions to the Board of Directors.
- Gives Non-Executive Board Members, in particular, the opportunity to effectively participate, and to encourage constructive relations between Executives and Non-Executives Board Members.
- Ensures conducting an annual assessment of the performance of the Board.

> “Masraf Al Rayan is operated by an effective Board that is collectively responsible for appropriately supervising the Bank's Management.”

> Masraf Al Rayan continues to comply with the governance guidelines as per the second and third articles of the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority.

The Board

The Board has continued to operate throughout 2012 as per its previous year's formation, whereby it included 9 members as per article 23 of the Articles of Association. Accordingly, the General Assembly elected 7 Members and the remaining 2 were appointed by the Founding Members to represent them; namely Qatari Diar Real Estate Company and the General Retirement and Social Insurance Authority.

Board Members

	Name	Title	Nationality	Status	Frozen Shares as of 31/12/2012	Available Shares as of 31/12/2012	Mortgaged Shares as of 31/12/2012
1.	Dr. Hussain Ali Al Abdulla	Chairman and Managing Director	Qatari	Not Independent Non-Executive	100,000	1,900,000	–
2.	Sheikh Al Hussein Bin Ali Bin Ahmed Al Thani	Vice Chairman	Qatari	Independent Non-Executive	100,000	200,000	–
3.	Sheikh Saleh Ali Abdul Rahman Al Rashed	Board Member	Saudi	Independent Non-Executive	100,000	–	7,400,000
4.	Mr. Jassim Saif Ahmed Al Sulaiti *Representing Qatar Armed Forces Fund*	Board Member	Qatari	Independent Non-Executive	–	100,300	–
5.	Sheikh Nasser Bin Hamad Bin Nasser Al Thani	Board Member	Qatari	Independent Non-Executive	100,000	–	–
6.	Mr. Faisal AbdulWahid AlHammadi *Representing Qatari Diar Real Estate Investment Company*	Board Member	Qatari	Independent Non-Executive	–	32,000	–
7.	Mr. Turki Mohammad Al Khater *Representing the General Retirement and Social Insurance Authority (Qatar)*	Board Member	Qatari	Independent Non-Executive	–	38,676	–
8.	Mr. Abdullah Ahmad Al Maleki	Board Member	Qatari	Independent Non-Executive	100,000	241,004	–
9.	Mr. Khalaf Sultan Al Dhaheri	Board Member	UAE	Independent Non-Executive	100,000	–	–

About the Board of Directors

Dr. Hussain Ali Abdulrahman Al Abdulla

Chairman and Managing Director
of Masraf Al Rayan
Ph.D. Economics

Holds the following positions:
- Vice Chairman – Qatar Holding
- Executive Board Member – Qatar Investment Authority
- Acting Chairman, Board of Directors – Qatar Exchange
- Board Member – Qatar Airways
- Board Member – Gulf Investment Corporation (Kuwait)
- Board Member – Volkswagen (Germany)
- Chairman – Al Rayan Investment

Sh. Al-Hussain Bin Ali Bin Ahmed Al Thani

Vice Chairman of Masraf Al Rayan
Bachelor of Law

Holds the following positions:
- Vice Chairman – Daman Islamic Insurance Company – Beema
- Chairman – Al-Hosn Investment Company SAOC (Oman)

Sh. Saleh Ali Abdulrahman Al-Rashid

Board Member of Masraf Al Rayan
Diploma of Commerce – Business Management

A well-known Businessman in the Kingdom of Saudi Arabia and holds the following positions:
- Chairman – The Gulf Union Cooperative Insurance Company (Saudi)
- Chairman – Global Investment Bank (Bahrain)
- Chairman – National Amlak Investment Company (Saudi)
- Chairman – AlKhomasia Fodder and Livestock Production Company
- Chairman – Supporting Supplies Company for Instalments ltd.
- Chairman – Al-Rashed & Al-Thunayan Auto Co.

Mr. Jassim Saif Ahmad Al Sulaiti

Board Member of Masraf Al Rayan representing Qatar Armed Forces
Bachelor of Mechanical Engineering – Business Administration

Holds the following positions:
- Brigadier-Commander of Maintenance Corps – Qatar Armed Forces
- Chairman – Mowasalat
- Board Member – Al Rayan Investment

Sh. Nasser Bin Hamad Bin Nasser Al Thani

Master's of Business Administration (MBA)
Board Member of Masraf Al Rayan

Holds the following positions:
- Board Member – Al Rayan Investment

Mr. Faisal Abdulwahid Al Hammadi

Master's of Finance
Chartered Financial Analyst (CFA)
Board Member of Masraf Al Rayan

Holds the following positions:
- Head of Asset Investments Management at Qatar Investment Authority
- Board Member – Al Rayan Investment

Mr. Turki Mohammed Khalid Al Khater

Board Member of Masraf Al Rayan representing General Retirement and Social Insurance Authority
Bachelors of Economics and Social Sciences

Holds the following positions:
- Head of the General Retirement and Social Insurance Authority
- Board Member – Qtel
- Board Member – Ahli United Bank (Bahrain)

Mr. Abdulla Ahmad Al Malki Al Juhani

Board Member of Masraf Al Rayan
Bachelors of Management and Economics

Mr. Khalf Sultan Al Dhaheri

Board Member of Masraf Al Rayan
Master's of Business Administration – Certified Accountant

Holds the following positions:
- Group Chief Operations Officer – Abu Dhabi National Bank (UAE)

> The Group Chief Executive Officer is the one who performs his duties as chief of the executive management and the Managing Director acts as a link between the Board and the Executive Management.

Independence of Board Members

The elected Board of Masraf Al Rayan contains 8 independent Members while all its Members are Non-executive. It is important to note that His Excellency Dr. Husain Al Abdulla, who holds the position of Managing Director, does not carry out daily executive duties at Masraf Al Rayan. The Group Chief Executive Officer is the one who performs his duties as chief of the executive management and the Managing Director acts as a link between the Board and the Executive Management. A clear segregation has been put between the positions of Chairman of the Board (Managing Director) and the Chief Executive Officer (General Manager); furthermore, the Chairman is not a member of any of the Board Committees. The Board Charter segregates the duties of the Chairman in accordance with article 8 of Corporate Governance Guidelines issued by the Qatar Financial Markets Authority.

Non-Executive Board Members' Duties

The duties of the Non-Executive Board Members include, but are not limited to, the following:

- Participation in the Meetings of the Board of Directors and to give an independent opinion about strategic issues, performance and accountability, resources, key appointments and operation standards.
- Ensure that priority be given to the interests of Masraf Al Rayan and the Shareholders in the event of any conflict of interests.
- Participation in the Audit Committee of Masraf Al Rayan.
- Monitoring the performance of the company in achieving its agreed upon objectives and targets, and the review of the performance reports, including the Annual Reports as well semi-annual and quarterly.
- Oversight of the development of special procedures for Masraf Al Rayan Corporate Governance and to oversee its application accordingly.
- To make available their skills, experience, and diverse competencies and qualifications to the Board of Directors or its various Committees through regular attendance of Board Meetings and their effective participation in General Assembly Meetings and their understanding of the views of Shareholders in a balanced and fair manner.
- It is permissible for the majority of Non-Executive Members of the Board to request an independent consultant at the expense of Masraf Al Rayan; for any issue related to the Bank.

Board Meetings

The Board of Masraf Al Rayan has convened 6 times throughout 2012 on the following dates:

First Meeting : January 29, 2012
Second Meeting : April 24, 2012
Third Meeting : June 4, 2012
Fourth Meeting : August 1, 2012
Fifth Meeting : October 15, 2012
Sixth Meeting : December 16, 2012

The Board of Masraf Al Rayan executes its duties and responsibilities according to what has been stated in the Articles of Association and Memorandum of Association of Masraf Al Rayan, in alignment with both the Qatar Central Bank Corporate Governance Instructions and the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority. The Board is considered collectively responsible for supervising the Management of Masraf Al Rayan in the appropriate manner that is in compliance with the Charter of the Board. The Board also approves the strategic objectives and adopts the policies that are the controls for Masraf Al Rayan.

Secretary of the Board of Directors

The position of Secretary of the Board of Directors is held by Mr. Ghassan Al-Rihawi since the inception of the Bank in 2006. Mr. Al-Rihawi previously held the position of Secretary of the Board of the Chamber of Commerce and Industry - Qatar from 2002 -2006 and has managerial experience of over 31 years in the State of Qatar.

The Secretary's duties include recording, preparing, and saving all Minutes of the Meetings of the Board under the supervision of the Chairman. He is also charged with ensuring communications and liaison between the Members and the Board as well as the Board and other stakeholders inclusive of Shareholders and Management.

The Board Secretary also ensures the ability of Members to reach the Minutes of the Meetings, information, documents, and records related to Masraf Al Rayan in full and expeditiously. He is also responsible for giving Shareholders the ability to reach ownership details, records of Shareholders, records of Board Members, Articles and Memorandum of Associations and any other documents which provide any preference or privilege over the assets of Masraf Al Rayan and related parties agreements.

Conflict of Interest and Insider Transactions

Masraf Al Rayan is committed to the adoption and the declaration of general rules and procedures governing its entry in any business transaction with a related party (Masraf Al Rayan policy with respect to related parties). In any case, Masraf Al Rayan refrains from entering into any business transaction with a related party, or to sign with them, except in compliance with the Bank's policy for Related Parties. Such policy must ensure that the principles of transparency, fairness and disclosure are applied, and requires the approval of any such transaction with a related party by a majority of Shareholders in a vote in which the said related party that does not vote.

In case any question of a conflict of interest or a business deal between Masraf Al Rayan Bank and a Member of the Board or any related party to the Board Member during a meeting of the Board, that the topic is discussed in the absence of the Member concerned, who has absolutely no right to participate in the vote on the deal. And in any case such deal must be done according to market prices and on a purely commercial basis, and must not include conditions contrary to the interest of the Company.

The Corporate Governance policy requires the disclosure of these transactions in the Company's Annual Report, and to be specifically referred to in the General Assembly Meeting that follows such deals.

The Corporate Governance Policy stipulates the requirement to disclose information about the trades of Members of the Board of Directors in the shares of Masraf Al Rayan and its other financial papers, and that the company adopts clear rules and procedures governing the trading of Board Members and Staff in the Company's Shares.

Other Duties and Responsibilities of the Board

Board Members are granted full and prompt access to information, documents, and records related to the Company, the Executive Management of Masraf Al Rayan is committed to provide the Board and its Committees with required all documents and information.

Members of the Board are keen to attend the meetings of the Nominations and Governance Committee, the Remuneration and Compensation Committee, the Internal Audit Committee, internal auditors and representatives of the External Auditors, and of the General Assembly.

The Board of Directors has adopted an induction program which has been developed to ensure that Members, when elected, have a proper understanding of the functioning of the Company, its operations, and that they are fully aware of their responsibilities.

The Members of the Board are responsible for the good understanding of their roles and duties, and they are responsible to educate themselves in financial matters, commercial, industrial, and in the operations of the Company and its functions; and to this end the Board must adopt or follow appropriate and official training courses that aim to endorse the skills of Board Members and their knowledge.

The Board of Directors works to keep its members informed constantly on the latest developments in the field of corporate governance and best practices in this regard, and the Board may delegate the responsibility to the Internal Audit Committee or the Nominations and Governance Committee or any other entity it deems appropriate.

The Articles of Association of Masraf Al Rayan include in Article number (32) clear procedures for the dismissal of Board Members in the event of absence from Board Meetings.

Shari'a Supervisory Board

On 16 December 2012 via decision number 11/6/2012 the Board of Masraf approved the appointment of Dr. Mohamed Ahmeen as Member of the Shari'a Board in lieu of Dr. Mohamed Othman Shubeir whose resignation has been accepted because of his traveling. The decision was conditional on QCB approval.

The Board has relied in its decision on the delegation given from the General Assembly of Masraf Al Rayan to the Board at its meeting on 28 March 2011 which included approval of appointing the Shari'a Board for Masraf Al Rayan for the 3 years 2011-2013, the delegation to the Board to fill any vacant positions for any reason, to assign their compensation, and any other matter related to the Shari'a Board.

And as per this new change, the Shari'a Board Members are now:

- **Sheikh Dr. Waleed Bin Hadi**
  Chairman
- **Sheikh Dr. Abdull Sattar Abu Ghuddah**
  Member
- **Sheikh Dr. Mohamed Ahmeen**
  Member

The work of the Shari'a Supervisory Board includes review of contracts, answering Shari'a related questions, placing solutions for difficulties that arise during implementation. The Supervisory Board also oversees the Bank operations of Masraf Al Rayan to ensure the proper implementation of its decisions, and to ensure that banking operations are done in accordance with Shari'a regulations.

The Supervisory Board also presents its report annually for each financial year to the Ordinary General Assembly Meeting.

Board Committees

The established Board Committees started in 2012 implementing their duties as per their terms of reference and in alignment with corporate governance guidelines. The Committees are as follows:

Executive Committee

Committee Composition

- **Sh. Al Hussain Bin Ali Bin Ahmed Al Thani**
  Chairman
- **Sh. Nasser Bin Hamad Bin Nasser Al Thani**
  Member
- **Mr. Jassim Saif Al Sulaiti**
  Member
- **Mr. Faisal AbdulWahid Al Hammadi**
  Member

The Executive Committee is considered one of the most important Committees as it helps the Board review Masraf Al Rayan activities and undertakes studies of matters which shall be presented to the Board, such as credit transactions or other activities of Masraf Al Rayan that require Board approval. The Committee is the one to prepare the recommendations that are to be presented to the Board.

The most important duties of the Executive Committee are:

- Review of the main functions of the Board
- Discussing and passing items that fall under the purview of the Board or those that develop in between Board Meetings.

> Masraf Al Rayan is committed to the adoption and the declaration of general rules and procedures governing its entry in any business transaction with a related party.

- Providing reports and recommendations to the Board as and when needed.
- Endorse risk policy.
- Recommendation to approve policies, rules, and any additions or amendments.
- Approving or recommending ceilings for transactions with new banks and countries that the Bank deals with and making the necessary amendments.

The Committee has held the following meetings:
First Meeting : 24 April 2012
Second Meeting : 31 July 2012

The Committee has studied 22 requests submitted to it, and has taken decisions on each of them by way of circulation.

Internal Audit Committee

Committee Composition

- **Mr. Khalaf Sultan Al Dhaheri**
  Chairman
- **Sh. Saleh Ali Al Rashed**
  Member
- **Mr. Abdullah Ahmed Al Maleki**
  Member
- **Mr. Turki Mohammad Al Khater**
  Member

The majority of the members of this Committee should be independent with an independent member chairing the Committee.

The Internal Audit Committee has the following responsibilities:

- Appoint the internal audit staff and adopt a policy for contracting the external auditors.
- Supervise and monitor the independence of the external auditors and their objectivity and discuss with them the nature and scope of the audit and effectiveness in accordance with international auditing standards and international financial reporting standards.
- Overseeing the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports, review the data and reports in particular with regards to their compliance with accounting, transparency, listing in the market and disclosure standards.
- Coordination with the Board and senior executive management and Chief Financial Officer of the Bank or designate and arrange meetings with the external auditors at least once a year.
- Study any important and unusual issues included or will be included in the financial statements.
- Revision of financial and internal control systems and risk management.
- Discuss the internal controls system with the management and ensure the performance of the management of its duties towards the development of an effective internal controls system.
- Considering the results of the investigations in the internal control issues entrusted to it by the Board of Directors.
- Ensure coordination between the external and internal auditors and verify and supervise the effectiveness of the internal audit.
- Review the accounting and financial policies and procedures of the Bank.
- Review letter of appointment of the external auditor, his work plan and any queries he requested from Senior Management of the bank as well as the responses of the management.
- Ensure prompt response to Board of Directors queries and matters raised by external auditors.
- Developing rules to be approved by the Board of Directors allowing the staff of the bank to report confidentially their concerns regarding any issues that are likely to raise suspicion, and to ensure appropriate arrangements for an independent and fair investigation about these issues while preserving confidentiality and protecting the staff from any retaliation.
- Oversee compliance with the rules of professional conduct.
- Reporting to the Board of Directors on matters provided for in this article.
- Consider any other matters determined by the Board of Directors.

The Audit Committee held the following meetings:
First meeting : 16/1/2012
Second meeting : 29/1/2012
Third meeting : 24/4/2012
Fourth Meeting : 4/6/2012
Fifth Meeting : 15/10/2012

Remuneration and Compensation Committee

Committee Composition

- **Mr. Turki Mohammad Al Khater**
  Chairman
- **Mr. Khalaf Sultan Al Dhaheri**
  Member
- **Mr. Abdullah Ahmad Al Maleki**
  Member

The committee has the following responsibilities:

- Determining the remuneration policy at the bank, including the emoluments of the Chairman and all members of the Board and the senior executive management.
- Updating regulations of the rewards and compensation whenever the need arises.
- Proposing remuneration of the members of the Board of Directors and executive management, taking into account the following:
  - The value of awards granted to members of the Board of Directors and executive management in similar financial institutions, local and regional.
  - Profits and achievements of the bank during the financial year and compare them with the results of previous years.
  - Economic and financial conditions during the fiscal year.
- Responsibilities and scope of tasks of the Board members and senior executive management.
- Observing the relevant articles in Masraf Al Rayan Articles of Association that determine the value of the bonuses for the members of the Board of Directors.
- Proposing the bases that determine the annual bonuses for staff.
- Presenting the remuneration policy and principles to Shareholders in a General Assembly Meeting for approval and public announcement.

The committee had a meeting on 16 January 2012.

Policies and Development Committee

Committee Composition

- **Mr. Faisal AbdulWahid AlHammadi**
  Chairman
- **Mr. Khalaf Sultan Al Dhaheri**
  Member
- **Mr. Jassim Saif Ahmed Al Sulaiti**
  Member

Committee Objectives

- To prepare, study, and develop work strategies for Masraf Al Rayan
- To review and develop Masraf Al Rayan goals
- To study, review, and develop Policies for Masraf Al Rayan
- To study, review, and develop Masraf Al Rayan Work Plans and processes
- To review the Budget.

The Committee held a meeting on 24 April 2012.

Nominations and Governance Committee

Committee Composition

- **Mr. Jassim Saif Ahmed Al Sulaiti**
  Chairman
- **Mr. Turki Mohammed Al Khater**
  Member
- **Mr. Abdullah Ahmad Al Maleki**
  Member

The committee has the following responsibilities:

- Adoption and publication of its terms of reference showing its authority and role.
- Proposing appointment of Board members and the re-nomination for election by the General Assembly.
- Supervise the implementation steps for the call for nominations to the Board, and consider applications received to ensure matching of applicants for membership conditions.
- Determining qualifications for Board membership, including independence.

- Make sure that candidates can give sufficient time to carry out their duties as members of the Board as well as their skills, knowledge and experience and professionalism, technical, academic and personality.
- Consider any conditions or requirements relating to the nomination or election or appointment of Board members from Qatar Central Bank or any other authority.
- Evaluate candidates for senior executive management positions, and submit recommendations to the Board of Directors.
- Perform an annual self-assessment of the Board's performance.
- Follow-up Board Committees' self-assessments.
- Supervise Board structure and composition of its committees.
- Review the annual Corporate Governance report of Masraf Al Rayan, and to recommend its approval by the Board.
- Placing an induction program for new Members and suggesting training for them as and when required.

The Committee had a meeting on 22 January 2012 after which it conducted several activities including:

1. Reviewing and approving the previous year's (2011) Corporate Governance report.
2. Studying and ratifying the Corporate Governance Manual.
3. Studying and ratifying the updated Induction Program for new Board Members.

Group Investment Committee

The Committee's composition was reconstituted pursuant to Board of Directors resolution number 6/4/2012 dated August 1st 2012 as follows:

- **Mr. Faisal AbdulWahid AlHammadi**
  Chairman
- **Sh. Nasser Bin Hamad Bin Nasser Al Thani**
  Member
- **Mr. Adel Mustafawi**
  Member
- **Mr. Feizal Ali**
  Member
- **Mr. Ahmed Sheikh**
  Member

The Committee has the following responsibilities:

- To prepare, study, and develop investment policies for the Group that includes the broad lines for investment and identification of assets and prohibited investments.
- Review and approve the investment activities of the Group, place limits on single transaction investments or for cumulative annual limit as per Investment Policy.
- To supervise the management of the Group's investment portfolio to monitor compliance with Investment Policy.
- Review investment portfolio performance by comparing actual vs. expected returns, as well as comparing it to market performance indices approved by the Board, taking into account compliance with policies and directions and risk level.
- Review of periodic analysis and Management Reporting.
- To approve investment sector limits.
- To approve investment country limits.
- To review investment strategies whenever the need arises.
- Other duties and responsibilities and having authority as per Board delegation.
- Preparing reports and presenting them to the Board to disclose investment decisions which were made, policies, and investments performance.
- To carry out any other assignments whenever requested, as per the changes in the policies of the Board or Qatar Central Bank regulations, or Qatar Financial Markets Authority regulations, or as needed as per market developments.
- To approve investment deals according to the set limits by the Committee and to raise recommendations for deals with higher limits to be approved by the Board.
- Invite experts to Committee meetings to provide opinions in the technical areas.

The Committee had a meeting on 14 October 2012.

Board Charter

The Corporate Governance Charter aims at providing frame of responsibility and control over the Bank in addition to ensuring the existence of a supervision that is based on respect of values according to the laws and related regulations.

Masraf Al Rayan solemnly believes that following this Charter will enhance – in the long run – trust with shareholders, clients and employees and different stakeholders in addition to establishing and supporting Masraf Al Rayan reputation in the money market.

The Board Charter is binding not only on the Board members but on all staff and the Board of Directors is considered responsible for implementing this Charter and applying it by all staff at Masraf Al Rayan.

This Charter was prepared in compliance with the local laws and rules and international standards. The Charter will be revised from time to time considering the guidelines, the acquired experiences, work needs and according to the requirements of Qatari laws and related regulations.

Masraf Al Rayan Board of Directors reviewed an update to the Charter on their December 19, 2011

Meeting but the matter was postponed to be presented again on the January 29, 2012 Meeting. In addition, the Board had also signed a Confidentiality Charter.

This Charter has been updated and ratified by the Board of Directors on pursuant to resolution 7/1/2012 dated 29/1/2012.

Board Remuneration

The Remuneration and Compensation Committee discussed the Board of Directors' bonus and that of the Senior Management and connected it to profit and achievements that the bank had realized during the fiscal year and comparing it with the results of previous years.

The Committee also takes into consideration the economic and financial position during the fiscal year, the responsibilities and scope of duties of the Board Members and the Senior Executive Management must be taken into consideration and that bonuses must be within the permitted level in the Articles of Association and related regulations.

Board Resolution number 13/1/2012 dated 29 January 2012 included adoption of a new standard for determining the compensation of Board Members by assigning a percentage of the net profit achieved. The Board has then carried the recommendation to the Ordinary General Assembly which in turn has ratified this Board remuneration scheme for the year 2011 in their Meeting on 6 March 2012.

List of Bonus, Fees and Allowances of Members of the Board of Masraf Al Rayan

The list of bonuses and allowances and compensations of Board Members is reviewed and updated on an annual basis by the Nominations and Compensation Committee; where the regulatory guidance is included regarding these compensations.

The updated list by the Board pursuant to its Resolution 12/1/2012 dated 29/1/2012 has been approved by the General Assembly of Masraf Al Rayan.

The List includes a presentation on the regulations upon which the List was based, the Board of Directors Resolutions in that regard, and the basis on which the bonus for the Board of Directors and Senior Management is based.

Policies

Masraf Al Rayan is committed in its work to follow an adopted group of policies that determine the framework and controls on all activities. These policies are updated and amended through the Policies and Development Committee before approval by the Board; on a regular and an as-needed basis.

Masraf Al Rayan follows updated policies and reviewed polices which include:

- Internal Audit Policy
- Compliance Policy
- Investment Policy
- Finance Policy
- Corporate Governance Policy
- Anti-Money Laundering and Combating of Financing of Terrorism Policy
- Credit Policy
- Personnel Policy
- Whistleblower Protection Policy
- Succession Policy
- Shari'a Policy

Credit Rating of Masraf Al Rayan

Moody's Investor Services has lifted the rating of issuance in local and foreign currencies of Masraf Al Rayan from A3/Prime2 up to A2/Prime1, and the future outlook is stable for all its long term ratings.

The upgrade awarded to Masraf Al Rayan reflects its low risk profile sustained by excellent quality of its assets, robust capital & liquidity buffers and a strong partnership with the public sector. Since establishment, Masraf Al Rayan has gained a significant market share and has developed a growing corporate franchise in Qatar. According to Moody's, one of the main drivers of the upgrade is Masraf Al Rayan's consistent record of maintaining excellent asset quality.

Moody's expects that Masraf Al Rayan will be able to maintain strong financial fundamentals, and noted that its key ratios compare favorably with those of other Gulf banks, and with the global medians for similarly-rated peers.

Internal Controls inclusive of Financial, Investment, and Risk Management

The internal controls and compliance officers form the first line of tools used by management in order to supervise and review compliance with regulatory guidance and instructions. The officers escalate reports as and when needed directly to the Executive Management or the Board of Directors; accordingly the Board is fully aware of the results of the internal controls. This means that:

- Evaluating and awarding credit
- Investment
- Liquidity
- Market Risk
- Capital Adequacy
- Concentrations Risk
- Foreign Exchange Risk
- Profit Rate Risk
- Pricing
- Profitability and Balances
- Operational Risk and Accounting
- Legal Risks
- Anti-Money Laundering
- Insuring Assets
- Related Parties and Conflict of Interest
- Compliance with laws, regulations, and regulatory instructions
- Internal and External Audit
- Performance Evaluation
- Disclosures to relevant parties
- Policies related to personnel which govern employment, costs, incentive schemes, development of skills, and nurturing ethics and code of conduct in addition to other policies

Are all being reviewed to ensure implementing the best standards and compliance with the regulatory requirements. Then the Internal Audit reviews the functions of the Compliance Officer and Risk Officer to provide reasonable assurance to the Audit Committee of the Board of Directors that these functions are being carried out at a reasonable level of competency and to highlight issues of concern. All of which are also governed by the Policies set forth by the Board (mentioned above in Policies). The evaluation of the Board and Senior Management in how they have applied the systems of internal controls is conducted inclusive of reporting the number of times the Board has been notified about control issues, inclusive of risks, and the way the Board has addressed these issues.

The internal controls work has not revealed other than ordinary issues which have been addressed routinely by each of the Risk Officer and the Compliance Officer within the set policies which did not require Board level intervention.

The control departments continually attempt to uncover areas of potential failure of application of internal controls or even weaknesses in implementation and they are responsible for follow-up to ensure rectification of the issues raised.

The internal control activities are distributed between the control departments, they continually carry out inspections, comprehensively, and raise issues to the Executive Management about findings, observations, violations, and such in order to take the necessary corrective action. There has been no emergency that influences or that may influence the financial performance of the Bank.

External Auditors

The General Assembly of Masraf Al Rayan approved the appointment of the External Auditors KPMG for the financial year 2012. This has been presented to the General Assembly after Qatar Central Bank approval in this regard. The year 2011 was the last year for Ernst & Young as external auditors because they have completed their maximum allowed term of 5 consecutive years as per Qatar Central Bank regulations. KPMG were contracted due to their application of best practices and their maintaining independence and refraining from entering into conflict of interests relationships. The External Auditors also attend the General Assembly to present their annual report and responds to inquiries.

Company Compliance with Rules and Conditions Governing Disclosure and Listing on the Market

Masraf Al Rayan Board of Directors is committed to the principles of transparency in performing its business with regards to the requirements of disclosure on all that may affect the financial performance of the bank or the movement of its shares' prices. Information of the Board members was provided to Qatar Financial Markets Authority as well as to Qatar Exchange to make known their ownership of shares. The Board Charter identifies the responsibilities of the Board and its committees.

The Board is also keen to provide Qatar Exchange with financial statements and clarifications as set by the Qatar Exchange regulations, in addition, the Board publishes the financial statements once approved by the Board of Directors according to the Commercial Companies Law, Qatar Central Bank regulations, Qatar Exchange rules, and the regulations of Qatar Financial Markets Authority.

Financial statements are published supported with external auditors' report who confirms in his reports that the reports and financial statements of Masraf Al Rayan are issued in conformity to the international accounting and auditing standards and that the external auditor has obtained all the data and information that are necessary to perform the audit.

The financial statements and the External Auditors' reports are published on the Qatar Exchange website and on the local media and some GCC newspapers according to what is stated in the Articles of Association of Masraf Al Rayan and the Commercial Companies Law.

Company Compliance with Internal Control Systems for Risk Identification and Management

The Board of Directors gives special attention to setting internal control systems by clearly determining its responsibilities including its position in the organization chart and its relationship with other departments in a way that would ensure its independence and effectiveness. The Board provides adequate resources and fast and clear reporting lines to the Board of Directors and senior management and provide it with necessary authority to have access to information within the frame of clear and adequate policy and procedures and making annual revisions to these policies. The Board ensures that the duties of the Internal Audit include the audit of activities of the Compliance Manager. In addition to the above, the Executive Management in collaboration and coordination with the Compliance Manager takes the necessary corrective and disciplinary action if any violations are discovered and submit periodical reports to the Board on matters related to the policies and procedures of the compliance to help in improving them.

Risk Management Operations and Internal Control Procedures

The Board gives a high level of care and attention to risk management operations and internal control procedures in the Bank because of their importance in sound risk management, especially legal, reputational, and operational risks. Accordingly, the Risk Officer and the Compliance Officer functions are Departments that identify and evaluate and provide counsel and monitor, as well as raise reports about risks of non-compliance with regulations, standards, or instructions. The Board has ensured that these functions have sufficient resources in terms of cadre, equipment, and systems.

> The Bank's Credit Policy is considered the pillar of the Credit Risk Management's function.

The objectives of internal controls are mainly to protect Bank assets, monitor use of available resources, assure accuracy of financial information, identifying responsibilities and authorities and compliance thereto, and the following of a standard clear policy in selection of employees for the various management roles.

Processes Applied by the Bank to Determine, Evaluate and Manage Risks:

Credit Risks

Risk is an integral part of the financial industry, especially in today's world economy condition and the increasing aggressiveness of competition and the size of financial transactions as well as technological developments and the need for larger banks. That is why proper risk management assists the Bank in succeeding and ensures its continuity in the banking sector with acceptable returns and reduced risks.

The Bank's Credit Policy is considered the pillar of the Credit Risk Management's function. That is why the Bank is keen to develop a comprehensive tool to evaluate credit by placing a comprehensive Credit Policy that contains the framework of standards and conditions and guidance for granting credit through following a standardized approach in the process of credit evaluation & management, which provides unified system with sufficient flexibility.

The Bank extends credit facilities only after the applicants meet a set of requirements namely, a clearly identified purpose of the requested facility, adequacy of sources of repayment, customer creditworthiness and experience, acceptable risk level as per MAR approved risk level, as per MAR approved risk appetite, and sufficient collaterals to protect the Bank's rights should the client face difficulty in repayment or stopped altogether without any losses.

Credit is given through the 4 levels of the Credit Committee of the Bank which consists of the following:

1. Retail Credit Committee for credit facility limits up to QR 15 Million
2. Group Credit Committee for credit facility limits up to QR 150 Million
3. Executive Committee for credit facility limits up to QR 300 Million
4. Board Committee for credit facility limits above QR 300 Million

Accordingly no one individual has unilateral lending authority for non-personal lending.

Credit Risk Division

The Credit Risk Division in Masraf Al Rayan follows a number of procedures to identify, assess, measure and monitor risks associated with any financing by adopting the following processes:

Criteria of the Credit Risk Division

1. Determining credit types and sectors (economic) for which the Bank may extend financing.
2. Establishing a limit cap for group exposure as well as pricing modules.
3. Determining types of collaterals, their mechanism of evaluation, the approved professional agents which conduct the evaluation, its financing to collateral value, and taking precautionary steps to protect the bank against any such risk by obtaining property insurance and periodical evaluation of these collaterals.
4. Placing conditions for approval of credit inclusive of information that must be obtained prior to granting of credit facilities, and granting the delegation to grant credit facilities, and establishing independent review of credit and conditions for rating of credit and provisioning.
5. Establishing the level of risk that the Board approves to enter into while financing.
6. Preparing independent credit recommendations for Business Units.
7. Disclosure of all the information related to the client to the Credit Committee with all transparency so that a well advised credit decision is made.
8. Enhancing the role of monitoring and managing credit to ensure the necessary follow up is done to complete all the documentation and collateral as per the Credit Committee recommendation to activate the limits in the electronic system.

> The ORM strategy framework is a comprehensive program that identifies and mitigates risks.

Implementation of Sound Measures to Determine Credit Risks

Granting credit facilities is based on sound measures as detailed below:

1. Assuring that the client request or credit application is signed by a sufficiently authorized delegate.
2. Knowledge of the customer's reputation, experience, market share (industry share), and purpose of finance.
3. Obtaining sufficient information in order to make a comprehensive evaluation of the client and types of risk underlying the requested facility, as well as to be able to rate the client as per the Bank's internal credit rating system.
4. The nature of the current and future risks of the credit applicant, their industry, and sensitivity to the economic developments, and assess the relation between associated risks and profit.
5. Source of repayment and customer's commitment to settle previous debts and type of the acceptable collaterals.
6. Obtaining all the collaterals and their evaluation.
7. Evaluation of the client's financial position using updated Audited financials for the past 3 years.
8. Supporting the application with Credit Bureau reporting on the client to understand the nature and volume of existing facilities of the client.
9. Establishing credit limit caps for all on & off-balance sheet items, credit limit caps for industry, countries, and establishing credit limit caps based on the customer risk rating.
10. Establishing credit limit caps which can be extended for equity at one obligor level, group level, and inter-related relations level, as well as those with overlapping interests.

Existence of Procedures to Handle and Follow-up Credit

This includes:

1. Existence of a filing system to handle customers' files and update its information and documents on periodic basis.
2. Follow-up the execution of the credit facilities to make sure that everything is complying with the procedures, policies, laws and compliance regulations namely, the client's current financial position, existence of sufficient securities with coverage suitable to the current status of the customer, and the client's utilization of the facilities.
3. Follow up on utilization of credit limits, this task is made through a portfolio updated report submitted on periodical basis.
4. Internal credit rating of the client which helps in: granting financing and follow up its quality, facility pricing, determining credit portfolio characteristics and credit concentration, determining defaulting accounts and sufficiency of its provisions.
5. Periodic monitoring of any credit risk or defaulting sectors for business units to take the necessary action.
6. Issuing of periodic reports and advising Business Units and Management as needed.
7. Credit Risk Administration is an independent unit whose task consists of reviewing credit approval conditions, collaterals, facilities agreements, and all operational matters prior to releasing credit, inclusive of activating the approved limits and issuing periodic reports.

Existence of Sufficient Control on Credit Risks

Risk monitoring is exercised via the existence of the following:

1. Internal controls to make sure that any exception or deviation in the credit policy or credit procedures and credit limits and / or regulations is reported.
2. A Collection Unit to detect defaulted credit at an early stage through generating a daily past dues report and advise the concerned business unit in order to avoid it in future.
3. Periodic review of the delegation of authority of those authorized to sign, and the associated documentation.
4. Updating the Bank's Credit Policy to develop it and improve it with the latest changes and variables to improve risk management.

5. The Bank conducts a regular periodic review of all the approved credit facilities granted as per its delegation to monitor its portfolio status, exposures, credit concentrations, and sector performance. The Bank also follows up on all credit facilities, increases in limits, and follows up and monitors completion of collateralization, and takes the necessary actions at the appropriate times. Moreover, non-active facilities are reviewed, as well as risk rating based exposures inclusive of all limits granted, and recommendations are made, if any, to the Board.
6. Risk Management establishes an area of common grounds with the business units in order to exchange information and create a risk aware culture that is aligned with the Bank's strategy.
7. Risk Management activities are ongoing and continually enhanced in line with the Bank's strategy.

Market Risks

The way the Bank handles market risk essentially did not change because it still relies on using the latest banking standards, depending on Qatar Central Bank regulations, and the principles of Basel II while using the expertise of internationally experienced staff.

To mitigate these risks, the bank diversifies its activities in different countries, sectors, products and client segments and takes proactive steps to manage these risks.

The relevant staff monitors several risks linked to the market such as foreign exchange risks, profit rates, pricing, liquidity, general investments, clients' deposits investments, commodities prices, liquidity and capital adequacy. Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the Management to assist in taking proper decisions and monitor the market risks as required.

These reports include daily reports such as reports on the market reaction and daily reports on the performance of the Qatar Exchange, a weekly report on the Treasury in addition to the monthly report to the Assets and Liabilities Committee (ALCO) which shows the budget position, banking ratios, and stress tests on budget, gap analysis in assets and liabilities. ALCO members are from the Senior Management and this report is discussed in its monthly meeting where decisions are made and followed up.

Credit Limits for Banks and Countries

In compliance with Qatar Central Bank regulations, credit limits are recommended to be set for banks that Masraf Al Rayan has business relationships with as well as credit limits for countries as per their rating. The Board approves these limits and they are presented to the QCB. The latest approved limits were presented after their study under the prevalent market conditions, especially the difficulties in Europe, and subsequent recommendation as of October 2012.

Operational Risk

In its effort to mitigate the associated Operational Risks, the Bank applied policies, methodological procedures to evaluate and to monitor and to manage systems and to report any weakness therein. This includes effective segregation of tasks, restricting system access, and adopting effective procedures to delegate authority and to make reconciliations. In addition to continuous learning and education to employees, ongoing performance evaluation, and also having established a new advanced system to monitor and evaluate operational risk indicators, inclusive of the database and potential losses.

Summary of Operational Risk Methodology

The ORM strategy framework is a comprehensive program that identifies and mitigates risks. It starts with identifying risks, evaluation of them, determining their likelihood, consequences, monitoring, management, communication, and control of the risk. As well as reporting the different risks related to Bank's activities inclusive of investments, corporate finance, capital markets, and Treasury. This also includes internal controls, controls and internal systems, regulatory and compliance, as well as outsourced services and supporting operations such as IT and HR.

In addition, the following steps are also taken:

- All staff are reminded of their responsibility towards risk management.
- All staff report operational risk events as and when they occur.
- Operational risk coordinators in each department work on the reported risk incident dealing with operational risk issues related to their department(s).
- The OP risk coordinators coordinate with operational risk to ensure efficient and effective implementation.
- Operational risk Framework is developed for each major process in liaison with the OP risk coordinators through risk assessment, review of internal and external auditors report, brainstorming sessions with Risk, review of reported operational risk events and losses etc.

Operational Risk Mitigation

In an effort to encourage better risk management practices, MAR is keenly interested in efforts to better mitigate and manage operational risk. MAR has controls and programs in place to reduce the exposure, frequency, or severity of an event and hence, manage risk exposures. MAR controls are examined to know whether the control is truly reducing risk, or merely transferring exposure from the operational risk area to another business sector.

> The Corporate Governance Policy adopted by Masraf Al Rayan ensures fully respecting all parties to the transactions inclusive of stakeholders.

Operational Risk Department's Achievements for 2012

- Achieving BS-25999 certification for business continuity management.
- Implementing an advanced firewall to guard against any fishing or hacking attempts.
- Compartmentalization of the network, whereby the production servers have been disconnected from the testing servers in order to secure information. Also separated the cards network from the IT central network as recommended by Payment Card Industry Data Security Standards (PCI-DSS).
- Implementation of a live monitoring system on the SWIFT network to intercept any transactions suspected of being related to Money Laundering or Financing of Terrorism.
- Upgrade of the CCTV network and the camera quality to increase image clarity as well as to increase storage period to 120 days.
- Implementation of the advanced SAS Operational risk management system to manage all risk indicators including database and data loss risks.
- Setup of fraud monitoring unit to deal on a 24/7 basis with detection and prevention of fraud on ATM Cards and Credit Cards. The unit utilizes a preemptive approach to stop suspect transactions.
- Evaluation of current systems as per ISO27001 to counter cyber incidents and malware.
- Reevaluation of the internet banking monitoring program and placing additional controls to stop data leakage.
- Protection of the Bank's valuable data in a preemptive manger to hedge against any emergency by keeping an extra copy of the important data at NavLink's Data Center in Nice, France.

Amendments to Articles of Association

The Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority required amendments/additions to align the articles with the Guidelines.

Masraf Al Rayan has undertaken a review of its Articles of Association and taken the necessary to make the amendments/additions. Masraf Al Rayan has communicated with the Qatar Central Bank to obtain the necessary approvals first, then to present them to the Board to pave for their presentation to the Extraordinary General Assembly Meeting for ratification.

Shareholder Rights

The Board of Directors of Masraf Al Rayan is keen to protect its Shareholders as per what is specified in related rules, regulations, and the Articles of Association; whereas each shareholder's share entitles them to the same rights as another Shareholder with the same amount without bias in their claim to the Bank's assets and/or in the divided profits as described in the Articles. It also allows Shareholders the right to use their voting rights via proxy.

Shareholder Register

The Information Technology Department of the Qatar Exchange maintains records of the Shareholders of its listed companies because Shareholder information changes constantly with each transaction. Masraf Al Rayan requests the information when needed and on specific dates, especially on the days of the Ordinary and Extraordinary General Assembly Meetings where this information is used to confirm attendance, voting, and distribution of profits.

Accessing Information

Masraf Al Rayan provides its Shareholder information which has been obtained from Qatar Exchange upon request as per the rules, regulations, and related Articles and Corporate Governance guidelines. Similarly, other information is available on the internet on Masraf Al Rayan's electronic website www.alrayan.com for ease of access to the most important information for investors and clients.

Fair Treatment of Shareholders and Voting Rights

The Articles of Association of Masraf Al Rayan state that each Shareholder has the right to attend General Assembly meetings, Shareholders who are minors or interdicted may be represented by proxy via their legal representative or guardian, while entities that are Shareholders may delegate a person as an official legal representative via written delegation in compliance with legal precedents.

Shareholders who attend the General Assembly have the right to discuss the items on the Agenda, direct questions to the External Auditors, and the Board has to respond to the questions of the Shareholders in as much detail as possible that would not expose the Bank to any risks, and if the Investor deems the answer insufficient then they may revert to the General Assembly whose decision is mandatorily executable.

Furthermore, the Articles of Association of Masraf Al Rayan stipulate that each Shareholder has a number of votes that is equivalent to the number of Shares that they have.

Shareholders' Rights – Election of Board Members

Masraf Al Rayan is keen to apply the principle of giving Shareholders information about the candidates to the Membership of the Board before election, including a description of the candidates' skills, professional and technical experience, and other qualifications. Masraf Al Rayan has addressed the Qatar Central Bank for approval to add an article the Articles of Association that contains provisions to give Shareholders information about the candidates to the Membership of the Board before elections.

The subject of the election of the Members of the Board of Directors by cumulative voting remains governed by the approval of the Ministry of Business and Trade, which oversees elections of corporate boards to in its own way, according to the principle followed which is that each Shareholder has a number of votes equal to their number of Shares.

Shareholders' Profit Distribution Rights

The distribution of profits is completely based on the financial results achieved by Masraf Al Rayan at the end of each year, in addition to compliance with the rules, regulations, and related guidance especially from Qatar Central Bank with respect to all forms of reserves (legal reserve, risk reserve, fair value reserve) the Board annually assesses different scenarios of which the best chosen and presented to the Ordinary General Assembly Meeting in detail showing the profits earned and their distribution. The General Assembly has the right to accept the recommendation or amend it.

Capital Structure, Shareholder Rights, and Significant Deals

Banks rely mainly in their income on lending to individuals and corporations, and Qatar Central Bank issues regulations on maximum credit limits whether for one deal or for cumulative volume of deals for each one client or one sector.

Other Stakeholders' Rights

The Corporate Governance Policy adopted by Masraf Al Rayan ensures fully respecting all parties to the transactions inclusive of stakeholders. The human resources policy ensures fairness and justice between employees without prejudice to race, gender, or religion. Management annually allocates bonuses to employees reciprocating the profits and their individual efforts using a methodical studied approach.

At the same time, the Whistleblower Protection Policy approved by the Board gives each employee the opportunity to deliver their complaints to Management without fear of reprisal or consequences and fully maintaining their rights. Masraf Al Rayan employees comply with a Code of Conduct that includes the business ethics.

Masraf Al Rayan's Corporate Social Responsibility

Masraf Al Rayan is keen on participation in community development through supporting individuals and groups to carry out their role in building a better society. The Bank is also keen on taking part in public causes that concern the society, protect the environment, and encourage protection of natural resources, healthy practices, supports sports, and charitable endeavors.

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Business Overview

Vision

Masraf Al Rayan strives to become the foremost Islamic Bank the GCC region has ever produced by offering a broad spectrum of Islamic banking products and services, through efficient and reliable channels, to all sectors of the market in which it operates; and to maintain its twin objectives of furnishing a high return on shareholder investment and satisfying its individual customers.

Mission

We are committed to create added value for both shareholders and customers by providing Islamic oriented corporate, retail and investment banking products and services. In doing so, we will:

- Build a well-balanced financial institution across retail, corporate, advisory and asset management services
- Provide market-leading Islamic financial services while holding Shari'a principles at the heart of all our activities
- Focus on product and service innovation, delivered according to international standards
- Fully utilize Masraf Al Rayan's large capital base and diverse shareholder ownership
- Build a strong franchise system, serving both Islamic and non-Islamic customers, first in the GCC and then beyond

Strategy

The bank has already formulated its strategic plans for the future, and set goals to be achieved up to the year 2013.

We plan to:

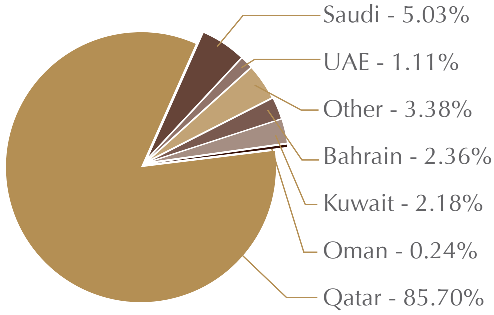
- Develop new Islamic Shari'a-compliant products and add innovative features to prevailing market products
- Become the market leader both inside and outside Qatar through financing, international offerings and expert advisory services
- Build service-delivery and brand-distinction expertise

Our corporate values derive from our strategy, and encompass:

- Leadership at all times and at all levels
- Team spirit
- Market-led, customer-focused
- Professionalism and entrepreneurial spirit
- Honesty, integrity and objectivity in all relationships
- Respect for each other and for the values of the bank

A Summary of MAR Shareholders' Information on December 31, 2012

Nationality	Number of Shareholders	# of Shares	Percentage
Bahrain	28,608	17,675,537	2.36%
Kuwait	31,726	16,321,968	2.18%
Oman	9,743	1,814,375	0.24%
Qatar	65,542	642,753,161	85.70%
Saudi	82,633	37,769,825	5.03%
UAE	27,194	8,333,838	1.11%
Others	3,622	25,331,296	3.38%



Top 10 Shareholders

No.	Name	Type	Nationality	Shares	Percent
1.	Qatar Holding Company	Government	Qatar	89,200,200	11.9%
2.	Qatar Armed Forces Portfolio	Government	Qatar	70,522,435	9.4%
3.	Al Mirqab Capital	Commercial	Qatar	17,004,136	2.3%
4.	Pensions Fund – General Retirement and Social Insurance Authority	Government	Qatar	16,615,075	2.2%
5.	Burooq Commercial	Commercial	Qatar	13,950,000	1.9%
6.	Qatar Foundation Fund (QFF)	Government	Qatar	13,400,000	1.8%
7.	Education and Health Fund	Government	Qatar	13,400,000	1.8%
8.	Manazil Trading Company	Commercial	Qatar	11,034,546	1.5%
9.	Qatar National Fund 8	Commercial	Qatar	10,750,000	1.4%
10.	Hamad Abdulla Al Thani	Individual	Qatar	9,800,000	1.3%

Masraf Al Rayan Branch Network

No.	Branch Name	Location
1.	Al-Sadd Branch	Al Sadd Street, Barwa Building, Ground Floor
2.	Masraf Al Rayan Main Branch	Grand Hamad Street, Opposite Qatar Development Bank
3.	Al Shafi Branch	Al-Salam (Al-Shafi) Street, Next to Qtel
4.	City Center Branch	City Center, 1st Floor
5.	Qatar University Branch	Qatar University, Court Food Area
6.	Salwa Road Branch	Salwa Road, Next to Hyundai Showroom
7.	Mall Branch	D-Ring Road, The Mall Complex
8.	C-Ring Road Branch	C-Ring Road, Financial Square
9.	Wathnan Branch	Muaither Street, No. 355, Muaither North, Area No. 53
10.	Barwa Village Branch	SME Branch, Al Wakra Street, Bldg. No. 12, Shop No. 42/44

> 2012 saw us move further closer to our target of ensuring that our customers enjoy the convenience of '24x7 total banking' with us.

Retail Banking

Impeccable service, qualified personnel and unique products continue to be the key drivers of our retail banking operations. During the year we continued to build on the momentum we achieved in 2011 and steadily moved towards our key objective of being the 'bank for everyone' by making ourselves more and more accessible to our existing and prospective customers. In this regard, we have adopted 'continual improvement' as the main guiding force of our operations.

Branches, alternative channels and private banking are the three main pillars of our retail banking landscape. Hence pronounced emphasis is placed on achieving inclusive progress and growth across all these vital components.

We continued to invest in our key infrastructure as well as in our human capabilities with a view towards ensuring that our customers are served with state-of-art products and services and continue to enjoy absolute convenience across all our service delivery channels. During the year we added Masraf Al rayan new branch at Qatar Olympic Committee and expanded our ATM network to 48 ATM's thereby further widening the reach of our products and services. 2012 saw us move further closer to our target of ensuring that our customers enjoy the convenience of '24x7 total banking' with us. In this regard, we expanded the scope of our e-banking services, upgraded our Call Centre offerings and undertook phenomenal improvements in our SMS and telephone banking services.

We continue to enhance our Internet banking services. Our award winning website has contributed many folds towards this transformation. One of the key highlights of this year was the completion of the commercial launch of mobile banking applications for all Android, Apple, and Blackberry mobile users thereby providing our customers with the convenience of banking from wherever they want. Card based payment services and Hala top-up service was introduced. Salary Card IVR was made available.

During 2012 the prime focus of our Private Banking Division was on building sustainable and trustworthy relationships with our high net worth clients by offering them key advisory and consultancy services for all their investment and wealth management aspirations.

Right from our inception we have always inspired to be recognized as a trusted partner by our clientele. The unwavering commitment that we continue to demonstrate in meticulously catering to every miniscule detail of our clients' wealth management need has today resulted in most of our HNI customers looking upon us as a trusted partner in all their investment decisions. The year saw us expanding the scope of our product portfolio by fine-tuning existing product propositions.

"We believe that the best way to build real, sustainable value for our shareholders is to keep the interest of our clients first through deep understanding of their business risks and opportunities in the context of local, regional and global economies."

Wholesale Banking Group

Having established an excellent reputation in the market place for Masraf Al Rayan corporate banking business, and a sound portfolio through our commitment to excellence, and seamless execution of the client focused strategy, we are now focusing on strengthening our SME team alongside our corporate banking business. Over the next several years, we will be building a diversified SME portfolio in line with our core principle of contributing to our communities through socially responsible real economy banking. Starting 2013, we will be delivering services to our SME clients by coming closer to the neighborhood they operate.

We believe that the best way to build real, sustainable value for our shareholders is to keep the interest of our clients first through deep understanding of their business risks and opportunities in the context of local, regional and global economies.

It is through the expertise and the continuous seamless efforts of Masraf Al Rayan senior management and the wholesale banking relationship management team in understanding the business and industry dynamics vis-à-vis the client needs, we are able to offer tailor made solutions to our clients and strategic partners, who are among some of the key players contributing to the growth and development of the State of Qatar and the regional economies.

Our strategy has been to steer a sustainable growth. We remain fully committed to support government, quasi government and private sector business entities supporting core infrastructure projects and other initiatives in various sectors of the State of Qatar's real economy, such as Transportation & Aviation, Health care, Telecom, Sports, Water and Electricity, Real Estate Trade, Financial Services, Energy, Petrochemical, Media, Manufacturing, and Contracting etc.

Supported by a strong capital base, and commitment from our shareholders, we remain well positioned to finance major infrastructure projects in railway, road infrastructures, stadiums, supporting systems and other infrastructure projects for the World Cup 2022. We have already won couple of mandates to finance mega infrastructure projects, and we are working with many of our top tier clients to finance the major upcoming projects.

We continue to diversify our revenue base into various economic sectors working together with our treasury, investment, asset management, retail, private banking, and wealth management teams. It is by investing in the right expertise, we deliver a full range of both cross-border and local banking solutions in cash management, trade finance, foreign exchange, profit rate hedging, asset management, capital markets, Sukuk and structured finance, securitization, corporate finance & Equity advisory, placement and acquisition financing solutions.

As always, we remain highly vigilant, and conscious of the risks we take with our clients, and work closely with them to carefully assess, analyze and mitigate them so together we continue to build sustainable value for all stakeholders.

Human Resources

In the year 2012 we continued our focus on our human assets and implemented a wide range of development and rewards schemes.

During the year we revamped our on-boarding process providing a new experience for Masraf Al Rayan new employees and introduced a guide-system where new joiners will be assigned an employee from within their department acting as their guide to provide them with needed information and to ease their first weeks with our organizations. Similar to the year 2011, we achieved the ISO certification in 2012 with compliments on our HR practices.

We also recognized long serving employees and held an honorary night to celebrate their achievements and long standing relationship with us and we will continue this practice in the years to follow to engage, motivate and retain our employees. The award ceremony recognized 120 members of staff who have served over 5 years with Masraf Al Rayan, in acknowledgment of their excellent performance and loyalty to the organization.

In line with its continued support and encouragement to Masraf Al Rayan employees, MAR's Management has taken a great interest in the development of the growing work force, who will in time be able to efficiently and effectively manage the banks affairs, through a variety of training session as well as collaboration with both the Ministry of Labour and Qatar Central Bank.

Masraf Al Rayan believes in the continuous development of its staff, and the focus has increased and exceeded expectation in 2012 in comparison to 2011. The total number of trained employees was raised by +14%, number of training courses delivered to our employees increased by +21%, and E-Learning were successfully utilized as a Learning & Development tool and has contributed towards increasing our employees knowledge & skills.

Because MAR has a lot of qualified employees who are keen to develop and share their technical knowledge with their peers, we have decided to unleash the power of those qualifications, by building a team of Skilled Internal Trainers who were identified from different departments and trained as Trainers to be able to deliver Technical & Soft Skills training programs to MAR's employees. And because of this big enhancement we have managed to increase our internal training courses by 84% in 2012 in comparison to 2011

Masraf Al Rayan has awarded 23 of its Talented' employees out of which 20 were Qatari nationals, who have enhanced their Management and Leadership competencies by successfully completing Masraf Al Rayan's Talent Management program and got awarded & certified by the Institute of Certified Professional Managers ICPM as Certified Managers®.

Masraf Al Rayan has always maintained strong relationships with leading universities in Qatar as well as Ministry of Labour and we were actively involved in many state wide initiatives and presented through our employees in career fairs like Qatar Career Fair 2012, Qatar University Career Days, and QF's universities Career Days…

Our solid partnership with Ministry of Labour and other stakeholders was the main reason to succeed in all Qatarisation initiatives especially comprehensive Banking Program with College of North Atlantic-Qatar.

Also MAR has increased the number of Interns by more than double +144% in comparing of 2011 and has accommodated 44 students nominated by from Ministry of Labour and different universities & secondary schools in MAR's Head Office departments and branches.

> "We continue to invest in the human capabilities across the entire organization by providing our employees with various levels of skill and career development opportunities. Greater emphasis is placed on establishing an atmosphere that is rewarding, satisfying and productive."

Ratings and Awards

Within a short period of time, Masraf Al Rayan has established itself as one of the most successful Islamic banks in Qatar. A strong focus on banking fundamentals has resulted in impressive ratings from Moody's, the premier credit rating agency. The first Islamic bank in Qatar to earn these ratings from Moody's, it is an affirmation of the fact that Masraf Al Rayan is cementing its position as one of the most respected Islamic financial institutions in Qatar.

Moody's Investors Service assigned the following ratings (in both local and foreign currency) to Masraf al Rayan:

Bank Financial Strength Rating (BFSR)	D+
Baseline Credit Assessment (BCA)	Baa3
Long-term Issuer Rating	A2/Prime-1
Outlook	Stable

Subsidiary

Al Rayan Investment

During 2012, we continued the momentum achieved in 2010 and 2011 and made further progress towards establishing ourselves as a trustworthy and reliable investment partner of the Qatari economy.

We made significant progress in linking the real economy with Islamic finance and were instrumental in establishing an investment-banking platform in the Qatari and the GCC markets with growth in both our Asset Management and Advisory business.

Vision
The Islamic investment bank of choice.

Mission
Deliver superior financial solutions based on Islamic values.

Values
- Culture
  Invest in people to nurture an environment fostering teamwork to achieve excellence.
- Integrity
  The institution to trust.
- Customer Satisfaction
  Maximize value for our clients by being a trusted adviser, consistently surpassing expectations.
- Ethos
  Adhering to Islamic ethico-legal principles in all aspects of our business.

Function
Al Rayan Investment's range of investment products have been carefully selected and designed to produce excellent risk-adjusted returns while being entirely Shari'a-compliant. Before being offered to clients, all products undergo a rigorous due diligence process to ensure that they meet important risk/return criteria.

Continued Excellence in 2012
During 2012, we continued the momentum achieved in 2010 and 2011 and made further progress towards establishing ourselves as a trustworthy and reliable investment partner of the Qatari economy.

We made significant progress in linking the real economy with Islamic finance and were instrumental in establishing an investment-banking platform in the Qatari and the GCC markets with growth in both our Asset Management and Advisory business.

Al Rayan Partners, established in 2011 in view of supporting the real estate market in Qatar, became an active player in development management business in Qatar and secured a strong pipeline of major real estate projects. It currently manages the development of projects valued at over US$ 9 Billion. Al Rayan Partners has a real estate advisory practice and project management services with highly skilled professionals that worked with several major institutions in Qatar.

In 2012, Asset Management continued where it left off in 2011, registering another year as arguably the fastest growing asset manager in Qatar. This was a combination of excellent performance from existing assets as well as from winning mandates from new investors. In particular, there was significant growth in sukuk portfolios being managed by ARI for sophisticated regional institutional investors. The flagship Al Rayan GCC Fund delivered 12% return in 2012 in comparison to GCC equities up less than 2.5%.

Rounding off the year, Asset Management was very pleased to gain external recognition as Euromoney's Global Investor/ISF magazine awarded ARI 'Shari'a Fund Manager of the Year – 2012'; an award determined by a panel of independent industry experts.

During 2012, the Advisory group continued to work on the equity capital raising mandates won in 2011. Meanwhile we signed a new mandate to assist a large Qatari company seeking to do its IPO. We expect to achieve completion of these transactions before next year. We were also retained as the buy-side advisor to Masraf Al Rayan as it was looking to take a strategic stake in Islamic Bank of Britain. While we were executing these existing transactions, we continued to actively pitch for new capital-raising and M&A advisory mandates which are in various stages of origination.

Shari'a Supervisory Board Report
for the year ended December 2012

In the Name of Allah, the Beneficent, the Merciful

Masraf Al Rayan Shari'a Supervisory Board has reviewed the contracts introduced, answered the questions of the administration, and contributed in finding solutions for practical difficulties that might appear during implementation.

The Board views that the business conducted is in accordance with the Board Governance, as well as the reviewed financial lists and the profit and loss statements for the financial year 2012 are in compliance with the Islamic Shari'a rules.

Masraf Al Rayan is responsible for applying Shari'a governance. Our responsibility is limited in fatwa and the review of transactions introduced to us through Shari'a Audit within its permissible capabilities.

The Board thanks Masraf Al Rayan staff and begs Allah to grant them all the success to serve the Islamic economy, and bless the shareholders' funds and dealers with the Bank, and sustain everyone with faithfulness in action and word.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

His Eminence
Sheikh Dr. Waleed Bin Hadi
Chairman of Shari'a Supervisory Board

His Eminence
Sheikh Dr. Abdull Sattar Abu Ghuddah
Member of Shari'a Supervisory Board

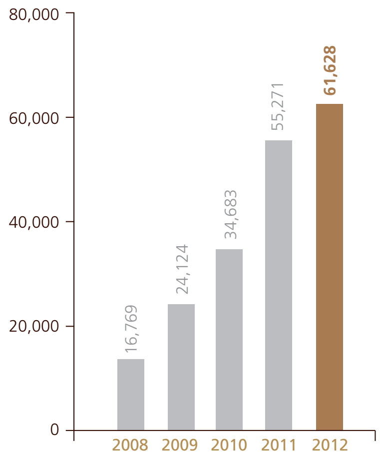
His Eminence
Sheikh Dr. Mohamed Ahmeen
Member of Shari'a Supervisory Board

Financial Overview

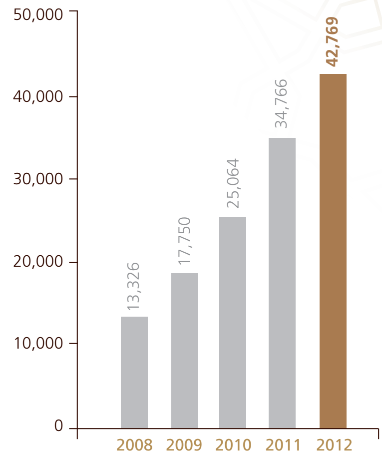
The total assets during the year reached QR 61,628 million, achieving a growth of 11.5%, while the shareholders' equity increased to QR 9,734 million

Financial Highlights 2012

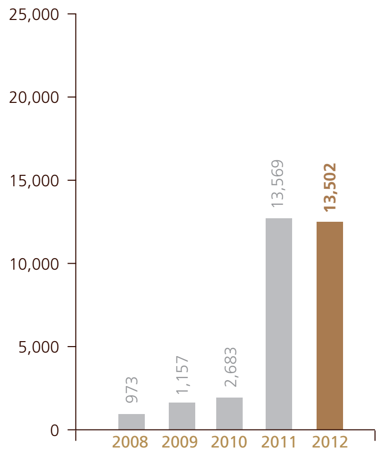
(QAR Million) **Total Assets**



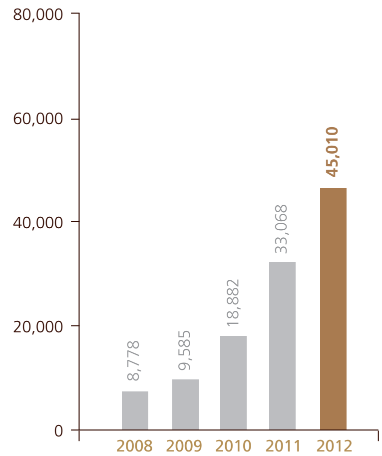
(QAR Million) **Financing Activities**



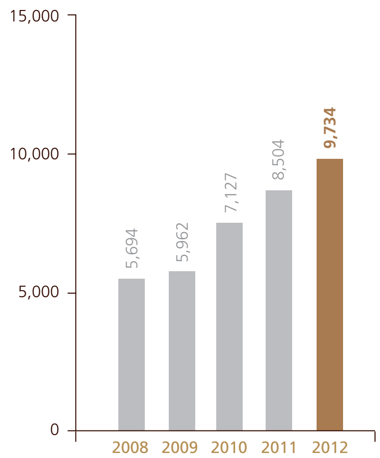
(QAR Million) **Investments**



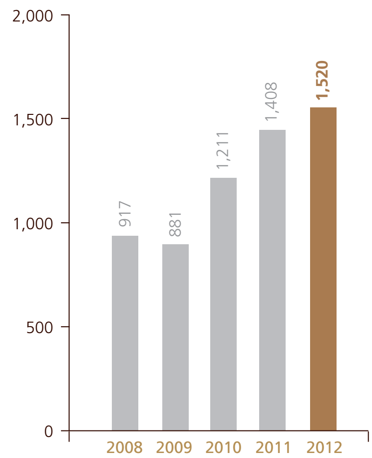
(QAR Million) **Customers' Deposits**



(QAR Million) **Equity**

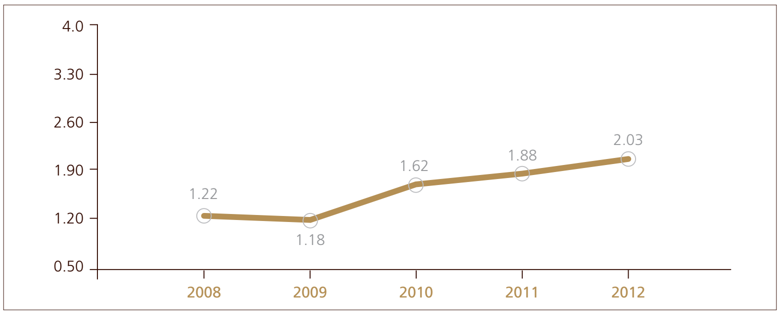


(QAR Million) **Net Profit**

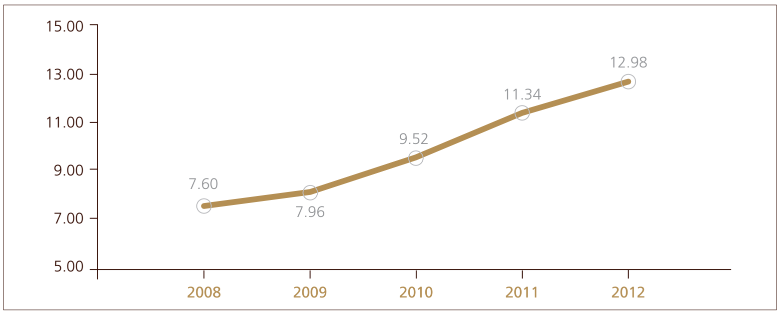


Financial Ratios 2012

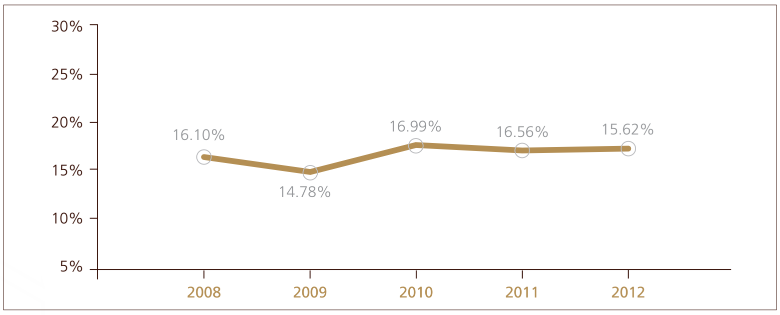
EPS (pa)



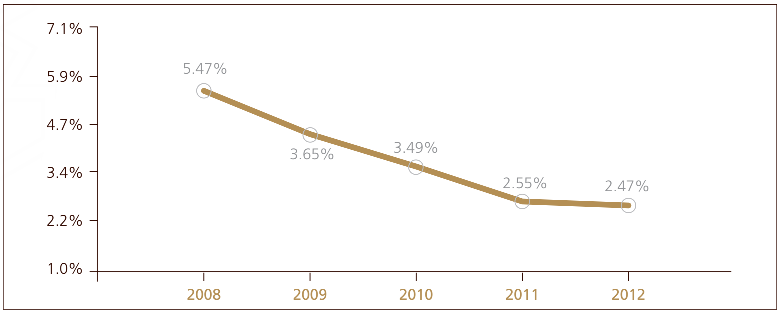
Book Value



Return on Equity



Return on Assets (pa)



Financial Statements

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF MASRAF AL RAYAN (Q.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Masraf Al Rayan Q.S.C (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and consolidated statements of changes in owners' equity, cash flows and restricted investment account for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Respective responsibilities of the Board of Directors and Auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Board of Directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012, and the results of its operations, changes in owners' equity, cash flows and changes in restricted investment account for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank and the applicable provisions of Qatar Central Bank regulations.

Other matter

The Group's comparative audited financial statements as at and for the year ended 31 December 2011 were audited by another auditor, whose audit report dated 29 January 2012 expressed an unqualified audit opinion thereon.

Report on other legal and regulatory matters

We have obtained all the information and explanations which we consider necessary for the purpose of our audit. The Group has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Board of Directors and confirm that the financial information contained therein is in agreement with the books and records of the Group. We are not aware of any violations of the applicable provisions of Qatar Central Bank Law No. 33 of 2006, Qatar Commercial Law No. 5 of 2002 or the terms of Articles of Association and the amendments thereto having occurred during the year which might have had a material adverse effect on the business of the Bank or its consolidated financial position as at 31 December 2012.

27 January 2013
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Qatar Auditor's Registry No. 251

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	2012 QAR '000s	2011 QAR '000s
ASSETS			
Cash and balances with Qatar Central Bank	8	**2,267,508**	2,253,317
Due from banks	9	**2,627,154**	4,274,109
Financing assets	10	**42,769,216**	34,765,827
Investment securities	11	**11,961,322**	12,046,247
Investment in associates and joint ventures	12	**1,449,521**	1,431,286
Investment property	13	**91,250**	91,250
Fixed assets	14	**62,218**	70,506
Other assets	15	**400,196**	338,794
TOTAL ASSETS		**61,628,385**	55,271,336
LIABILITIES			
Due to banks	16	**6,383,877**	13,195,261
Customer current accounts	17	**2,502,739**	4,171,358
Other liabilities	18	**500,828**	503,467
TOTAL LIABILITIES		**9,387,444**	17,870,086
EQUITY OF INVESTMENT ACCOUNT HOLDERS	19	**42,506,876**	28,896,973
OWNERS' EQUITY			
Share capital	20	**7,500,000**	7,500,000
Legal reserve	20	**292,292**	141,871
Risk reserve	20	**787,141**	450,000
Fair value reserves	20	**9,244**	8,795
Retained earnings		**1,007,314**	403,268
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**9,595,991**	8,503,934
Non-controlling interests	21	**138,074**	343
TOTAL OWNERS' EQUITY		**9,734,065**	8,504,277
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**61,628,385**	55,271,336

These consolidated financial statements were approved by the Board of Directors on 27 January 2013 and were signed on its behalf by:

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Adel Mustafawi
Group Chief Executive Officer

The attached notes 1 to 41 form an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 QAR '000s	2011 QAR '000s
Net income from financing activities	22	**1,633,523**	1,282,934
Net income from investing activities	23	**666,078**	606,895
Total net income from financing and investing activities		**2,299,601**	1,889,829
Fee and commission income		**114,176**	247,898
Fee and commission expense		**(1,618)**	(1,765)
Net fee and commission income	24	**112,558**	246,133
Foreign exchange gain	25	**46,783**	39,804
Share of results of associates and joint ventures	12	**6,876**	14,849
Other income	26	**36,232**	199,554
TOTAL INCOME		**2,502,050**	2,390,169
Staff costs	27	**(210,199)**	(194,342)
Depreciation	14	**(19,129)**	(19,987)
Other expenses	28	**(119,021)**	(100,986)
Finance expense		**(104,689)**	(95,720)
TOTAL EXPENSES		**(453,038)**	(411,035)
Net recoveries (impairment losses) on financing assets		**34,457**	(70,866)
Net impairment losses on investment securities		**-**	(14,562)
Impairment losses on other assets		**-**	(1,563)
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		**2,083,469**	1,892,143
Less: Return to investment account holders	19	**(561,957)**	(482,533)
PROFIT FOR THE YEAR BEFORE TAX		**1,521,512**	1,409,610
Tax expense		**(1,623)**	(1,260)
NET PROFIT FOR THE YEAR		**1,519,889**	1,408,350
Net profit for the year attributable to:			
Equity holders of the Bank		**1,504,213**	1,408,350
Non-controlling interests		**15,676**	-
		1,519,889	1,408,350
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	32	**2.006**	1.878

The attached notes 1 to 41 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2012

	Share capital QAR '000s	Legal reserve QAR '000s	Risk reserve QAR '000s	Fair value reserves QAR '000s	Retained earnings QAR '000s	Total equity attributable to equity holders of the Bank QAR '000s	Non-controlling interests QAR '000s	Total owners' equity QAR '000s
Balance at 1January 2012	7,500,000	141,871	450,000	8,795	403,268	8,503,934	343	8,504,277
Fair value reserve movement	-	-	-	449	-	449	-	449
Profit for the year	-	-	-	-	1,504,213	1,504,213	15,676	1,519,889
Dividends to owners	-	-	-	-	(375,000)	(375,000)	-	(375,000)
Transfer to legal reserve	-	150,421	-	-	(150,421)	-	-	-
Transfer to risk reserve	-	-	337,141	-	(337,141)	-	-	-
Social and sports fund appropriation	-	-	-	-	(37,605)	(37,605)	-	(37,605)
Net movement in non-controlling interests	-	-	-	-	-	-	122,055	122,055
Balance at 31 December 2012	**7,500,000**	**292,292**	**787,141**	**9,244**	**1,007,314**	**9,595,991**	**138,074**	**9,734,065**
Balance at 1 January 2011	5,073,324	-	-	6,117	2,047,008	7,126,449	343	7,126,792
Fair value reserve movement	-	-	-	2,678	-	2,678	-	2,678
Profit for the year	-	-	-	-	1,408,350	1,408,350	-	1,408,350
Dividend paid towards the uncalled share capital for 2010	1,976,084	-	-	-	(1,976,084)	-	-	-
Dividend paid towards the uncalled share capital for 2011	449,962	-	-	-	(449,962)	-	-	-
Issuance of share capital	630	1,036	-	-	-	1,666	-	1,666
Transfer to legal reserve	-	140,835	-	-	(140,835)	-	-	-
Transfer to risk reserve	-	-	450,000	-	(450,000)	-	-	-
Social and sports fund appropriation	-	-	-	-	(35,209)	(35,209)	-	(35,209)
Balance at 31 December 2011	7,500,000	141,871	450,000	8,795	403,268	8,503,934	343	8,504,277

The attached notes 1 to 41 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012	2011
		QAR '000s	QAR '000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**1,521,512**	1,409,610
Adjustments for:			
Net impairment losses (recoveries) on financing assets		**(34,457)**	70,866
Impairment loss on investment securities		**-**	14,562
Impairment losses on other assets		**-**	1,563
Fair value gain on investment securities carried as fair value through income statement	23	**(15,616)**	-
Depreciation	14	**19,129**	19,987
Net gain on sale of investment securities	23	**(14,966)**	-
Dividend income	23	**(7,985)**	(749)
Share of results of associates and joint ventures	12	**(6,876)**	(14,849)
Gain on disposal of subsidiary	26	**-**	(171,863)
Amortisation of premium and discount on investment securities		**(3,623)**	(18,736)
Profit before changes in operating assets and liabilities		**1,457,118**	1,310,391
Change in reserve account with Qatar Central Bank		**(468,615)**	(604,813)
Change in financing assets		**(7,968,932)**	(9,772,726)
Change in other assets		**(61,402)**	43,412
Change in due to banks		**(6,811,384)**	5,060,807
Change in customer current accounts		**(1,668,619)**	2,879,008
Change in other liabilities		**(40,858)**	(73,354)
		(15,562,692)	(1,157,275)
Dividends received		**7,985**	749
Tax paid		**(1,009)**	(296)
Net cash used in operating activities		**(15,555,716)**	(1,156,822)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		**(684,177)**	(10,000,000)
Proceeds from sale of investment securities		**737,641**	97,653
Acquisition of fixed assets	14	**(10,841)**	(9,206)
Purchase of investment property		**-**	(2,027,706)
Proceeds from disposal of subsidiary		**-**	1,220,301
Investment in associates	12	**(11,359)**	-
Return of capital of associate company	12	**-**	18,912
Investment securities reclassified to subsidiaries		**66,138**	-
Net cash from (used in) investing activities		**97,402**	(10,700,046)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in investment accounts		**13,609,880**	11,307,100
Issuance of share capital		**-**	1,666
Dividends paid		**(375,000)**	-
Net movement in non-controlling interest		**122,055**	-
Net cash from financing activities		**13,356,935**	11,308,766
Net decrease in cash and cash equivalents		**(2,101,379)**	(548,102)
Cash and cash equivalents at 1 January		**5,019,926**	5,568,028
Cash and cash equivalents at 31 December	33	**2,918,547**	5,019,926

The attached notes 1 to 41 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2012

	At 1 January 2012			Movements during the year			At 31 December 2012		
	No. of Units	***Value per unit***	***Total value***	***Gross income***	***Profit paid***	***Bank's fee as***	***No. of Units***	***Value per unit***	***Total value***
		QAR '000s	*QAR '000s*	*QAR '000s*	*QAR '000s*	*QAR '000s*		*QAR '000s*	*QAR '000s*
Wakil and Muakil	**1**	**2,518,381**	**2,518,381**	**229,802**	**(214,482)**	**15,320**	**1**	**2,518,381**	**2,518,381**

	At 1 January 2011			Movements during the year			At 31 December 2011		
	No. of Units	*Value per unit*	*Total value*	*Gross income*	*Profit paid*	*Bank's fee as*	*No. of Units*	*Value per unit*	*Total value*
		QAR '000s	*QAR '000s*	*QAR '000s*	*QAR '000s*	*QAR '000s*		*QAR '000s*	*QAR '000s*
Wakil and Muakil	1	2,518,381	2,518,381	41,719	(38,938)	2,781	1	2,518,381	2,518,381

The attached notes 1 to 41 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

1. REPORTING ENTITY

Masraf Al Rayan (Q.S.C.) ("Masraf" or "the Bank") is an entity domiciled in the State of Qatar and was incorporated on 4 January 2006 as a Qatari Public Shareholding Company under Article 68 of Qatar Commercial Companies' Law No. 5 of 2002, under decision No. 11 of 2006. The commercial registration number of the Bank is 32010. The address of the Bank's registered office is at P.O. Box 28888, Grand Hamad Steet, Doha, Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as "the Group" and individually as "Group entities"). The Bank is primarily involved in banking, financing, investing and brokerage activities, and has 12 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan.

The principal subsidiaries of the Group are as follows:

Entity's name	Country of incorporation	Entity's capital	Entity's activities	Effective percentage of ownership	
				2012	***2011***
Al Rayan Investment LLC	Qatar	USD 100,000,000	Investment banking	100.0%	100.0%
Al Rayan Financial Brokerage	Qatar	QAR 50,000,000	Financial brokerage	100.0%	100.0%
Al Rayan GCC Fund (F)	Qatar	Not applicable**	Investment activities	63.4%	67.0%
Al Rayan GCC Fund (Q)	Qatar	Not applicable**	Investment activities	26.5%	24.8%
Sapura Crest*	Qatar	QAR 700,000	Oil and gas services	51.0%	51.0%
Al Rayan Partners *	Qatar	QAR 10,000,000	Real estate consulting	100.0%	100.0%

** subsidiaries of Al Rayan Investment L.L.C.*
*** open-ended funds*

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and relevant laws and the applicable provisions of Qatar Central Bank ("QCB"). For matters for which no AAOIFI standards exist, the Group applies the relevant International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of financial investments classified as "investments at fair value through equity", "investments at fair value through income statement" and derivative financial instruments.

(c) Functional and presentational currency

The consolidated financial statements are presented in Qatari Riyals ("QAR"), which is the Bank's functional and presentational currency, and all values are rounded to the nearest QAR thousand except when otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and is generally assumed when the Group holds, directly or indirectly, majority of the voting rights of the entity. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Special purpose entities

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or financing transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE;
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as financing amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

(iii) Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non controlling interests and other components of equity related to the subsidiary.

Any surplus or deficit arising on the loss of control is recognized in the consolidated income statement. If the Group retains any interests in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(iv) Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position in owners' equity. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profits or losses attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in owners' equity. Gains or losses on disposals to non-controlling interests are also recorded in owners' equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in owners' equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to consolidated income statement where appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(v) Transactions eliminated on consolidation

Intra-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between %20 and %50 of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associate). The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition movements in reserve is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intergroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation of these consolidated financial statements, equal accounting policies for similar transactions and other events in similar circumstances are used. Dilution gains and losses in associates are recognised in the consolidated income statement.

The Group's share of the results of associates is based on financial statements made up to a date not earlier than three months before the date of the consolidated statement of financial position, adjusted to conform to the accounting policies of the Group.

The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Group.

(vii) Joint ventures

Joint ventures are entities where the Group has a contractual arrangement with one or more parties to undertake activities typically, through entities that are subject to joint control.

The Group recognises interests in a jointly controlled entity using the equity method of accounting. The accounting policy given in Note 3(a) (vi) therefore applies for investments in joint ventures as well.

The Group's share of the results of joint ventures is based on financial statements made up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform with the accounting policies of the Group. Intragroup gains on transactions are eliminated to the extent of the Group's interest in the investee. Intragroup losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

(viii) Fund management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

(b) Foreign currency

(i) Foreign currency transactions and balances

Foreign currency transactions are denominated, or that require settlement in a foreign currency are translated into the respective functional currencies of the operations at the spot exchange rates at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences resulting from the settlement of foreign currency transactions and arising on translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency (continued)

(ii) Foreign operations

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in equity.

Exchange differences arising from the above process are reported in owners' equity as 'foreign currency translation reserve'.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in the foreign operation and are recognised in owners' equity, and presented in the foreign exchange translation reserve in owners' equity.

(c) Investment securities

Investment securities comprise investments in debt-type and equity-type financial instruments.

(i) Classification

Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Debt-type instruments

Investments in debt-type instruments are classified into the following categories: 1) at amortised cost or 2) at fair value through income statement.

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through the income statement.

Debt-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through income statement. At inception, a debt-type investment managed on a contractual yield basis, can only be designated at fair value through income statement if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

Equity-type instruments

Investments in equity type instruments are classified into the following categories: 1) at fair value through income statement or 2) at fair value through equity.

Equity-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through income statement.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity-type investments designated at fair value through income statement include investments which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Bank makes an irrevocable election to designate certain equity instruments that are not designated at fair value through income statement to be classified as investments at fair value through equity.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Initial recognition

Investment securities are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through income statement which are charged to consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investment securities (continued)

(iii) Measurement (continued)

Subsequent measurement

Investments at fair value through income statement are remeasured at fair value at the end of each reporting period and the resultant remeasurement gains or losses is recognised in the consolidated income statement in the period in which they arise. Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amoritisation process and those arising on de-recognition or impairment of the investments, are recognised in the consolidated income statement.

Investments at fair value through equity are remeasured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the consolidated statement of changes in owners' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the consolidated statement of changes in equity is transferred to the consolidated income statement.

Investments which do not have a quoted market price or other appropriate methods from which to derive a reliable measure of fair value when on a continuous basis cannot be determined, are stated at cost less impairment allowance, (if any).

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed and willing parties (seller and buyer) in an arm's length transaction. The Group measures the fair value of quoted investments using the market closing price for that instrument. For unlisted investments, the Group recognises any increase in the fair value when they have reliable indicators to support such an increase and to evaluate the fair value of these investments. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between willing and informed parties.

(d) Financing assets

Financing assets comprise Shari'a compliant financing provided by the Group with fixed or determinable payments. These include financing provided through Murabaha, Mudaraba, Musharaka, Musawama, Ijarah, Istisna'a, Wakala and other modes of Islamic financing. Financing assets are stated at their amortised cost less impairment allowances (if any).

Murabaha and Musawama

Murabaha and Musawama receivables are sales on deferred terms. The Bank arranges a Murabaha and Musawama transaction by buying a commodity (which represents the object of the Murabaha) and selling it to the Murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period. Murabaha and Musawama receivables are stated net of deferred profits and impairment allowance (if any).

Based on QCB instructions Chapter VII, Section D, Para 1/2/3, the Bank applies the rule of binding the purchase orderer to its promise in the Murabaha sale, and does not enter into any Murabaha transaction in which the purchase orderer does not undertake to accept the goods if they meet the specifications.

Mudaraba

Mudaraba financing are partnerships in which the Bank contributes the capital and work. These contracts are stated at fair value of consideration given less impairment allowance (if any).

Musharaka

Musharaka financing are partnerships in which the Bank contributes the capital. These contracts are stated at fair value of consideration given less impairment allowance (if any).

Ijarah

Ijarah receivables arise from financing structures when the purchase and immediate lease of an asset are at cost plus an agreed profit (in total forming fair value). The amount is settled on a deferred payment basis. Ijarah receivables are carried at the aggregate of the minimum lease payments, less deferred income (in total forming amortised cost) and impairment allowance (if any).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financing assets (continued)

Istisna'a

Istisna'a is a sales contract in which the Bank acts as 'al-sani' (a seller) with an 'al-mustasni' (a purchaser) and undertakes to manufacture or otherwise acquire a product based on the specification received from the purchaser, for an agreed upon price.

Istisna'a revenue is the total price agreed between the seller and purchaser including the Bank's profit margin. The Bank recognises Istisna'a revenue and profit margin based on percentage of completion method by taking in account the difference between total revenue (cash price to purchaser) and Bank's estimated cost. The Bank's recognises anticipated losses on Istisna'a contract as soon as they are anticipated.

Wakala

Wakala contracts represent agency agreements between two parties. One party, the provider of funds (Muwakkil) appoints the other party as an agent (Wakeel) with respect to the investment. The Bank initially recognises due from banks, financing assets, customer current accounts, due to banks, and financing liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through income statement, transaction costs that are directly attributable to its acquisition or issue.

(e) Other financial assets and liabilities

(i) Recognition and initial measurement

The Group initially recognises due from banks, financing assets, customer current accounts, due to banks, and financing liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through income statement, transaction costs that are directly attributable to its acquisition or issue.

(ii) De-recognition of financial assets and financial liabilities

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in consolidated income statement.

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in consolidated income statement.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is de-recognised if it meets the de-recognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

Financial assets and liabilities are offset only when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of financial assets

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity-type investments) are impaired can include default or delinquency by a counterparty / investee, restructuring of financing facility or advance by the Group on terms that the Group would not otherwise consider, indications that a counterparty or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of counterparty or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in equity-type instruments, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant (where market value has declined by a minimum of %20) or prolonged (where market value has declined for 9 months at least) decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognised in the consolidated statement of changes in equity is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity-type investments are subsequently reversed through equity.

Financial assets carried at amortised cost (including investment in debt-type instruments classified as amortised cost)

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement, to the extent of previously recognised impairment losses. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping assets together with similar risk characteristics.

(g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with QCB and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(h) Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both.

Investment property is measured at cost including transaction costs. Transaction costs include transfer taxes, professional fees or legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated income statement in the year of retirement or disposal. Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

(i) Risk management instruments

Risk management instruments and hedge accounting
Risk management instruments are measured at fair value on the consolidated statement of financial position.

The Bank designates certain instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the risk management instrument(s) and hedged item(s), including

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Risk management instruments (continued)

the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 125-80 percent.

The Bank makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect consolidated income statement.

(j) Fixed assets

Recognition and initial measurement

Items of fixed assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of fixed asset is determined by comparing the proceeds from disposal with the carrying amount of the item of fixed assets, and is recognised in other income/other expenses in consolidated income statement.

Depreciation is recognised in consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of fixed assets since this closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value. Land and work-in-progress are not depreciated.

The estimated useful lives for the current and comparative years are as follows:

• Buildings	20 years
• Leasehold improvements	10 years
• Furniture, fixtures and office equipment	6-7 years
• Computer software and hardware	3 years

Useful lives and residual values are reassessed at each reporting date and adjusted prospectively, if appropriate.

(k) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

(l) Customer current accounts

Balances in customer current accounts are recognised when received by the Bank. The transactions are measured as the amount received by the Bank at the time of contracting. At the end of the reporting period, these accounts are measured at amortised cost.

(m) Equity of investment account holders

Equity of investment account holders are funds held by the Bank, which it can invest at its own discretion. The investment account holders authorises the Bank to invest the account holders' funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Bank charges a management fee to investment account holders. Of the total income from investment accounts, the income attributable to account holders is allocated to investment accounts after setting aside provisions and deducting the Bank's share of income. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the investment accounts.

Investment accounts are carried at their book values and include amounts retained towards the profit equalisation and investment risk reserves. The profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib's share, in order to maintain a certain level of return to the account holders on the investments. The investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib's share, in order to cater against future losses for investment account holders.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Distribution of profit between equity of investment account holders and shareholders

The Bank complies with the directives of the QCB as follows:

- Net profit is arrived at after taking into account all income and expenses at the end of the financial year, and is distributed between investment account holders and owners.
- The share of profit of investment account holders is calculated on the basis of their daily deposit balances over the year, after reducing the Bank's agreed and declared Mudaraba fee.
- In case of any expense or loss, which arises out of negligence on the part of the Bank due to non-compliance with QCB regulations and instructions, then such expenses or loss, shall not be borne by the investment account holders. Such matter is subject to the QCB decision.
- In case the results of the Bank at the year-end are net losses, then QCB, being the authority responsible for determining the Bank's accountability for these losses, shall decide how these shall be treated without violation to the Islamic Shari'a rules.
- Due to pooling of investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

(o) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or (Wakala) agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

(p) Provisions

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

(q) Employees benefits

The Group provides for its contribution to the State administered retirement fund for Qatari employees in accordance with the Retirement and Pension Law No. 24 of 2002, and the resulting charge is included within the personnel cost under general and administration expenses in the consolidated income statement. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised when they are due.

The Group also provides for end of service benefits to its expatriate employees in accordance with the Qatar Labour Law. The provision is calculated based on the period of service for each staff at the year end. This provision is included in other provisions under other liabilities.

(r) Share capital and reserves

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's owners.

(s) Revenue recognition

Murabaha

Profit from Murabaha transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to non-performing accounts is excluded from the consolidated income statement.

Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas losses are charged to the consolidated income statement on declaration by the Mudarib.

Musharaka

Income on Musharaka financing is recognised when the right to receive payments is established or on distribution.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

Ijara

Ijara income is recognised on time-apportioned basis over the lease period. Income related to non-performing accounts is excluded from the consolidated income statement.

Istisna'a

Revenue and the associated profit margin are recognised in the Bank's consolidated income statement according to the percentage of completion method or completed contract method.

Wakala

Income from Wakala placements is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

Income from investment banking services

Income from investment banking services (presented in fee and commission income), including placement, advisory, marketing and performance fees, is recognised as per contractual terms when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is based on the extent of binding firm commitments received from other parties.

Fees and commission income

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

Dividend income

Dividend income is recognised when the right to receive the dividend is established.

(t) Income tax

Taxes are calculated based on tax laws and regulations. A tax provision is made based on an evaluation of the expected tax liability. The Group operates its activities inside Qatar and is not subject to tax, except Al Rayan Investment whose profits are subject to tax as per Qatar Financial Center Authority regulations.

(u) Earnings per share

The Bank presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to owners and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(v) Placements with banks and other financial institutions

Placements with banks and other financial institutions are stated at amortised cost net of any amounts written off and provision for impairment.

(w) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received on the date the guarantee was given, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Group's liability under such guarantees are measured at the higher of the amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the consolidated statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the consolidated income statement. The amortisation of the premium received is recognized in the consolidated income statement under commission and fees income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Contingent liabilities

Contingent liabilities include guarantees, letters of credit, Group's obligations with respect to unilateral promise to buy/sell currencies, profit rate swaps and others. These do not constitute actual assets or liabilities at the consolidated statement of financial position date except for assets and obligations relating to fair value gains or losses on these derivative financial instruments.

(y) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(z) Fiduciary activities

The Group acts as fund manager and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, corporate and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

(aa) Earnings prohibited by Shari'a

The Group is committed to avoid recognizing any income generated from non-Islamic source. Consequently, all non-Islamic income is credited to a charity account and the Group uses these funds for various social welfare activities.

(bb) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

(cc) Parent bank financial information

Statement of financial position and income statement of the Parent bank as disclosed in Notes 40 and 41 are prepared following the same accounting policies as mentioned above except for investment in subsidiaries, associates and joint ventures which are carried at cost.

(dd) New standards and interpretations

New standards, amendments and interpretations effective from 1 January 2012:

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

New standards, amendments and interpretations issued but not yet effective:

The following accounting standards and interpretations have been issued by AAOIFI during 2012 effective from annual periods beginning on or after 1 January 2013 and are expected to be relevant to the Group:

FAS – 26 'Investment in Real estate'

FAS 26 was issued in June 2012 to replace FAS 17 and and is applicable for direct investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. Subsequent to initial recognition, investment in real estate can be measured at cost or fair value. If the Group chooses fair value model, any fair value gains arising from fair value of investment in real estate should be directly recognised in equity under 'property fair value reserve' until disposal. Fair value losses below cost shall be recognised in the income statement. If the Group chooses cost model, then the investment in real estate is carried at cost less accumulated depreciation (where applicable) and accumulated impairment losses, if any.

The standard is effective for annual periods beginning on or after 1 January 2013 and shall be applied retroactively in accordance with the requirements of Financial Accounting Standard No. 1 - General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions.

The adoption of this standard is not expected to have a significant impact on the Group's consolidated financial statements.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

Risk management and structure

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group›s continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, market risk, liquidity risk and operating risk, which include trading and non-trading risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group›s strategic planning process.

Board of Directors

The Board of Directors is responsible for the risk management methodology and approving strategic plans and risk management principles.

Risk management function

The Risk Management Function is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Group.

Assets and liabilities

The Group's management is responsible for managing the Group's assets and liabilities and the overall financial structure and also responsible for the Group's credit and liquidity risk.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit Department that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Information compiled from all business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, risk unit, and the head of each business division. On a monthly basis, detailed reporting of industry, customer and geographic risks take place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

Frequent reports are given to the senior management and all other relevant members of the Group on the utilisation of market limits, analysis of propriety investments and liquidity, plus any other risk developments.

4.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For securities lending: cash or securities.
- For commercial lending: mortgages over real estate properties, inventory, cash or securities.
- For retail lending: mortgages over residential properties, vehicles and securities.
  Management constantly monitors the market value of collaterals.

The Group also obtains corporate guarantees from parent companies for receivables and balances from financing activities to their subsidiaries. Details of the composition of the receivables and balances from financing activities to customers are set out in Note 10. Also the details of geographical segments are set out in Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.1 Credit risk measurement

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk type activities and the module makes use of probabilities derived from historical experience adjusted to reflect the economic environment.

4.2.2 Risk limit control and mitigation policies

Risk mitigation

As a part of overall risk management, the Group uses swap deals and other instruments to manage exposures from changes in profit rates, foreign currencies, equity risks, credit risks and exposures arising from forecast transactions.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly.

4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	2012	2011
Credit risk exposures relating to financial assets recorded on the consolidated statement of financial position are as follows:		
Cash and balances with QCB (excluding cash on hand)	**2,062,705**	2,096,428
Due from banks	**2,627,154**	4,274,109
Financing assets	**42,769,216**	34,765,827
Investment securities - debt	**11,777,223**	11,955,362
Other assets	**326,480**	263,979
	59,562,778	53,355,705
Other credit risk exposures are as follows:		
Acceptances	**54,613**	72,652
Guarantees	**5,510,161**	3,974,575
Letters of credit	**2,656,667**	2,026,353
Unutilized credit facilities	**7,403,642**	3,899,753
	15,625,083	9,973,333

The above tables represents a worse-case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For assets recorded on the consolidated statement of financial position, the exposures set out above are based on net carrying amounts as reported on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.4 Concentration of risks of financial assets with credit risk exposure

(a) By Geographical Sector

	Qatar	**Other GCC**	**Other Middle East**	**Others**	**Total**
2012					
Assets recorded on the consolidated statement of financial position:					
Cash and balances with QCB (excluding cash on hand)	**2,062,705**	**-**	**-**	**-**	**2,062,705**
Due from banks	**28,280**	**1,325,962**	**685**	**1,272,227**	**2,627,154**
Financing assets	**41,978,223**	**-**	**65,529**	**725,464**	**42,769,216**
Investment securities - debt	**11,414,033**	**359,294**	**3,896**	**-**	**11,777,223**
Other assets	**326,480**	**-**	**-**	**-**	**326,480**
	55,809,721	**1,685,256**	**70,110**	**1,997,691**	**59,562,778**

	Qatar	*Other GCC*	*Other Middle East*	*Others*	*Total*
2011					
Assets recorded on the consolidated statement of financial position:					
Cash and balances with QCB (excluding cash on hand)	2,096,428	-	-	-	2,096,428
Due from banks	2,160,780	1,312,903	650	799,776	4,274,109
Financing assets	34,686,237	-	-	79,590	34,765,827
Investment securities - debt	11,361,979	399,162	-	194,221	11,955,362
Other assets	263,979	-	-	-	263,979
	50,569,403	1,712,065	650	1,073,587	53,355,705

	Qatar	**Other GCC**	**Other Middle East**	**Others**	**Total**
2012					
Acceptances	**54,613**	**-**	**-**	**-**	**54,613**
Guarantees	**3,729,002**	**3,469**	**732,489**	**1,045,201**	**5,510,161**
Letters of credit	**2,656,667**	**-**	**-**	**-**	**2,656,667**
Unutilized credit facilities	**7,230,417**	**200**	**-**	**173,025**	**7,403,642**
	13,670,699	**3,669**	**732,489**	**1,218,226**	**15,625,083**

	Qatar	*Other GCC*	*Other Middle East*	*Others*	*Total*
2011					
Acceptances	72,652	-	-	-	72,652
Guarantees	2,187,006	3,389	737,351	1,046,829	3,974,575
Letters of credit	903,203	-	-	1,123,150	2,026,353
Unutilized credit facilities	3,899,753	-	-	-	3,899,753
	7,062,614	3,389	737,351	2,169,979	9,973,333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.4 Concentration of risks of financial assets with credit risk exposure (continued)

(b) By Industry Sector

An industry sector analysis of the Group's maximum exposure to credit risk for the components of the consolidated statement of financial position is shown below. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross exposure 2012	Gross exposure 2011
Funded and unfunded		
Government	**16,693,441**	16,678,480
Government agencies	**21,086,793**	20,592,310
Industry	**554,665**	393,832
Commercial	**1,438,475**	1,123,511
Services	**9,004,304**	7,858,422
Contracting	**176,069**	1,426,496
Real estate	**8,832,122**	3,949,567
Personal	**1,447,936**	982,728
Others	**328,973**	350,359
Contingent liabilities	**15,625,083**	9,973,333
Total	**75,187,861**	63,329,038

Credit risk exposure

The tables below presents an analysis of counterparties by rating agency designation, based on Standard & Poor's ratings (or their equivalent):

	2012	2011
Equivalent grades		
AAA to AA-	**29,599,854**	28,780,891
A+ to A-	**1,667,031**	2,682,431
BBB to BBB-	**7,057**	9,700
Unrated	**43,913,919**	31,856,016
	75,187,861	63,329,038

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality

	Financing assets		*Due from banks*		*Investment in debt-type securities*		*Other receivables*	
	2012	*2011*	***2012***	*2011*	***2012***	*2011*	***2012***	*2011*
Neither past due nor impaired (low risk):								
Investment grade	**15,334,940**	14,656,754	**-**	-	**11,250,000**	11,250,000	**-**	-
Standard monitoring	**26,876,425**	19,265,025	**2,627,154**	4,274,109	**498,099**	676,238	**326,480**	263,979
Special monitoring	**-**	-	**-**	-	**-**	-	**-**	-
Carrying amount	**42,211,365**	33,921,779	**2,627,154**	4,274,109	**11,748,099**	11,926,238	**326,480**	263,979
Past due but not impaired (special mentioned):								
Investment grade	**-**	-	**-**	-	**-**	-	**-**	-
Standard monitoring	**481,618**	825,205	**-**	-	**-**	-	**-**	-
Special monitoring	**86,044**	-	**-**	-	**-**	-	**-**	-
Carrying amount	**567,662**	825,205	**-**	-	**-**	-	**-**	-
Impaired								
Substandard	**1,746**	79,559	**-**	-	**-**	-	**-**	-
Doubtful	**146**	530	**-**	-	**-**	-	**-**	-
Loss	**38,019**	25,980	**-**	-	**50,967**	50,967	**3,126**	3,126
	39,911	106,069	**-**	-	**50,967**	50,967	**3,126**	3,126
Less: impairment allowance-specific	**(28,111)**	(39,515)	**-**	-	**(21,843)**	(21,843)	**(3,126)**	(3,126)
Less: impairment allowance-collective	**(21,611)**	(47,711)	**-**	-	**-**	-	**-**	-
Carrying amount	**(9,811)**	18,843	**-**	-	**29,124**	29,124	**-**	-
Carrying amount – net	**42,769,216**	34,765,827	**2,627,154**	4,274,109	**11,777,223**	11,955,362	**326,480**	263,979

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality (continued)

Impaired financing assets and investment in debt-type securities

Individually impaired financing assets and investment in debt-type securities (other than those carried at fair value through income statement) for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and profit due according to the contractual terms of the financing / investment security agreement(s).

Investment in debt-type securities carried at fair value through income statement are not assessed for impairment but are subject to the same internal grading system.

Financing assets past due but not impaired

Past due but not impaired financing assets are those for which contractual profit or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

	2012	2011
Up to 30 days	**389,310**	257,105
30 to 60 days	**22,448**	208,955
90 – 60 days	**155,904**	359,145
Gross	**567,662**	825,205

Renegotiated financing assets

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. In the majority of cases, restructuring results in the asset continuing to be impaired:

	2012	2011
Non–impaired after restructuring – would otherwise not have been impaired	**291,767**	-

4.2.6 Collateral

The determination of eligible collateral and the value of collateral are based on QCB regulations and are assessed by reference to market price or indexes of similar assets.The Group has collateral in the form of blocked deposit, pledge of shares or legal mortgage against the past dues financing assets.

The aggregate collateral is QAR 81,207 thousand for past due up to 30 days, QAR 53,155 thousand for past due from 31 to 60 days, QAR 75,384 thousand for past due from 61 and 90 days, and QAR 40,890 thousand for past due from 91 and above days (aggregate collateral for 2011 for all past due accounts: QAR 672,875 thousand).

4.2.7 Write-off policy

The Group writes off a financing asset or an investment in debt-type security balance, and any related allowances for impairment losses, when Group determines that the financing asset or security is uncollectible and after QCB approval is obtained.

This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QAR 22 thousand (2011: QAR 346 thousand).

4.3 Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and equity prices. The Group manages its market risks within the framework of limits defined by the QCB.

4.3.1 Management of market risk

Assets and liabilities profit rate gaps are reviewed on a regular basis which is used to reduce the profit rate gaps to within the limits established by the Board. The Group manages its exposure to currency exchange rate fluctuations to within the levels defined by the Board of Directors, which sets limits on currency position exposures. Positions are monitored on an ongoing basis.

4.3.2 Exposure to profit rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The Asset and Liability Committee ("ALCO") is the monitoring body for compliance with these limits and is assisted by Group central Treasury in its day-to-day monitoring activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT(continued)

4.3 Market risk (continued)

4.3.2 Exposure to profit rate risk – non-trading portfolios (continued)

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

	Carrying amount	Less than 3 months	3 to 12 months	Re-pricing in: 1 to 5 years	Over 5 years	Non-Profit sensitive	Effective profit rate
2012							
Cash and balances with QCB	2,267,508	-	-	-	-	2,267,508	
Due from banks	2,627,154	1,146,566	-	-	-	1,480,588	**0.49%**
Financing assets	42,769,216	32,380,832	2,863,438	6,209,119	1,315,827	-	**4.29%**
Investment securities	11,611,633	201,638	159,995	-	-	11,250,000	**5.46%**
	59,275,511	**33,729,036**	**3,023,433**	**6,209,119**	**1,315,827**	**14,998,096**	
Due to banks	(6,383,877)	(5,656,402)	(727,475)	-	-	-	**1.27%**
Financing liabilities	(2,502,739)	-	-	-	-	(2,502,739)	
	(8,886,616)	**(5,656,402)**	**(727,475)**	**-**	**-**	**(2,502,739)**	
Equity of investment account holders	**(42,506,876)**	**(39,582,522)**	**(2,367,776)**	**(419,445)**	**-**	**(137,133)**	**1.30%**
Consolidated statement of financial position items	7,882,019	(11,509,888)	(71,818)	5,789,674	1,315,827	12,358,224	
Off consolidated statement of financial position items	17,620,134	12,540,714	5,079,420	-	-	-	
Profit Rate Sensitivity Gap	**(9,738,115)**	**(24,050,602)**	**(5,151,238)**	**5,789,674**	**1,315,827**	**12,358,224**	
Cumulative Profit Rate Sensitivity Gap	**(9,738,115)**	**(24,050,602)**	**(29,201,840)**	**(23,412,166)**	**(22,096,339)**	**(9,738,115)**	
2011							
Cash and balances with QCB	2,253,317	-	-	-	-	2,253,317	
Due from banks	4,274,109	3,477,349	-	-	-	796,760	**0.62%**
Financing assets	34,765,827	23,569,787	5,317,028	3,231,102	2,647,910	-	**4.35%**
Investment securities	11,955,362	527,565	177,797	-	-	11,250,000	**4.83%**
	53,248,615	27,574,701	5,494,825	3,231,102	2,647,910	14,300,077	
Due to banks	(13,195,261)	(12,883,841)	(311,420)	-	-	-	**0.95%**
Financing liabilities	(4,171,358)	-	-	-	-	(4,171,358)	
	(17,366,619)	(12,883,841)	(311,420)	-	-	(4,171,358)	
Equity of investment account holders	(28,896,973)	(25,077,314)	(3,498,766)	(230,315)	-	(90,578)	**1.46%**
Consolidated statement of financial position items	6,985,023	(10,386,454)	1,684,639	3,000,787	2,647,910	10,038,141	
Off consolidated statement of financial position items	8,374,804	6,490,573	355,221	1,529,010	-	-	
Profit Rate Sensitivity Gap	(1,389,781)	(16,877,027)	1,329,418	1,471,777	2,647,910	10,038,141	
Cumulative Profit Rate Sensitivity Gap	(1,389,781)	(16,877,027)	(15,547,609)	(14,075,832)	(11,427,922)	(1,389,781)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

4.3.2 Exposure to profit rate risk – non-trading portfolios (continued)

Sensitivity analysis

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 10 basis point (bp) parallel fall or rise in all yield curves worldwide and a 5 bp rise or fall in the greater than -12month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

Sensitivity of net profit	**10 bp parallel increase**	**10 bp parallel decrease**
2012		
At 31 December	**(4,136)**	**4,136**
2011		
At 31 December	(10,078)	10,078

Overall non-trading profit rate risk positions are managed by Group Central Treasury, which uses financial investments, advances to banks, deposits from banks and risk management instruments to manage the overall position arising from the Group's non-trading activities.

4.3.3 Exposure to other market risks – non-trading portfolios

Foreign currency transactions

The Group's policy is only to hedge such exposures when not doing so would have a significant impact on the regulatory capital ratios of the Group and its subsidiaries. The result of this policy is that hedging generally only becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered. In addition to monitoring VaR in respect of foreign currency, the Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the respective functional currency of Group entities, and with regard to the translation of foreign operations into the presentation currency of the Group (after taking account of the impact of any qualifying net investment hedges).

	2012	2011
Net foreign currency exposure:		
EUR	**(358)**	(7,115)
GBP	**711**	(30)
Others	**5,847**	7,239

The table below indicates the effect of a reasonably possible movement of the currency rate against the QAR on the consolidated income statement, with all other variables held constant:

	Increase / (decrease) in profit or loss	
	2012	2011
5% increase / (decrease) in currency exchange rate		
EUR	**(86)**	(1,671)
GBP	**209**	(8)
Others	**292**	362

The table above does not include currencies that are pegged against the QAR.

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as investments at fair value through equity.

The Group is also exposed to equity price risk and the sensitivity analysis thereof is as follows:

	2012	2011
5% increase / (decrease) in QE 30 index/other indices		
Increase / (decrease) in profit and loss	**7,964**	-
Increase / (decrease) in equity	**988**	964

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of e.g. customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for risk management instrument s etc. Such outflows would deplete available cash resources for client financing, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil financing commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

4.4.1 Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by QCB.

Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

	2012	2011
At 31 December	105%	119%
Average for the year	110%	127%
Maximum for the year	132%	142%
Minimum for the year	100%	111%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(QAR '000s)*

At 31 December 2012

4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

4.4.2 Maturity analysis

Maturity analysis of Group's financial assets is prepared on the basis of their expected maturity, whereas maturity analysis of Group's liabilities is prepared on the basis of their contractual maturity.

	Carrying amount	*Less than one month*	*1-3 months*	*3 months to 1 year*	*1-5 years*	*More than 5 years*
2012						
Cash and balances with QCB	2,267,508	291,393	-	-	-	1,976,115
Due from banks	2,627,154	2,627,154	-	-	-	-
Financing assets	42,769,216	22,064,331	10,316,501	2,863,438	6,209,119	1,315,827
Investment securities - debt	11,777,223	-	-	209,328	10,207,079	1,360,816
Other assets	326,480	319,539	-	6,941	-	-
Total financial assets	**59,767,581**	**25,302,417**	**10,316,501**	**3,079,707**	**16,416,198**	**4,652,758**
Due to banks	6,383,877	4,439,854	1,216,548	727,475	-	-
Financing liabilities	2,502,739	2,502,739	-	-	-	-
Total financial liabilities	8,886,616	6,942,593	1,216,548	727,475	-	-
Equity of investment account holders	42,506,876	29,791,732	9,927,923	2,367,776	419,445	-
Total financial liabilities and equity of investment account holders	**51,393,492**	**36,734,325**	**11,144,471**	**3,095,251**	**419,445**	
Difference	**8,374,089**	**(11,431,908)**	**(827,970)**	**(15,544)**	**15,996,753**	**4,652,758**
2011						
Cash and balances with QCB	2,253,317	745,817	-	-	-	1,507,500
Due from banks	4,274,109	4,274,109	-	-	-	-
Financing assets	34,765,827	17,445,078	6,124,709	5,317,028	3,231,102	2,647,910
Investment securities - debt	11,955,362	-	-	478,629	10,226,733	1,250,000
Other assets	263,979	256,073	779	7,127	-	-
Total financial assets	53,512,594	22,721,077	6,125,488	5,802,784	13,457,835	5,405,410
Due to banks	13,195,261	9,666,948	3,216,893	311,420	-	-
Financing liabilities	4,171,358	4,171,358	-	-	-	-
Total financial liabilities	17,366,619	13,838,306	3,216,893	311,420	-	-
Equity of investment account holders	28,896,973	22,074,707	3,093,185	3,498,766	230,315	-
Total financial liabilities and equity of investment account holders	46,263,592	35,913,013	6,310,078	3,810,186	230,315	-
Difference	7,249,002	(13,191,936)	(184,590)	1,992,598	13,227,520	5,405,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(QAR '000s)*

4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

4.4.3 Maturity analysis (Financial liabilities and risk management instruments)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The Group maintains a portfolio of highly marketable, diverse and liquid assets in the event of an unforeseen interruption to cash flow. The Group maintains statutory reserves with QCB. Liquidity is assessed and managed using a variety of stressed scenarios applicable to the Group.

	Carrying amount	*Gross undiscounted cash flows*	*Less than one month*	*One to 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*
2012							
Non-derivative liabilities							
Due to banks	6,383,877	6,389,898	4,291,116	1,370,324	728,458	-	-
Financing liabilities	2,502,739	2,502,739	2,502,739	-	-	-	-
Other liabilities	500,828	500,828	500,828	-	-	-	-
Total liabilities	**9,387,444**	**9,393,465**	**7,294,683**	**1,370,324**	**728,458**	**-**	**-**
Equity of investment account holders	42,506,876	42,601,275	29,783,003	9,978,583	2,396,953	442,736	-
Risk management instruments							
Risk management:	3,865						
Outflow		(5,968)	(70)	(103)	(5,795)	-	-
Inflow		9,833	47	439	9,347	-	-
	51,898,185	**51,998,605**	**37,077,663**	**11,349,243**	**3,128,963**	**442,736**	**-**
2011							
Non-derivative liabilities							
Due to banks	13,195,261	13,205,966	9,668,453	3,216,893	317,907	2,713	-
Financing liabilities	4,171,358	4,171,358	4,171,358	-	-	-	-
Other liabilities	503,467	503,467	503,467	-	-	-	-
Total liabilities	17,870,086	17,880,791	14,343,278	3,216,893	317,907	2,713	-
Equity of investment account holders	28,896,973	29,013,785	22,088,082	3,103,392	3,537,230	285,081	-
Risk management instruments							
Risk management:	(6,030)						
Outflow		(37,624)	(22,910)	(2,123)	(12,591)	-	-
Inflow		31,594	417	21,851	9,326	-	-
	46,761,029	46,888,546	36,408,867	6,340,013	3,851,872	287,794	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

4.6 Capital management

Regulatory capital

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on owners' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

The capital adequacy ratio of the Group is calculated in accordance with the Basel Committee guidelines as adopted by the QCB.

The Group's regulatory capital position under Basel II and QCB regulations at 31 December was as follows:

	2012	2011
Tier 1 Capital	**7,180,731**	7,497,326
Tier 2 Capital	**-**	270,933
Total regulatory capital	**7,180,731**	7,768,259

Tier 1 capital includes paid up share capital, legal reserve, other reserves and retained earnings after excluding proposed dividend. Tier 2 capital comprises the risk reserve and fair value reserve (45% if positive and 100% if negative).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

4. FINANCIAL RISK MANAGEMENT (continued)

4.6 Capital management (Continued)

Regulatory capital (continued)

Risk weighted assets and carrying amounts

	Basel II Risk weighted amount		*Carrying amount*	
	2012	2011	**2012**	2011
Cash and balances with QCB	**-**	-	**2,267,508**	2,253,317
Due from banks	**1,027,914**	1,903,742	**2,627,154**	4,274,109
Financing assets	**32,325,730**	24,278,264	**42,769,216**	34,765,827
Investment securities	**714,435**	2,462,028	**11,961,322**	12,046,247
Fixed assets and other assets	**462,414**	409,300	**462,414**	409,300
Off balance sheet assets	**4,638,459**	3,771,476	**25,828,075**	14,408,979
Total risk weighted assets for credit risk	**39,168,952**	32,824,810	**85,915,689**	68,157,779
Risk weighted assets for market risk	**407,228**	241,540	**407,228**	241,540
Risk weighted assets for operational risk	**2,965,796**	2,116,750	**1,581,758**	1,128,933
	3,373,024	2,358,290	**1,988,986**	1,370,473

	2012	2011
Risk weighted assets	**42,541,976**	35,183,100
Regulatory capital	**7,180,731**	7,768,259
Risk weighted assets as a percentage of regulatory capital (capital ratio)	**16.88%**	22.07%

The minimum ratio limit determined by QCB is 10% and the current Basel II capital adequacy requirement is 8%.

5. USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in significant accounting policies.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. Minimum impairment on specific counter parties are determined based on the QCB regulations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of financing and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

5. USE OF ESTIMATES AND JUDGMENTS (continued)

(b) Critical accounting judgements in applying the Group's accounting policies

(i) Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

(ii) Financial asset and liability classification

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	*Level 2*	*Level 3*	*Total*
2012				
Risk management instruments	-	13,256	-	13,256
Investment securities	344,619	5,070	-	349,689
	344,619	**18,326**	**-**	**362,945**
Risk management instruments	-	9,391	-	9,391
	-	**9,391**	**-**	**9,391**

	Level 1	Level 2	Level 3	Total
2011				
Risk management instruments	-	34,795	-	34,795
Investment securities	19,278	71,607	-	90,885
	19,278	106,402	-	125,680
Risk management instruments	-	40,769	-	40,769
	-	40,769	-	40,769

During the reporting period 31 December 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

(iii) Impairment of investments in equity and debt securities

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies note.

(iv) Useful lives of fixed assets

The Group's management determines the estimated useful life of fixed assets for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

6. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic divisions, the management reviews internal reports periodically. The following summary describes the operations in each of the Group's reportable segments.

- Corporate Banking provides an extensive range of Islamic funded and non-funded credit facilities, deposit services, investment advisory, currency exchange facilities, profit rate swaps, financing syndication and and other services to Corporate, Commercial and Multinational Customers.
- Retail Banking provides investment accounts services, credit card and Islamic financing to retail and individual customers.
- Al Rayan Investment has two distinct functions. Firstly, the management of Masraf Al Rayan's portfolio of listed and private equities and funds, strategic investments, income producing instruments such as sukuks and real estate investments. Secondly, the development and operation of Masraf Al Rayan's investment products, asset management and investment placement business.

Unallocated assets, liabilities and revenues are related to some central functions and non core business operations, like common property & equipments, cash functions, development projects related payables etc.

Information regarding the results, assets and liabilities of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries

Information about operating segments

	Corporate Banking	*Retail Banking*	*Asset Management*	*Unallocated*	*Total*
2012					
External revenue:					
Total income from financing and investing activities	2,062,766	189,096	47,739	-	2,299,601
Net fee and commission income	103,464	-	9,094	-	112,558
Foreign exchange gain / (loss)	46,810	-	(27)	-	46,783
Other income	6,876	-	-	-	6,876
Share of results of associates and joint ventures	35,692	-	540	-	36,232
Total segment revenue	**2,255,608**	**189,096**	**57,346**	**-**	**2,502,050**
Other material non-cash items:					
Net impairment loss on investment securities	-	-	-	-	-
Net recoveries (impairment losses) on financing assets	35,580	(1,123)	-	-	34,457
Reportable segment profit before tax	**1,670,470**	**126,481**	**39,438**	**(330,553)**	**1,505,836**
Reportable segment assets	**56,252,168**	**4,445,210**	**609,316**	**321,691**	**61,628,385**
Reportable segment liabilities	**47,027,337**	**4,571,691**	**4,797**	**290,495**	**51,894,320**
2011					
External revenue:					
Total income from financing and investing activities	1,744,818	125,699	19,312	-	1,889,829
Net fee and commission income	240,087	-	6,046	-	246,133
Foreign exchange gain / (loss)	39,804	-	-	-	39,804
Other income	14,849	-	-	-	14,849
Share of results of associates and joint ventures	199,554	-	-	-	199,554
Total segment revenue	2,239,112	125,699	25,358	-	2,390,169
Other material non-cash items:					
Net impairment loss on investment securities	(14,562)	-	-	-	(14,562)
Net impairment loss on financing assets	(70,304)	(562)	-	-	(70,866)
Reportable segment profit before tax	1,615,540	84,027	9,935	(299,892)	1,409,610
Reportable segment assets	52,489,113	2,397,366	94,432	290,425	55,271,336
Reportable segment liabilities	43,990,723	2,481,393	14,703	280,240	46,767,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

7. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

2012	***Fair value through income statement***	***Fair value through equity***	***Amortised cost***	***Total carrying amount***	***Fair value***
Cash and balances with QCB	-	-	2,267,508	2,267,508	2,267,508
Due from banks	-	-	2,627,154	2,627,154	2,627,154
Financing assets	-	-	42,769,216	42,769,216	42,769,216
Investment securities:					
• Measured at fair value	324,865	24,824	-	349,689	349,689
• Measured at amortised cost	-	-	11,611,633	11,611,633	11,590,339
Other assets	-	-	326,480	326,480	326,480
Risk management instruments	13,256	-	-	13,256	13,256
	338,121	**24,824**	**59,601,991**	**59,964,936**	**59,943,642**
Due to banks	-	-	6,383,877	6,383,877	6,383,877
Customer current accounts	-	-	2,502,739	2,502,739	2,502,739
Financing liabilities	-	-	42,506,876	42,506,876	42,506,876
Risk management instruments	9,391	-	-	9,391	9,391
	9,391	**-**	**51,393,492**	**51,402,883**	**51,402,883**

2011	*Fair value through income statement*	*Fair value through equity*	*Amortised cost*	*Total carrying amount*	*Fair value*
Cash and balances with QCB	-	-	2,253,317	2,253,317	2,253,317
Due from banks	-	-	4,274,109	4,274,109	4,274,109
Financing assets	-	-	34,765,827	34,765,827	34,765,827
Investment securities:					
• Measured at fair value	-	90,885	-	90,885	90,885
• Measured at amortised cost	-	-	11,955,362	11,955,362	11,954,306
Other assets	-	-	263,979	263,979	263,979
Risk management instruments	34,795	-	-	34,795	34,795
	34,795	90,885	53,512,594	53,638,274	53,637,218
Due to banks	-	-	13,195,261	13,195,261	13,195,261
Customer current accounts	-	-	4,171,358	4,171,358	4,171,358
Financing liabilities	-	-	28,896,973	28,896,973	28,896,973
Risk management instruments	40,769	-	-	40,769	40,769
	40,769	-	46,263,592	46,304,361	46,304,361

8. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2012	2011
Cash on hand	**204,803**	156,889
Cash reserve with QCB*	**1,976,115**	1,507,500
Current account with QCB	**86,590**	588,928
	2,267,508	2,253,317

** The cash reserve with QCB represents a mandatory reserve not available for the daily operations of the Group.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

9. DUE FROM BANKS

	2012	2011
Current accounts	**1,480,588**	796,760
Wakala placements with banks	**33,063**	1,448,012
Commodity murabaha receivable	**1,113,503**	2,029,337
	2,627,154	4,274,109

10. FINANCING ASSETS

(a) By type

	2012	2011
Receivables and balances from financing activities:		
Murabaha	**39,631,243**	33,984,584
Ijarah	**3,424,472**	1,691,744
Istisna'a	**784,106**	351,598
Musharaka	**122,112**	69,000
Others	**110,256**	100,580
Total receivables and balances from financing activities	**44,072,189**	36,197,506
Deferred profit	**(1,253,251)**	(1,344,453)
Provision for impairment and profit in suspense (note b)	**(49,722)**	(87,226)
Net receivables and balances from financing activities	**42,769,216**	34,765,827

The total non-performing financing assets at 31 December 2012 amounted to QAR 39,911 thousand representing 0.09% of the gross financing assets (2011: QAR 106,069 thousand, representing 0.30% of the gross financing assets).

Specific impairment of financing assets includes QAR 4,369 thousand of profit in suspense (2011: QAR 7,394 thousand).

(b) Movement in the provision for impairment on financing assets

	Specific and collective impairment	***Profit in suspense***	***Total 2012***
Balance as at 1 January	79,832	7,394	87,226
Charge for the year	8,872	(3,025)	5,847
Recoveries during the year	(43,329)	-	(43,329)
Write off during the year	(22)	-	(22)
Balance at 31 December	**45,353**	**4,369**	**49,722**

	Specific and collective impairment	*Profit in suspense*	***Total 2011***
Balance as at 1 January	9,312	2,343	11,655
Charge for the year	70,866	5,051	75,917
Recoveries during the year	-	-	-
Write off during the year	(346)	-	(346)
Balance at 31 December	79,832	7,394	87,226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

10. FINANCING ASSETS (continued)

(c) Movement in the provision for impairment on financing assets sector-wise

	Corporate	SME	Retail	Total
2012				
Balance as at 1 January	74,586	11,808	832	87,226
Charge for the year	2,356	2,051	1,440	5,847
Recoveries during the year	(42,064)	(983)	(282)	(43,329)
Write off during the year	-	-	(22)	(22)
Balance at 31 December	**34,878**	**12,876**	**1,968**	**49,722**

	Corporate	SME	Retail	Total
2011				
Balance as at 1 January	-	11,161	494	11,655
Charge for the year	74,586	647	684	75,917
Recoveries during the year	-	-	-	-
Write off during the year	-	-	(346)	(346)
Balance at 31 December	74,586	11,808	832	87,226

(d) By sector

	Murabaha	Ijarah	Istisna'a	Musharaka	Others	Total
2012						
Government and related agencies	24,598,464	-	-	-	-	**24,598,464**
Non-banking financial institutions	3,566,389	600	-	-	-	**3,566,989**
Industry	109,410	-	461,155	-	-	**570,565**
Commercial	1,771,008	42,791	-	-	-	**1,813,799**
Services	2,423,493	65,331	235,589	-	86,044	**2,810,457**
Contracting	178,832	19,668	-	-	-	**198,500**
Real estate	5,924,421	2,806,443	87,362	115,329	-	**8,933,555**
Personal	1,059,226	489,639	-	4,290	24,212	**1,577,367**
Other	-	-	-	2,493	-	**2,493**
	39,631,243	**3,424,472**	**784,106**	**122,112**	**110,256**	**44,072,189**
Less: Deferred profit						(1,253,251)
Provision for impairment on financing assets						(49,722)
						42,769,216

	Murabaha	Ijarah	Istisna'a	Musharaka	Others	Total
2011						
Government and related agencies	15,072,767	-	-	-	-	15,072,767
Non-banking financial institutions	2,762,446	1,104	-	-	-	2,763,550
Industry	86,798	-	325,728	-	-	412,526
Commercial	1,484,565	13,427	1,246	-	9	1,499,247
Services	567,635	113,186	10,422	-	86,048	777,291
Contracting	2,392,730	1,794	-	18,347	-	2,412,871
Real estate	10,503,543	1,561,025	14,202	48,160	-	12,126,930
Personal	1,113,945	1,208	-	-	14,523	1,129,676
Other	155	-	-	2,493	-	2,648
	33,984,584	1,691,744	351,598	69,000	100,580	36,197,506
Less: Deferred profit						(1,344,453)
Provision for impairment on financing assets						(87,226)
						34,765,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

11. INVESTMENT SECURITIES

	2012			2011		
	Quoted	***Unquoted***	***Total***	Quoted	Unquoted	Total
Investments classified as fair value through income statement						
Investments classified as held for trading						
• Equity type investments	**159,275**	**-**	**159,275**	-	-	-
• Debt type investments						
- Fixed profit rate	**158,838**	**-**	**158,838**	-	-	-
- Floating profit rate	**6,752**	**-**	**6,752**	-	-	-
	324,865	**-**	**324,865**	-	-	-
Debt-type investments classified at amortised cost						
Fixed profit rate	**50,967**	**-**	**50,967**	50,967	12,196	63,163
Floating profit rate	**332,509**	**-**	**332,509**	664,042	-	664,042
Government of Qatar Sukuk	**-**	**11,250,000**	**11,250,000**	-	11,250,000	11,250,000
Less: Provision for impairment	**(21,843)**	**-**	**(21,843)**	(21,843)	-	(21,843)
	361,633	**11,250,000**	**11,611,633**	693,166	11,262,196	11,955,362
Equity-type investments classified as fair value through equity	**19,754**	**5,070**	**24,824**	19,278	71,607	90,885
	706,252	**11,255,070**	**11,961,322**	712,444	11,333,803	12,046,247

The cumulative change in fair value of equity-type investments designated as fair value through equity during the year is as follows:

	2012			2011		
	Positive fair value	***Negative fair value***	***Total***	*Positive fair value*	*Negative fair value*	*Total*
Balance at 1 January	**8,795**	**-**	**8,795**	6,117	-	6,117
Net change in fair value	**449**	**-**	**449**	2,678	-	2,678
Balance at 31 December	**9,244**	**-**	**9,244**	8,795	-	8,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Associates' and joint ventures' movement during the year is as follows:

	2012	2011
Balance at 1 January	1,431,286	386,494
Investments acquired during the year	11,359	-
Share of results	6,876	14,849
Share in non-Shari'a results of associate (A)	-	417
Return of associates' capital	-	(18,912)
Associate reclassified from investment in subsidiaries (B)	-	1,048,438
Balance at 31 December	1,449,521	1,431,286

Name of the Company	*Associate / Joint Venture*	*Country*	*Company's activities*	*Ownership %* 2012	2011
National Mass Housing ("NMH")	Associate	Oman	Real estate services	20.00	20.00
CI San Trading ("Ci San")	Associate	Qatar	Real estate	50.00	50.00
Kirnaf Investment and Installment Company ("Kirnaf")	Associate	Saudi Arabia	Leasing	48.00	48.00
Daman Insurance – Beema ("Daman")	Associate	Qatar	Insurance	20.00	20.00
Linc Facility Services ("Linc")	Joint venture	Qatar	Facility management	33.33	33.33
Seef Lusail Real Estate Development Company W.L.L. ("Seef")	Associate	Qatar	Investment and credit facilities management	50.00	50.00

Notes:

A) The amount represents 50% of the Group's share in results of National Mass Housing, and has been recognized under other liabilities as per Shari'a Board instructions.

B) In 2011, the Group sold 50% of its investment in the Company. Subsequent to the sale, the investment in the Company has been reclassified as investment in associate.

C) As at reporting date, CI San Trading and Linc Facility Services are still in the pre-operating stage. Accordingly, the investment balances represent the acquisition cost.

D) All investments are not listed.

The financial position, revenue and results of associates and joint ventures based on audited financial statements are as follows:

2012	***NMH***	***Ci San***	***Kirnaf***	***Daman***	***Linc***	***Seef***
Total assets	**154,562**	**32,600**	**977,162**	**336,761**	**6,000**	**2,114,460**
Total liabilities	**3,544**	**-**	**321,369**	**128,807**	**-**	**25,168**
Total revenue	**3,795**	**-**	**41,636**	**22,814**	**-**	**45**
Net profit / (loss)	**(82)**	**-**	**24,811**	**4,669**	**-**	**(7,584)**
Share of profit / (loss)	**(17)**	**-**	**9,494**	**1,191**	**-**	**(3,792)**

2011	*NMH*	*Ci San*	*Kirnaf*	*Daman*	*Linc*	*Seef*
Total assets	152,110	10,000	691,763	202,000	6,000	2,096,876
Total liabilities	1,010	-	55,872	-	-	-
Total revenue	5,044	-	28,884	-	-	-
Net profit / (loss)	4,167	-	30,456	-	-	-
Share of profit / (loss)	417	-	14,432	-	-	-

13. INVESTMENT PROPERTY

Investment property pertains to freehold land and is carried at cost. The fair value of the investment property as at 31 December 2012 amounted to QAR 95 million (2011: QAR 95 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

14. FIXED ASSETS

	Land and building	**Leasehold improvements**	**Furniture, fixtures and office equipment**	**Computer hardware and software**	**Work in progress**	**Total**
Cost:						
Balance at 1 January 2012	14,163	50,588	19,453	57,971	1,569	143,744
Additions	-	1,810	983	7,648	400	10,841
Balance at 31 December 2012	14,163	52,398	20,436	65,619	1,969	154,585
Accumulated depreciation:						
Balance at 1 January 2012	1,389	18,654	8,634	44,561	-	73,238
Depreciation for the year	358	5,130	2,871	10,770	-	19,129
Balance at 31 December 2012	1,747	23,784	11,505	55,331	-	92,367
Net book value:						
At 31 December 2012	**12,416**	**28,614**	**8,931**	**10,288**	**1,969**	**62,218**

	Land and building	*Leasehold improvements*	*Furniture, fixtures and office equipment*	*Computer hardware and software*	*Work in progress*	*Total*
Cost:						
Balance at 1 January 2011	14,163	48,440	17,541	52,185	7,878	140,207
Additions	-	897	1,723	5,636	950	9,206
Disposals	-	-	-	-	(5,669)	(5,669)
Transfers	-	1,251	189	150	(1,590)	-
Balance at 31 December 2011	14,163	50,588	19,453	57,971	1,569	143,744
Accumulated depreciation:						
Balance at 1 January 2011	1,031	13,667	5,882	32,671	-	53,251
Depreciation for the year	358	4,987	2,752	11,890	-	19,987
Balance at 31 December 2011	1,389	18,654	8,634	44,561	-	73,238
Net book value:						
At 31 December 2011	12,774	31,934	10,819	13,410	1,569	70,506

15. OTHER ASSETS

	2012	2011
Accrued profit	**329,606**	267,105
Prepayments and other receivables	**64,438**	65,163
Advances to suppliers	**9,278**	9,652
	403,322	341,920
Less: Allowance for impairment losses	**(3,126)**	(3,126)
	400,196	338,794

Notes:

(i) Allowance for impairment losses pertain to accrued profit relating to certain debt type investments.

(ii) Other receivables include positive fair value of derivatives amounting to QAR 13,256 thousand (2011: QAR 34,795 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

16. DUE TO BANKS

	2012	2011
Current accounts	**566,379**	1,004,931
Commodity murabaha payable	**851,898**	1,826,858
Wakala payable	**4,965,600**	10,363,472
	6,383,877	13,195,261

Wakala payable includes various facilities with maturities ranging from 1 month to 6 months and carries a profit rate of 0.20% to 1.50%.

17. CUSTOMER CURRENT ACCOUNTS

	2012	2011
By sector:		
Government	**296,334**	129,968
Non-banking financial institutions	**14,176**	41,139
Corporate	**1,346,690**	3,278,154
Individuals	**845,539**	722,097
	2,502,739	4,171,358

18. OTHER LIABILITIES

	2012	2011
Unearned commission	**204,410**	207,713
Dividend payable	**97,944**	70,984
Other staff provisions	**58,764**	61,154
Social and sports fund	**37,605**	15,200
Accrued expenses	**17,993**	27,244
Provision for employees' end of service benefits (a)	**16,912**	12,582
Escrow accounts	**1,149**	25,571
Others	**66,051**	83,019
	500,828	503,467

Others include negative fair value of derivatives amounting to QAR 9,391 thousand (2011: QAR 40,769 thousand).

(a) Provision for employees' end of service benefits

	2012	2011
Balance at 1 January	**12,582**	8,825
Provisions made during the year	**5,202**	4,549
Paid during the year	**(872)**	(792)
Balance at 31 December	**16,912**	12,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

19. EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) By type

	2012	2011
Saving accounts	1,519,970	936,015
Term accounts	38,691,069	24,598,433
Call accounts	2,158,704	3,271,947
Profit payable to equity of investment account holders	136,762	90,230
Share in the fair value reserve	371	348
	42,506,876	28,896,973

(b) By sector

	2012	2011
Government	24,244,995	11,897,270
Non-banking financial institutions	114,527	917,724
Retail	4,194,590	2,529,319
Corporate	13,815,631	13,462,082
Profit payable to equity of investment account holders	136,762	90,230
Share in the fair value reserve	371	348
	42,506,876	28,896,973

In accordance with QCB circular No. 87/2008, no risk reserve is deducted from the profit related to the equity of investment account holders and the total risk reserve is transferred from the shareholders' profit as an appropriation.

(c) Share of equity of investment account holders in the net profit

	2012	2011
Return on equity of investment account holders in the profit before Masraf's Mudaraba income	1,544,570	1,409,455
Masraf's Mudaraba income	(1,464,599)	(1,336,744)
Return on investment account holders	79,971	72,711
Support provided by Masraf	481,986	409,822
Return on investment account holders after Masraf's support	561,957	482,533

Rates of profit allotment:	2012	2011
	%	%
More than one year deposits	2.29	2.50
One year deposits	1.19	1.54
Six months deposits	0.89	1.10
Three months deposits	0.73	1.02
Call accounts	0.56	0.73
Saving accounts	0.49	0.98
Saving accounts-millionaire	1.00	1.19

20. OWNERS' EQUITY

(a) Share capital

	2012	2011
Authorised		
750,000,000 shares at QAR 10 each	7,500,000	7,500,000

Issued & paid-up	No. of shares	2012	2011
At 1 January	750,000,000	7,500,000	5,073,324
Dividend towards uncalled share capital for 2010 (at QAR 2.635 per share)	-	-	1,976,084
Dividend towards uncalled share capital during 2011(at QAR 0.6 per share)	-	-	449,962
Issue of new share capital	-	-	630
	750,000,000	7,500,000	7,500,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

20. OWNERS' EQUITY (continued)

(a) Share capital (continued)

On 23 May 2011, the Board of Directors based on the approval of the General Assembly meeting on 28 March 2011 approved a dividend of 6% of the par value of issued capital towards the uncalled share capital (QAR 0.6 per share) amounting to QAR 449,962 thousand.

Also during the year, Masraf issued 63,068 shares, which represent the fractional shares that resulted from the initial IPO process. The fractional shares were sold through Qatar Exchange in accordance with article No. 8 of Masraf's Articles of Association.

(b) Legal reserve

	2012	2011
Balance at 1 January	**141,871**	-
Share premium on the new issued shares (i)	**-**	1,036
Transfer from retained earnings (ii)	**150,421**	140,835
Balance at 31 December	**292,292**	141,871

(i) In accordance with the Qatar Commercial Companies' Law No. 5 of 2002, share premium equivalent to 164.3% of the paid up share capital was transferred to the legal reserve account.

(ii) According to QCB Law No. 33 of 2006, 10% of the profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of paid up capital.

(c) Fair value reserve

This reserve comprises changes in fair value of equity-type investments classified as fair value through equity.

	2012	2011
Balance at the 1 January	**8,795**	6,117
Net unrealised gains	**820**	3,026
Net change during the year	**9,615**	9,143
Share of equity of investment account holders in the fair value reserve	**(371)**	(348)
Balance at 31 December (shareholders' share)	**9,244**	8,795

Fair value reserve represents unearned gains/ (losses), being not available for distribution unless realised and charged to the consolidated income statement.

(d) Risk reserve

In accordance with QCB regulations, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 2% of the total private sector exposure granted by Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees are excluded from the gross direct financing, which should be appropriated from shareholders' profit according to QCB Circular No 87/2008. As of 31 December 2012, an amount of QAR 337 million has been transferred to the risk reserve (2011: QAR 450 million).

(e) Proposed dividend

The Board of Directors in its meeting held on 27 January 2013 proposed a cash dividend of 10% (2011: 5%) of the share capital amounting to QAR 750 million (2011: QAR 375 million).

This proposal is subject to the approval of the shareholders' annual general assembly and the regulators in the State of Qatar.

21. NON-CONTROLLING INTERESTS

This represents the Group's non-controlling interest in Sapura Crest amounting to 49% of the share capital, 33.7% in Al Rayan GCC Fund (F) and 73.5% in Al Rayan GCC Fund (Q).

Sapura Crest is 51% owned by Al Rayan Investment LLC, a wholly-owned subsidiary of Masraf.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

22. NET INCOME FROM FINANCING ACTIVITIES

	2012	2011
Income from Murabaha	1,441,572	1,104,807
Income from Istisna'a	18,368	970
Income from Ijarah	164,546	117,256
Income from Mudaraba	-	49,074
Income from Musharaka	9,037	10,827
	1,633,523	1,282,934

23. NET INCOME FROM INVESTING ACTIVITIES

	2012	2011
Income from investment in debt-type instruments	612,033	597,562
Fair value gain on investment securities carried as fair value through income statement	15,616	-
Income from inter-bank placements with Islamic banks	15,478	8,584
Dividend income	7,985	749
Net gain on sale of debt-type investments	14,938	-
Net gain on sale of equity-type investments	28	-
	666,078	606,895

24. NET FEE AND COMMISSION INCOME

	2012	2011
Commission on financing activities	70,927	205,338
Commission on trade finance activities	32,726	33,280
Commission on banking services	10,523	9,280
	114,176	247,898
Fee and commission expenses	(1,618)	(1,765)
	112,558	246,133

25. FOREIGN EXCHANGE GAIN

	2012	2011
Dealing in foreign currencies	47,316	42,353
Revaluation of assets and liabilities	(533)	(2,549)
	46,783	39,804

26. OTHER INCOME

	2012	2011
Rental income	3,545	2,191
Net gain on disposal of a subsidiary	-	171,863
Miscellaneous	32,687	25,500
	36,232	199,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

27. STAFF COSTS

	2012	2011
Basic salaries	134,538	110,128
Staff indemnity costs	60,429	71,012
Staff pension fund costs	9,044	7,570
Training	2,482	3,006
Other	3,706	2,626
	210,199	194,342

28. OTHER EXPENSES

	2012	2011
Rent and maintenance	39,317	34,490
Advertising expenses	28,018	20,610
Legal, professional and consulting fees	14,783	12,728
Board of Directors' remuneration (Note 34/c)	16,997	11,726
Information technology	7,206	5,448
Shari'a Board compensation	1,404	1,224
Other operating expenses	11,296	14,760
	119,021	100,986

29. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

The Group has long-term lease agreements for its office premises. The future aggregate minimum lease payments under these rent agreements are as follows:

	2012	2011
Payable not later than 1 year	22,157	24,656
Payable later than 1 year and not later than 5 years	35,179	51,919
	57,336	76,575

(b) Contingent liabilities

	2012	2011
Unutilised credit facilities	7,403,642	3,899,753
Acceptances	54,613	72,652
Guarantees	5,510,161	3,974,575
Letters of credit	2,656,667	2,026,353
	15,625,083	9,973,333

(c) Other undertakings and commitments

	2012	2011
Profit rate swap	1,529,010	1,529,010
Unilateral promise to buy/sell currencies	16,091,124	6,845,794
	17,620,134	8,374,804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

30. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

Geographical sector

	Qatar	*Other GCC*	*Europe*	*North America*	*Others*	*Total*
2012						
Cash and balances with QCB	2,267,508	-	-	-	-	2,267,508
Due from banks	28,280	1,325,962	1,181,306	89,387	2,219	2,627,154
Financing assets	41,978,223	-	657,734	-	133,259	42,769,216
Investment securities	11,493,001	459,356	-	-	8,965	11,961,322
Investment in associates and joint ventures	1,104,537	344,984	-	-	-	1,449,521
Investment property	91,250	-	-	-	-	91,250
Fixed assets	62,218	-	-	-	-	62,218
Other assets	400,196	-	-	-	-	400,196
TOTAL ASSETS	**57,425,213**	**2,130,302**	**1,839,040**	**89,387**	**144,443**	**61,628,385**
Due to banks	3,568,459	2,131,891	117,748	-	565,779	6,383,877
Customer current accounts	2,491,409	5,782	1,027	9	4,512	2,502,739
Other liabilities	500,828	-	-	-	-	500,828
Total liabilities	6,560,696	2,137,673	118,775	9	570,291	9,387,444
Equity of investment account holders	39,217,117	3,203,787	8,487	-	77,485	42,506,876
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**45,777,813**	**5,341,460**	**127,262**	**9**	**647,776**	**51,894,320**

	Qatar	*Other GCC*	*Europe*	*North America*	*Others*	*Total*
2011						
Cash and balances with QCB	2,253,317	-	-	-	-	2,253,317
Due from banks	2,160,780	1,312,903	655,803	124,717	19,906	4,274,109
Financing assets	34,686,237	-	31	-	79,559	34,765,827
Investment securities	11,447,395	399,162	-	182,025	17,665	12,046,247
Investment in associates and joint ventures	1,095,838	335,448	-	-	-	1,431,286
Investment property	91,250	-	-	-	-	91,250
Fixed assets	70,506	-	-	-	-	70,506
Other assets	338,794	-	-	-	-	338,794
TOTAL ASSETS	52,144,117	2,047,513	655,834	306,742	117,130	55,271,336
Due to banks	9,286,175	2,838,006	72,808	75,095	923,177	13,195,261
Customer current accounts	4,169,046	1,663	-	10	639	4,171,358
Other liabilities	503,467	-	-	-	-	503,467
Total liabilities	13,958,688	2,839,669	72,808	75,105	923,816	17,870,086
Equity of investment account holders	27,595,092	1,248,899	4,328	-	48,654	28,896,973
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	41,553,780	4,088,568	77,136	75,105	972,470	46,767,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

30. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

Industrial sector

	Real estate	***Construction, engineering and manufacturing***	***Oil and gas***	***Financial services***	***Individuals***	***Others***	***Total***
2012							
Cash and balances with QCB	-	-	-	2,267,508	-	-	2,267,508
Due from banks	-	-	-	2,627,154	-	-	2,627,154
Financing assets	8,637,113	276,862	461,155	3,357,925	1,447,936	28,588,225	42,769,216
Investment securities	235,390	34,579	21,213	143,411	-	11,526,729	11,961,322
Investment in associates and joint ventures	-	-	-	41,591	-	1,407,930	1,449,521
Investment property	91,250	-	-	-	-	-	91,250
Fixed assets	-	-	-	-	-	62,218	62,218
Other assets	-	-	-	-	-	400,196	400,196
TOTAL ASSETS	**8,963,753**	**311,441**	**482,368**	**8,437,589**	**1,447,936**	**41,985,298**	**61,628,385**
Due to banks	-	-	-	6,383,877	-	-	6,383,877
Customer current accounts	24,574	94,329	5,177	14,176	845,539	1,518,944	2,502,739
Other liabilities	-	-	-	-	-	500,828	500,828
Total liabilities	24,574	94,329	5,177	6,398,053	845,539	2,019,772	9,387,444
Equity of investment account holders	104,265	6,723	728	114,527	4,194,590	38,086,043	42,506,876
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**128,839**	**101,052**	**5,905**	**6,512,580**	**5,040,129**	**40,105,815**	**51,894,3209**

	Real estate	*Construction, engineering and manufacturing*	*Oil and gas*	*Financial services*	*Individuals*	*Others*	*Total*
2011							
Cash and balances with QCB	-	-	-	2,253,317	-	-	2,253,317
Due from banks	-	-	-	4,274,109	-	-	4,274,109
Financing assets	3,476,609	1,501,651	325,728	2,763,550	982,728	25,715,561	34,765,827
Investment securities	472,958	16,044	3,234	155,339	-	11,398,672	12,046,247
Investment in associates and joint ventures	-	-	-	40,400	-	1,390,886	1,431,286
Investment property	91,250	-	-	-	-	-	91,250
Fixed assets	-	-	-	-	-	70,506	70,506
Other assets	-	-	-	-	-	338,794	338,794
TOTAL ASSETS	4,040,817	1,517,695	328,962	9,486,715	982,728	38,914,419	55,271,336
Due to banks	-	-	-	13,195,261	-	-	13,195,261
Customer current accounts	248,347	8,083	7,179	41,139	722,097	3,144,513	4,171,358
Other liabilities	-	-	-	-	-	503,467	503,467
Total liabilities	248,347	8,083	7,179	13,236,400	722,097	3,647,980	17,870,086
Equity of investment account holders	95,085	10,384	728	917,724	2,529,319	25,343,733	28,896,973
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	343,432	18,467	7,907	14,154,124	3,251,416	28,991,713	46,767,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

31. MATURITY PROFILE

	Up to 3 months	*3-6 months*	*6 months-1 year*	*1-5 years*	*Over 5 years*	*Total*
2012						
Cash and balances with QCB	2,267,508	-	-	-	-	2,267,508
Due from banks	2,627,154	-	-	-	-	2,627,154
Financing assets	32,380,832	2,143,024	720,414	6,209,119	1,315,827	42,769,216
Investment securities	159,275	155,425	53,903	10,207,079	1,385,640	11,961,322
Investment in associates and joint ventures	-	-	-	-	1,449,521	1,449,521
Investment property	-	-	-	-	91,250	91,250
Fixed assets	-	-	-	-	62,218	62,218
Other assets	393,255	6,941	-	-	-	400,196
TOTAL ASSETS	**37,828,024**	**2,305,390**	**774,317**	**16,416,198**	**4,304,456**	**61,628,385**
Due to banks	5,656,402	532,210	195,265	-	-	6,383,877
Customer current accounts	2,502,739	-	-	-	-	2,502,739
Other liabilities	500,828	-	-	-	-	500,828
Total liabilities	8,659,969	532,210	195,265	-	-	9,387,444
Equity of investment account holders	39,719,655	1,324,185	1,043,591	419,445	-	42,506,876
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**48,379,624**	**1,856,395**	**1,238,856**	**419,445**	**-**	**51,894,320**
MATURITY GAP	**(10,551,600)**	**448,995**	**(464,539)**	**15,996,753**	**4,304,456**	**9,734,065**

	Up to 3 months	*3-6 months*	*6 months-1 year*	*1-5 years*	*Over 5 years*	*Total*
2011						
Cash and balances with QCB	2,253,317	-	-	-	-	2,253,317
Due from banks	4,274,109	-	-	-	-	4,274,109
Financing assets	23,569,787	5,029,212	287,816	3,231,102	2,647,910	34,765,827
Investment securities	24,747	-	478,629	10,292,871	1,250,000	12,046,247
Investment in associates and joint ventures	-	-	-	-	1,431,286	1,431,286
Investment property	-	-	-	-	91,250	91,250
Fixed assets	-	-	-	-	70,506	70,506
Other assets	331,667	7,127	-	-	-	338,794
TOTAL ASSETS	30,453,627	5,036,339	766,445	13,523,973	5,490,952	55,271,336
Due to banks	12,883,841	311,420	-	-	-	13,195,261
Customer current accounts	4,171,358	-	-	-	-	4,171,358
Other liabilities	503,467	-	-	-	-	503,467
Total liabilities	17,558,666	311,420	-	-	-	17,870,086
Equity of investment account holders	25,167,891	2,632,459	866,308	230,315	-	28,896,973
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	42,726,557	2,943,879	866,308	230,315	-	46,767,059
MATURITY GAP	(12,272,930)	2,092,460	(99,863)	13,293,658	5,490,952	8,504,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

32. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

	2012	2011
Profit for the year attributable to owners of the Bank	**1,504,213**	1,408,350
Weighted average number of shares outstanding during the year (thousand) (a)	**750,000**	749,941
Basic earnings per share (QAR)	**2.006**	1.878

(a) The weighted average number of shares has been calculated as follows:

	2012 Nos'000	2011 Nos'000
Weighted average number of shares at 1 January	**750,000**	749,937
Effect of share issuance	**-**	4
Weighted average number of shares at 31 December	**750,000**	749,941

There were no potentially dilutive shares outstanding at any time during the year. Therefore, the diluted earnings per share are equal to the basic earnings per share.

33. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than three months:

	2012	2011
Cash on hand and balances with QCB excluding cash reserve	**291,393**	745,817
Due from banks	**2,627,154**	4,274,109
	2,918,547	5,019,926

34. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the significant owners and entities over which the Group and the owners exercise significant influence, directors and executive management of the Group.

Transactions with related parties

(a) Consolidated statement of financial position items	2012	2011
Assets		
Murabaha - customer	**4,316,378**	4,263,648
Liabilities		
Current account - customer	**215**	210
Equity of investment account holders - customer	**5,512,704**	3,094
	5,512,919	3,304
(b) Consolidated income statement items		
Income from financing activities - customer	**231,184**	274,813
Gain (loss) from foreign exchange operations - customer	**(11,491)**	34,352
	219,693	309,165
Return on equity of investment account holders - customer	**24,961**	23,142

(c) Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the year as follows:	2012	2011
Credit card financing	**283**	379

The remuneration of directors and other members of key management during the year were as follows:	2012	2011
Remuneration to Board of Directors including meeting allowances (Note 28)	**16,997**	11,726
Salaries and other benefits	**9,900**	5,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

35. RISK MANAGEMENT INSTRUMENTS

(a) Profit rate swap

Swaps are commitments to exchange one set of cash flows for another. In the case of profit rate swaps, counterparties generally exchange fixed and floating profit payments in a single currency without exchanging principal. In the case of currency swaps, fixed profit payments and principal are exchanged in different currencies.

(b) Unilateral promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the promise dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved and the credit and market risk, which can be identified from the derivatives fair value.

	Positive fair value	***Negative fair value***	***National amount***	***Within 3 months***	***3 - 12 months***	***1 - 5 months***
2012						
Risk management instruments						
Profit rate swaps	3,423	3,423	1,529,010	-	1,529,010	-
Unilateral promise to buy/sell currencies	9,833	5,968	16,091,124	12,540,714	3,550,410	-
	13,256	**9,391**	**17,620,134**	**12,540,714**	**5,079,420**	**-**

	Positive fair value	*Negative fair value*	*National amount*	*Within 3 months*	*3 - 12 months*	*1 - 5 months*
2011						
Risk management instruments						
Profit rate swaps	3,201	3,145	1,529,010	-	-	1,529,010
Unilateral promise to buy/sell currencies	31,594	37,624	6,845,794	6,490,573	355,221	-
	34,795	40,769	8,374,804	6,490,573	355,221	1,529,010

36. ZAKAT

Zakat is directly borne by the owners. The Group does not collect or pay Zakah on behalf of its owners in accordance with the Articles of Association.

37. SHARI'A SUPERVISORY BOARD

The Shari'a supervisory Board of the Group consists of three scholars who are specialised in Shari'a principles and they ensure the Group's compliance with general Islamic principles and work in accordance with the issued Fatwas and guiding rules. The Board's review includes examining the evidence related to documents and procedures adopted by the Group in order to ensure that its activities are according to the principles of Islamic Shari'a.

38. SOCIAL RESPONSIBILITY

Pursuant to Law No. 13 of 2008 and further clarifications of the law issued in 2010, the Group made an appropriation of QAR 37.6 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2012 (2011: QAR 35.2 million) for the support of sports, cultural and charitable activities.

39. COMPARATIVE FIGURES

The comparative figures presented for 2011 have been reclassified where necessary to preserve consistency with the 2012 figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (QAR '000s)

40. STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

	2012	2011
ASSETS		
Cash and balances with QCB	**2,255,502**	2,242,617
Due from banks	**2,627,154**	4,274,109
Financing assets	**42,769,216**	34,765,827
Investment securities	**11,608,946**	11,964,438
Investment in subsidiaries, associates and joint ventures	**1,922,356**	1,845,336
Investment property	**91,250**	91,250
Fixed assets	**60,236**	70,506
Other assets	**393,998**	336,871
TOTAL ASSETS	**61,728,658**	55,590,954
LIABILITIES		
Due to banks	**6,622,168**	13,510,496
Customer current accounts	**2,511,750**	4,176,358
Other liabilities	**495,387**	488,764
TOTAL LIABILITIES	**9,629,305**	18,175,618
EQUITY OF INVESTMENT ACCOUNT HOLDERS	**42,532,063**	28,943,906
OWNERS' EQUITY		
Share capital	**7,500,000**	7,500,000
Legal reserve	**292,292**	141,871
Risk reserve	**787,141**	450,000
Fair value reserves	**7,491**	6,857
Retained earnings	**980,366**	372,702
TOTAL OWNERS' EQUITY	**9,567,290**	8,471,430
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY	**61,728,658**	55,590,954

41. INCOME STATEMENT OF THE PARENT BANK

	2012	2011
Net income from financing activities	1,633,523	1,282,934
Net income from investing activities	623,852	596,621
Total net income from financing and investing activities	**2,257,375**	1,879,555
Fee and commission income	107,193	241,852
Fee and commission expense	(1,618)	(1,765)
Net fee and commission income	**105,575**	240,087
Foreign exchange gain	46,810	39,804
Share of results of associates and joint ventures	6,876	14,849
Other income	39,892	203,954
TOTAL INCOME	**2,456,528**	2,378,249
Staff costs	(198,028)	(185,430)
Depreciation	(18,118)	(19,987)
Other expenses	(111,520)	(98,875)
Finance expense	(111,731)	(104,758)
TOTAL EXPENSES	**(439,397)**	(409,050)
Net recoveries (impairment losses) on financing assets	34,457	(70,866)
Net impairment losses on investment securities	-	(14,562)
Impairment losses on other assets	-	(1,563)
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS	**2,051,588**	1,882,208
Less: Return to investment account holders	(561,957)	(482,533)
NET PROFIT FOR THE YEAR	**1,489,631**	1,399,675