مصرف الريان

MASRAF AL RAYAN

annual report

2018

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

His Highness
Sheikh Tamim bin Hamad Al-Thani
Amir of the State of Qatar

His Highness
Sheikh Hamad bin Khalifa Al-Thani
Father Amir

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Dr. Hussain Ali Al Abdulla
Chairman & Managing Director

MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR

The bank achieved a net profit of QAR 2.130 billion an increase of 5.04% compared to the previous year.

On behalf of the members of the Board of Directors, I would like to welcome you all and present to you the financial report for the year ended 31 December 2018.

Masraf Al Rayan has concluded the year 2018 on a promising note, in line with the roadmap it had drawn up for itself, achieving a multi-faceted growth despite the adverse circumstances the region is going through, especially the recent reduction in oil prices. This growth has been realized as a result of the conservative policies the Board of Directors has adopted and the economic measures taken by the wise and insightful leadership of the State of Qatar.

The bank has announced its financial results for the year 2018, achieving a net profit of QAR 2.130 billion at an increase of 5.04% compared to the previous year. Profits from our banking operations have increased by 12.15% in comparison to last year. In the light of these exemplary results, the Board of Directors has recommended a cash dividend of QAR 2 per share, which amounts to 20% of the paid-up capital. We envisage that this would increase the strength and financial solvency of Masraf Al Rayan apart from being a handsome remuneration for our shareholders.

Throughout the year 2018, the Board of Directors of Masraf Al Rayan has focused its attention on maintaining its leading position among the local banks especially with regard to operational efficiency (expenses/revenues), which reached a ratio of 24.06% and remains one of the best in the entire region. Non-Performing Financing (NPF) ratio reached 0.83%, the lowest in the banking sector, reflecting a strong performance of the credit risk management along with the applied policies and measures. Capital adequacy ratio, under BASEL III standards, reached 19.23%.

Moody's Investors Service (Moody's), the renowned credit rating international agency, has reaffirmed that Masraf Al Rayan's future outlook rating is 'stable' and consequently, the bank's current issuer ratings is A1/Prime-1 with a stable outlook.

The circumstances of 2018 necessitated that we focus on adopting policies that will enhance our operations in the local market. However, we will continue to seek opportunities outside Qatar and will deal with them with all possible caution. We have made it a priority to strengthen our product and service offerings with the assistance of most modern technologies, thereby placing enhanced emphasis on electronic banking services. We will continue to focus on upgrading the competencies of our human capital especially our Qatari resources, who continue to benefit from our well-structured training programs. During 2018 we provided more than 15,650 hours of training in theoretical, practical and administrative development programs.

As part of our corporate social responsibility, we continue to offer internship opportunities to students of local universities as well as business administration and banking schools, with a view towards nurturing a promising generation of Qatari banking professionals.

At Masraf Al Rayan we are committed towards establishing a sound framework of financial and operational monitoring that embraces transparency and fairness as its basic tenets. In this regard, we continue to adopt the best international practices as well as advanced policies and procedures with a view towards ensuring a system of good governance that safeguards the interests of our shareholders and enhances the market confidence.

As a proactive and law abiding corporate citizen, we continue to perform our duties towards the environment and the society. We are fully aware of the need to preserve our environment for our coming generations by ensuring that socio-cultural prosperity thrives in harmony with the environment around us.

Finally, on behalf of the Board of Directors of Masraf Al Rayan, I would like to extend my sincere thanks and gratitude to His Highness Sheikh Tamim Bin Hamad Al Thani, the Amir of the State of Qatar. I would also like to thank His Excellency Sheikh Abdulla Bin Saoud Al Thani, the Governor of Qatar Central Bank and His Excellency Sheikh Mohammed Bin Hamad Al-Thani, the Deputy Governor of Qatar Central Bank for their diligent work to provide conditions conducive for maintaining liquidity and financial stability in Qatar.

I also extend my thanks and appreciation to Masraf Al Rayan's Shareholders and customers for their relationship and support, and to the Executive Management and the staff who exert outstanding efforts to continue to achieve good results and who bear the responsibility of achieving even better results in the years to come.

Adel Mustafawi
Group Chief Executive Officer

MESSAGE FROM THE GROUP CHIEF EXECUTIVE OFFICER

Moody's Global Investors Services reaffirmed the current rating to A1 / Prime-1 with a stable outlook.

Masraf Al Rayan performance throughout 2018 can be described in a few words; even with the significant challenges, we have managed to make important progress, thanks to our Board of Director's prudent direction, to our team of executive management and staff for their continual commitment to deliver on our purpose and to help our investors and customers seize every potential opportunity at every phase of their business and banking needs.

Nevertheless all the pressures, Masraf Al Rayan turned in decent performance. Net profit for the year amounted to QAR 2.130 billion with a growth of 5.04% compared to the net profit of 2017, while operating income increased by 12.15% over the same period last year. Total assets reached QAR 97.294 billion compared to QAR 102.949 billion as of 31 December 2017. Financing activities reached QAR 72.164 billion compared to QAR 72.097 billion as of 31 December 2017, a growth of 0.1%. Meanwhile, investments reached QAR 19.531 billion, customers' deposits reached QAR 61.569 billion and shareholders' equity before distribution reached QAR 13.277 billion.

An overview of the results of 2018 reveals that we have achieved good growth rates in most financial indicators. Return on average assets continues to be one of the highest in the market at 2.13%. Return on average shareholders' equity of the bank, before distribution, is 16.10%. Earnings per share for the year reached QAR 2.841, compared to QAR 2.704 for 2017. Book value per share, before distribution, is QAR 17.70, compared to QAR 17.59 on 31 December 2017. Capital adequacy ratio reached 19.23% compared to 19.32% on 31 December 2017. Operational efficiency ratio (cost to income ratio) is at 24.06% and continues to be one of the best in the region. Non-performing Financing (NPF), analogous to non-performing loans, ratio of 0.83% continues to be one of the lowest in the banking industry, reflecting a very strong and prudent credit risk management policies and procedures. With regard to the rating of Masraf Al Rayan, Moody's Global Investors Services reaffirmed the outlook for Masraf Al Rayan to 'stable' and therefore the current rating of Masraf Al Rayan is A1 / Prime-1 with a stable outlook. This rating reflects the bank's strong government-linked position in the State of Qatar, its ability to diversify sources of income, stability in asset quality and a low NPF ratio.

Masraf Al Rayan continues to provide financing solutions to retail customers to meet their diverse needs, as our services have been expanded in 2018 to our 'Premier Banking Customers', with a salary of more than QAR 50,000, and also, the introduction of Masraf Al Rayan Certificate of Deposit (CDs) with higher expected profit rates than conventional deposits, for current and new customers.

2018 too, witnessed the listing of Al Rayan Exchange Traded Fund (ETF), one of the largest Shari'a compliant funds in emerging markets on Qatar Stock Exchange, which has been a huge success. It is managed by Al Rayan Investment.

The Executive Management of Masraf Al Rayan continued in 2018 to support the bank's training and development strategy, as all departments worked in an integrated and diligent manner to raise the competencies of their professional and administrative staff in cooperation with various local and international specialized training centers (QFBA, Fitch, and Thomson Reuters). The number of training packages performed exceeded 15,650 training & development hours covering various theoretical and hands-on training programs.

The Bank, in 2018, has also supported local universities and business, management and banking schools by providing students with vocational training opportunities as part of its social responsibility to develop a promising Qatari banking generation, such as our participation in the 'Kawader' program offered by the Qatar Financial and Business Academy. This is in addition to the introduction of FITCH electronic technical education service, which aims to raise the level of our employees involved in the banking, financial and specialized banking.

In conclusion, I am pleased, on behalf of the Executive Management, to extend my thanks to the Chairman and members of the Board of Directors for continuing to bestow their trust and confidence in us to perform. I would also like to thank our staff who have exerted the necessary collective effort to achieve these results. We look forward to continue our well-thought-out ride towards the fulfillment of the interest of our shareholders and customers alike.

CORPORATE GOVERNANCE

Masraf Al Rayan continues to comply with the governance guidelines, as per the 2nd and 3rd articles of the corporate governance guidelines for listed companies regulated by 'Qatar Financial Markets Authority', as well as comply with the 'Qatar Central Bank Corporate Governance Guidelines' for banks and financial institutions; all the while looking forward to achieving even more transparency and a higher level of client and shareholder trust.

LEADERSHIP IN MASRAF AL RAYAN

BOARD OF DIRECTORS

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Mr. Turki Mohammed Al Khater
Vice Chairman

Sheikh Ali bin Jassim bin Ali Al Thani
Board member

Sheikh Nasser bin Hamad bin Nasser Al Thani
Board member

Sheikh Faisal bin Saud Al-Thani
Board member

Mr. Abdulla Ahmed Al Malki Al Jahni
Board member

Mr. Nasser Jaralla Al Marri
Board member

Mr. Ali Mohammed Ali Al Obaidly
Board member

Dr. Menahi Khalid M A Al Hajri
Board member

SENIOR MANAGEMENT

Adel Mustafawi
Group Chief Executive Officer

Ahmed Sheikh
Chief Operating Officer

Mohamed Jama
Chief Risk Officer

Khalid Fakhroo
General Manager,
Engineering & Real Estate

Muhamad Tauseef Malik
GM, Financial Controls

Hamad Al Jamali
GM, Retail & Private Banking

Mohammed Ismail Al Emadi
GM, Head of Wholesale Banking

Nasser Raeissi
GM, HR & Administration

Howaida Abdulla Al-Mohannadi
GM, Operations

Mahboob Haider
AGM, Head of SME

Chidambaram Pichappan
AGM, Head of Information Technology

Mohamed Hussein
AGM, Head of Operational Risk
& Information Security

Adel Attia
AGM, Chief Internal Auditor

Abdel Monem El Hassan
General Legal Counsel, Head of Legal

Dareer Mohamed
Head of Compliance

Mahmood Ahmed Al Ahmed
Executive Manager, Treasury

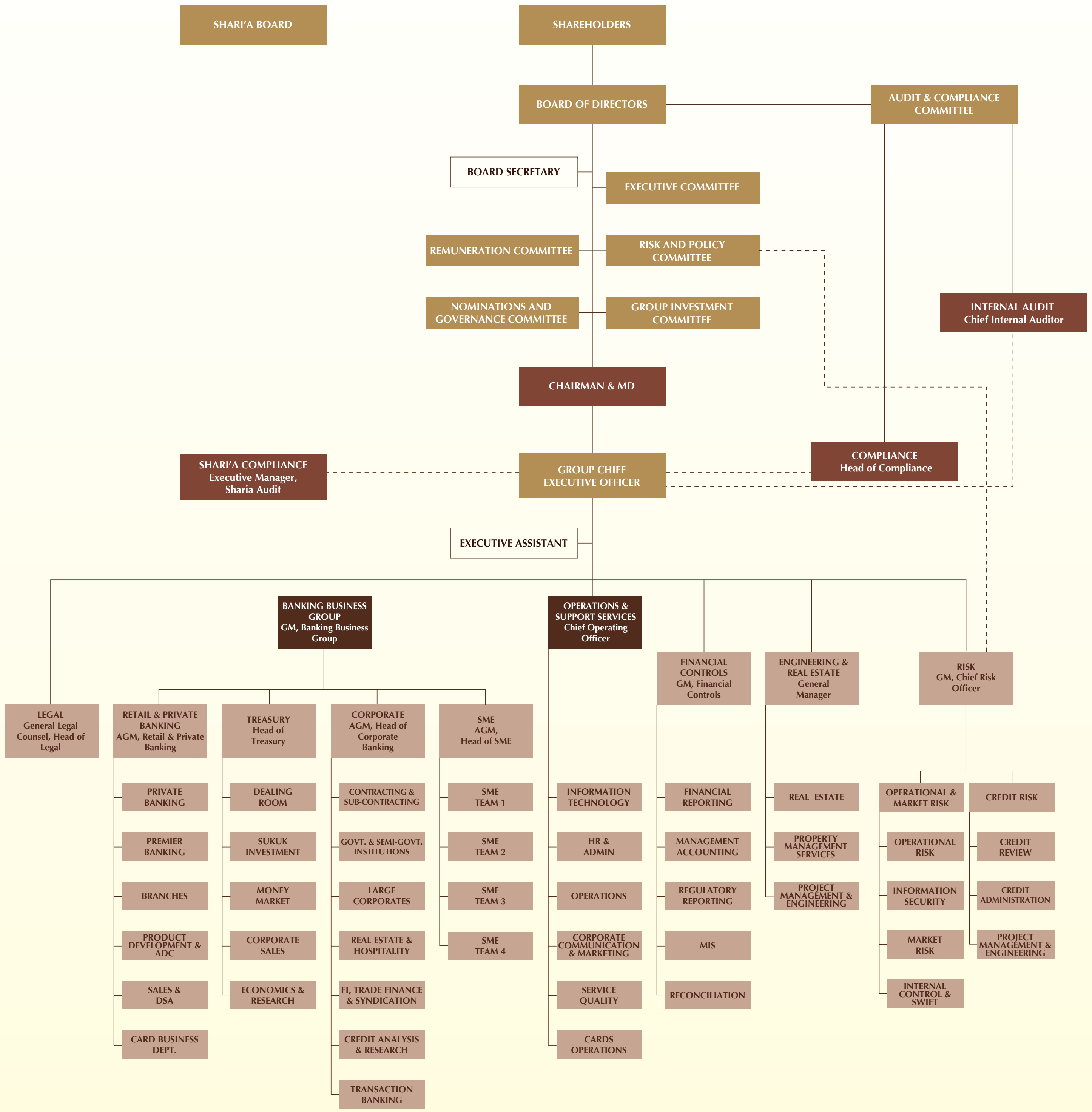
SHARI'A SUPERVISORY BOARD

Sheikh Dr. Waleed Bin Hadi
Chairman

Sheikh Dr. Abdul Sattar Abu Ghuddah
Member

Sheikh Dr. Mohamed Ahmeen
Member

ORGANIZATIONAL CHART



Introduction

Masraf Al Rayan's approach with regards to the sound corporate governance and the social responsibility is the main factor for winning the confidence of the market, shareholders and investors; and it is also important for the corporate governance to include the sustainability factors; in order to enhance confidence in Masraf Al Rayan as a bank that intends to reasonably maintain its success, and remain a competitor capable of facing the current and potential future challenges. This high vision includes Masraf Al Rayan's role as a financial institution within the Qatari economy's system and its participation in making the Qatar National Vision 2030 successful; in addition to its role as a financial institution in delivering Islamic banking services for individuals, companies, institutions, government, and semi-government authorities; and its role in complying with the anti-money laundering and counter-terrorism financing within the local, regional and international system; in addition to its responsibility towards the society and the environment in which it operates.

Believing in its responsibilities, Masraf Al Rayan has been keen on following the best practices of the sound governance and applying the governance instructions issued by Qatar Central Bank (QCB) under the Circular No. (68/2015) on the 26th of July 2015, as well as "The Governance Code for Companies and Legal Entities listed on the Main Market" issued by the Qatar Financial Market Authority (QFMA), which was published in the Official Gazette on the 15th of May 2017; furthermore, Masraf Al Rayan relies on a number of policies adopted by the Board of Directors, which are responsible for monitoring the quality of the financial reports and how to deal with the various risks that may face the Bank. The Masraf Al Rayan Governance Policy is the basis for the Bank's sound governance approach and its updated version has been adopted by the Board of Directors on the 12th of December 2018.

Masraf Al Rayan was keen on complying with these regulations throughout 2018, along with issuing all the necessary reports, and making transparent disclosures, according to the regulatory requirements to maintain the confidence of the market and its shareholders.

Masraf Al Rayan Ownership Structure

Top 10 Shareholders of Masraf Al Rayan as of 31/12/2018

Shareholders	Sector	Country	No. of Shares	Percentage
Qatar Holding Company	Government	Qatari	87,348,739	11.65%
Qatar Armed Forces Investment Portfolio	Government	Qatari	69,857,478	9.31%
Qatar Investment Authority	Government	Qatari	30,690,402	4.09%
General Retirement Authority's Pensions Fund	Government	Qatari	21,572,827	2.88%
Al Watani Fund 3	Commercial	Qatari	18,019,831	2.40%
Al Taybeen Commercial OPC	Commercial	Qatari	14,909,255	1.99%
Ithmar Construction and Commerce OPC	Commercial	Qatari	14,030,793	1.87%
Burooq Commercial Company	Commercial	Qatari	13,950,000	1.86%
Hamad bin Abdullah Al Thani	Individual	Qatari	13,596,065	1.81%
Al Watani Fund 4	Commercial	Qatari	11,776,108	1.57%

Important Note: The original language of this report is the Arabic language. This is a translation of the Arabic report. Thus, any differences between the report and its translation will be weighed in favor of the Arabic version.

Board Members' Ownership of Masraf Al Rayan Shares

(As of 31/12/2018)

Name	Capacity	Nationality	Status*	Contribution Rate as on 31/12/2018
Dr. Hussain Ali Abdullah	Board Chairman and Managing Director	Qatari	Not Independent Non-Executive	0.11%
General Retirement and Social Insurance Authority Represented by Mr. Turki Mohammed Al Khater	Vice Chairman of the Board of Directors	Qatari	Not Independent Non-Executive	2.88% 0.01%
Qatar Holding Company Represented by H.E. Sheikh Faisal bin Saud Al-Thani	Board Member	Qatari	Not Independent Non-Executive	11.65% 0.02%
Ministry of Defense – Qatar Armed Forces Represented by Mr. Nasser Jarallah Saeed Jarallah Al Marri	Board Member	Qatari	Not Independent Non-Executive	9.31% 0.00%
Employee Loans Fund – Ministry of the Interior Represented by Dr. Menahi Khalid Mohammed Al-Mezafari Al Hajri	Board Member	Qatari	Not Independent Non-Executive	0.00% 0.01%
H.E. Sheikh Ali bin Jassim Al Thani	Board Member	Qatari	Independent* Non-Executive	0.22%
H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari	Independent* Non-Executive	0.01%
Mr. Abdullah Ahmed Al Malki Al Juhani	Board Member	Qatari	Independent* Non-Executive	0.04%
Taskeen Business and Investment Company	Board Member	Qatari	Independent Non-Executive	0.01%

** Independence is defined in the relevant section (Page 9): Board Members Independence*

Board Governance Charter

The Board Governance Charter aims to provide a framework of responsibility and control at Masraf Al Rayan, along with setting up a management, whose methodology is based on respect for values, in accordance to what has been stated in the relevant laws and regulations.

Masraf Al Rayan has a firm belief that following the Charter will enhance the trust with the shareholders, clients, employees, and all stakeholders on the long run, along with establishing and supporting the Masraf Al Rayan's position as a leader within capital markets.

The Board Charter is binding on the Masraf Al Rayan Board Members; and the Board of Directors is responsible for ensuring the implementation of this Charter and its applications by all the Masraf Al Rayan employees.

As in previous years, Masraf Al Rayan's Board of Directors remained committed in 2018 to work according to its charter adopted by the Board of Directors; which is periodically reviewed or updated whenever necessary, in compliance with the regulations and systems issued by the regulatory bodies that are subject thereto.

The Charter contained in detail the Board's tasks and responsibilities and the Board Member's duties based on the governance instructions issued by each of the Qatar Central Bank and the Qatar Financial Market Authority in this regard. The Charter was published on the Masraf Al Rayan website to be available for the shareholders and the public.

Masraf Al Rayan Board of Directors

Board Tasks and Responsibilities

Masraf Al Rayan is managed by an effective board that is collectively responsible for supervising the Bank's Management in an appropriate manner.

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

- Approve the Bank's strategic plan and main objectives and supervise their implementation:
  - Approve the Bank's strategic objectives, appoint the managers, replace them and specify their remuneration, along with reviewing the Management's performance, the main work plans and the risk management policy and directing them; in addition to the periodic review and the monitoring of the implementation and the Bank's overall performance.
  - Determine the Bank's optimal capital structure, its strategy and financial objectives, and approve the annual budgets.
  - Conduct a periodic review for the Bank's organizational structures of the Bank and approve them in a manner that ensures strict distribution of the functions, tasks, responsibilities, and the succession to the Bank's management, especially the internal control units.
- Ensure Masraf Al Rayan's compliance with relevant rules and regulations, the Articles of Association of Masraf Al Rayan and its Statute. The Board will be responsible for protecting Masraf Al Rayan from illegal, arbitrary or inappropriate operations and practices.
- The Board is entitled to authorize some of its powers and form specialized committees to perform specific operations. In such case, the Board provides clear written instructions regarding the task or authorization, on the condition of obtaining the Board's prior approval in specific matters. Nevertheless, even if the Board has authorized one or more of its tasks or powers, the Board remains responsible for all the powers and authorities that it authorized.

Board Members' Entrusted Duties

Each Masraf Al Rayan Board Member is entitled to perform their care and devotion duties, and comply with the institutional authority as stipulated in the relevant rules and regulations, including the 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, while assuring the best interests of the Company and all the shareholders.

The Board Members are also required to work effectively towards complying with their commitments to Masraf Al Rayan.

Board Members Independence

The definition of the independent member differs between the definition of the Banks' Governance Principles issued by Qatar Central Bank in late July 2015, and what was mentioned in the "Governance Code for Companies listed in Markets "issued by QFMA and was published in the Official Gazette on 15th of May 2017 in regards to the number of owned shares; and according to this definition, the Board contains 4 independent members.

As for the Executive Members, there are none in the Masraf Al Rayan Board, bearing in mind that Dr. Hussain Abdullah, who also holds the position of Managing Director, does not carry out any day-to-day executive responsibilities. The Group CEO carries out his tasks at the head of the Executive Management, while the Managing Director only acts as a link between the Board and the Executive Management. The positions of Board Chairman (Managing Director) and Chief Executive Officer (General Manager) have been distinctly separated, and the Chairman must not be a member in any of the Board Committees. The Board Charter separates the duties of the Board Chairman to be in line with the requirements of the Corporate Governance Code issued by QFMA.

Non-Executive Board Members' Duties

The Non-Executive Board Members' duties include, for example but not limited to, the following:

- Participate in the Board of Directors meetings, and give an independent opinion on the strategic issues, performance, accountability, resources, key appointments and work standards.
- Ensure that priority is given to the interests of Masraf Al Rayan and the shareholders in the event of any conflict of interests.
- Participate in the Audit and Compliance Committee of Masraf Al Rayan.
- Monitor the Company's performance in achieving its purposes and objectives that has been agreed upon, along with reviewing the performance reports, including the annual, semi-annual and quarterly reports.
- Supervise the development of penal rules related to Masraf Al Rayan's governance; in order to oversee its application in a manner compatible with these rules.
- Provide their skills, experience, and diverse specializations and qualifications to the Board of Directors or its various committees through their regular attendance to the Board meetings, their effective participation in the General Assembly meetings, and their understanding of the views of the shareholders in a balanced and fair manner.
- It is permissible for the majority of Non-Executive Board Members to request an independent consultant at the expense of Masraf Al Rayan; for any issue related to the Bank.

Board Chairman's Duties

The Chairman of the Board of Directors is considered the President of the Bank and its representative; as he is primarily responsible for the Bank's proper management in an effective and productive manner, and works on achieving the interests of the Bank, shareholders and other stakeholders. In addition, he is responsible for the proper functioning of the Board of Directors, in an appropriate and effective manner; along with having the Board Members obtain complete and correct information in a timely manner. It is not permissible for the Chairman to be a member in any of the Board's Committees stipulated in Board Charter.

The Board Chairman's duties and responsibilities include, for example but not limited to, the following:

- Ensure that the Board discusses all the core issues in an efficient and timely manner.
- Approve the agenda for each of the Board of Directors meeting; taking into account any issue raised by any Board Member, and the Chairman may authorize this task to a member in the Board; however, the Chairman remains responsible for having the said member execute the task in an appropriate manner.
- Encourage all the Board Members to fully and effectively participate in conducting the Board's affairs; in order to assure that the Board works for the benefit of Masraf Al Rayan and the shareholders.
- Provide all the data, information, documents and records related to the Company, the Board, and its committees to the Board Members.
- Ensure effective communication with the shareholders, and deliver their opinions to the Board of Directors.
- Allow the Non-Executive Board Members, in particular, to effectively participate in order to ensure that an annual assessment is conducted for the Board's performance.

In the absence of the Board Chairman, the Vice-Chairman will take his place, and the Chairman may authorize some of his powers to other Board members.

Board Formation

The latest elections for the Board of Directors were in 2017; as a board has been elected to manage Masraf Al Rayan for the fourth term from 2017 till 2019, and the Board's formation remained the same since then as follows:

Members of the Masraf Al Rayan Board 4th term (2017-2019) Starting from the 5th of April 2017

Name	Title	Nationality
Dr. Hussain Ali Abdullah	Board Chairman and Managing Director	Qatari
General Retirement and Social Insurance Authority Represented by Mr. Turki Mohammed Al Khater	Vice Chairman	Qatari
Qatar Holding Company Represented by H.E. Sheikh Faisal bin Saud Al-Thani	Board Member	Qatari
Ministry of Defense – Qatar Armed Forces Represented by Mr. Nasser Jarallah Saeed Jarallah Al Marri	Board Member	Qatari
Employee Loans Fund – Ministry of the Interior Represented by Dr. Menahi Khalid Mohammed Al-Mezafari Al Hajri	Board Member	Qatari
H.E. Sheikh Ali bin Jassim Al Thani	Board Member	Qatari
H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari
Mr. Abdullah Ahmed Al Malki Al Juhani	Board Member	Qatari
Taskeen Business and Investment Company	Board Member	Qatari

About the Board Members

Dr. Hussain Ali Abdulrahman Abdullah
Holds a Ph.D. in Economics
Holds a Master's degree in Special Law

Holds the following positions:
- Minister of State
- Board Member of the Qatar Investment Authority
- Board Member of the Supreme Council for Economic Affairs
- Board Chairman and Managing Director of Masraf Al Rayan
- Board Chairman of the Kirnaf Investment and Installment Company (Kingdom of Saudi Arabia)
- Board Member of the Gulf Investment Corporation (Kuwait)
- Board Member of the Volkswagen Company (Germany)

Mr. Turki Mohammed Khalid Al Khater
He represents the General Retirement and Social Insurance Authority
Holds a Bachelor's degree in Economics and Social Sciences

Holds the following positions:
- Board Vice Chairman – Masraf Al Rayan
- Chairman of the General Retirement and Social Insurance Authority
- Chairman of the United Development Company
- Board Member of the "Ooredoo" Company

H. E. Sheikh Faisal Bin Saud Al-Thani
He represents the Qatar Holding Company
Holds a Bachelor's degree in Finance

Holds the following positions:
- Board Member of Masraf Al Rayan
- Board Member of the Al Rayan Investment Company
- Director of the Industrial Investments Directorate – Qatar Investment Authority
- Board Member of the Qatar Electricity and Water Corporation
- Board Member of the Mwasalat Company

Mr. Nasser Jarallah Saeed Jarallah Al Marri
He represents the Ministry of Defense – Qatar Armed Forces
Holds a Master's degree in Accounting and Finance Sciences

Holds the following positions:
- Head of the Financial Affairs Authority at the Ministry of Defense
- Board Member of Masraf Al Rayan
- Board Member of the United Development Company
- Board Chairman of the Al Rayan Investment
- Board Member of Vodafone
- Board Member of the Barzan Holding Company / Investment Arm at the Ministry of Defense

Dr. Menahi Khalid Mohammed Al-Mezafari Al Hajri
He represents the Employees Loans Fund at the Ministry of the Interior
Holds a Ph.D. in Commercial Jurisprudence
Holds a Master's degree in Special Law

Holds the following positions:
- Board Member of Masraf Al Rayan

H.E. Sheikh Ali bin Jassim Al Thani
Holds a Master's degree in Economics and Political Science

Holds the following positions:
- Board Member of the Qatar General Insurance and Reinsurance Company
- Board Member of Masraf Al Rayan

Mr. Abdullah Ahmed Al Malki Al Juhani
Holds a Bachelor's degree in Management and Economics

Holds the following positions:
- Board Member of Masraf Al Rayan
- Vice Chairman of the Insurance Committee at Qatar Chamber
- Board Member of the Qatar Business Council

H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani
Holds a Master of Business Administration (MBA)

Holds the following positions:
- Board Member of Masraf Al Rayan

Representative of the Taskeen Real Estate Investment Company

Holds the following Positions:
- Board Member of Masraf Al Rayan

Board Meetings

Masraf Al Rayan Board held 6 meetings throughout 2018 on the following dates:

– First Meeting	16/1/2018
– Second Meeting	16/4/2018
– Third Meeting	11/6/2018
– Fourth Meeting	16/9/2018
– Fifth Meeting	15/10/2018
– Sixth Meeting	12/12/2018

Masraf Al Rayan Board exercises its powers and responsibilities according to what has been stated in the Bank's Statute and Articles of Association, and in accordance with the Qatar Central Bank's instructions; while taking into account the Governance Code for Companies and Legal Entities listed on the Main Market issued by the Qatar Financial Markets Authority (QFMA) and the Banks' Governance Principles issued by Qatar Central Bank. The Board is considered collectively responsible for supervising the Masraf Al Rayan's management in an appropriate manner, in compliance with the Board Member's Charter. The Board also approves the strategic objectives and adopts the policies that control Masraf Al Rayan's business.

Board Secretary

Mr. Ghassan Al-Rihawi has held the (Board Secretary) position since the Bank's inception in 2006. Mr. Al-Rihawi has previously served as the Secretary of the Qatari Chamber of Commerce and Industry Board from 2002-2006, and he has managerial experience of over 35 years in the State of Qatar.

The (Secretary's) work includes recording, preparing, and saving all the minutes of the Board meetings under the supervision of the Chairman; in addition to ensuring the proper delivery of the information and the coordination between the Board Members, and between the Board and other stakeholders at Masraf Al Rayan, including the shareholders and the Management.

Furthermore, the (Board Secretary) also ensures the Board members' ability to fully and rapidly access the minutes of the meetings, information, documents, and records related to Masraf Al Rayan. He is also responsible for enabling the shareholders to view the Board Members' records, the Article of Association, the Statute and any other documents resulting in any privileges or rights on the Masraf Al Rayan's assets and the relevant parties agreements, and according to the regulatory authorities' instructions.

Board's Tasks and its Other Duties

At Masraf Al Rayan, the Board Members are granted full and prompt access to information, documents, and records related to the Company; and the Executive Management of Masraf Al Rayan is committed to provide the Board and its Committees with all the required documents and information. The Board Members are keen on attending the General Assembly meetings.

Masraf Al Rayan Board has adopted an induction program, which has been developed and its data is updated periodically, to ensure that the Board Members, when elected, have a proper understanding of the Company's functioning and operations, and that they are fully aware of their responsibilities.

The Board Members are responsible for having a good understanding of their roles and duties, and they must educate themselves in the financial, commercial, and industrial matters, and in the Company's operations and its work. To this end, the Board must provide to its member, when needed, appropriate and official training courses that aim to enhance the Board Members' skills and knowledge.

The Board of Directors works to keep its members constantly informed on the latest developments in the governance field and the best practices in this regard, and the Board may delegate the responsibility to any of its specialized committees.

The Masraf Al Rayan's Statute in its Article (32) includes clear procedures for the dismissal of Board Members in the event of their absence from the Board meetings.

Board Committees

The Board Committees performed their duties throughout 2018 as specified in their approved frameworks, where some of them were updated in line with the changes introduced to the Board's formation in 2017 under the Board's Decision No. 3/4/2017 issued on the 24th of April 2017; as the committees' formation became as follows since 2017, and continued on in 2018:

Executive Committee
- Mr. Turki Mohammed Al Khater
  Chairman
- Dr. Menahi Khalid Al Hajri
  Member
- H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani
  Member
- H.E. Sheikh Ali bin Jassim Al-Thani
  Member

Risks and Policies Committee
- Mr. Ali Mohammed Al Obaidly
  Chairman
- Mr. Nasser Jarallah Al Marri
  Member
- Mr. Turki Mohammed Khalid Al Khater
  Member

Remunerations and Compensations Committee
- Mr. Nasser Jarallah Al Marri
  Chairman
- Sheikh Nasser bin Hamad Al Thani
  Member
- Mr. Abdullah Ahmed Al Malki
  Member

Nominations and Governance Committee
- Dr. Menahi Khalid Al Hajri
  Chairman
- Mr. Abdullah Ahmed Al Malki
  Member
- Sheikh Faisal bin Saud Al Thani
  Member

Group's Investment Committee
- Sheikh Faisal bin Saud Al Thani
  Chairman
- Sheikh Nasser bin Hamad Al Thani
  Member
- Mr. Nasser Jarallah Al Marri
  Member
- Mr. Ahmed Sheikh
  Member
- Mr. Haithem Katerji
  Member

Audit and Compliance Committee
- Mr. Abdullah Ahmed Al Malki
  Chairman
- Mr. Nasser Jarallah Al Marri
  Member
- Mr. Ali Mohamed Al Obeidli
  Member

Executive Committee

The Executive Committee is considered one of the Board's most important Committees; as it helps the Board review Masraf Al Rayan's activities, and studies the various matters presented to the Board, such as credit transactions or the other activities of Masraf Al Rayan that require the Board's approval; along with submitting its recommendations to the Board in this regard.

The Executive Committee's main responsibilities are as follows:
- Review the Board's main tasks.
- Discuss and approve the matters that fall within the Board's authority or the matters that arise within the Board's meetings.
- Provide reports and recommendations to the Board when needed.
- Make recommendations and approve the financial matters according to the authority table.
- Recommend to approve the policies, regulations, and any amendments or additions.
- Approve or recommend the limits/ceilings for transactions with the new banks and countries that the Bank deals with, and make the necessary amendments.

The Committee has held the following meetings during the year 2018:

• First Meeting	9/4/2018
• Second Meeting	22/5/2018
• Third Meeting	11/9/2018
• Fourth Meeting	9/12/2018

Audit and Compliance Committee

The majority of the members of this Committee must be independent, with an Independent Member chairing the Committee. The Committee assumes the following responsibilities:

- Appoint External Auditors on an annual basis and approve their contracting policy.
- Supervise and follow up with the independence of the External Auditors and their objectivity, and discuss with them the nature of the audit and its effectiveness and scope, in accordance with the International Standards on Auditing (ISA) and the International Financial Reporting Standards (IFRS).
- Review the External Auditor's appointment letter, his work plan and any queries or important notes he requested from the Bank's Senior Management, along with the Executive Management's responses.
- Ensure coordination between the External and Internal Auditors.
- Meet with the Bank's Chief Financial Officer (CFO) or the person who carries out his tasks, the Internal and External Auditors at least once a year.
- Study any important and unusual issues included, or will be included, in the financial reports.
- Appoint or dismiss the Head of the Internal Audit Body and supervise his effectiveness.
- Supervise and monitoring the Internal Audit Management, ensure its independence, along with discussing and recommending the annual plan and appropriate its training.
- Review the internal controls systems, and approve the Bank's external and internal audit reports.
- Review and recommend the Internal Audit Charter annually.
- Supervise the Compliance Management's work, which determines, evaluates, and provides consultations, along with monitoring and submitting reports regarding the risks of non-compliance with the applicable laws, instructions, and standards. In addition, the Committee determines its position in the organizational structure in the manner that ensures its necessary independence and effectiveness. The Committee will ensure that the Compliance Management is provided with the adequate resources and the swift and clear channels; in order to submit the reports to the Committee and the Executive Management; and provide it with the sufficient powers to access the information in a clear and sufficient policy.
- Revise the quarterly reports prepared by the Compliance Management.
- Develop rules to be approved by the Board of Directors allowing the Bank's staff to secretly report their concerns regarding any issues that are likely to raise suspicion; and ensure the presence of appropriate arrangements to conduct an independent and fair investigation on these issues while maintaining the confidentiality of the reporting employee and protecting him from any harm or negative reaction (Whistleblower Protection Policy).
- Oversee the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports; review the data and reports related to compliance with the accounting, transparency, listing in the market and disclosure standards.
- Ensure that the Internal Audit's tasks include reviewing the activities of the Compliance Monitoring Officer.
- Review the impact of new organizational regulations on Masraf Al Rayan.
- Study any other matters determined by the Board of Directors.

The Audit Committee held the following meetings during the year 2018:

- 16th of January 2018
- 16th of April 2018
- 16th of September 2018
- 15th of October 2018
- 12th of December 2018

Remunerations and Compensations Committee

The Committee assumes the following responsibilities:

- Determine the remuneration policy at the Bank, including the remunerations received by the Chairman and all the Board Members and the Senior Executive Management.
- Update the remunerations and compensations regulations on an annual basis, whenever the need arises.
- Propose the remunerations of the Board Members and Executive Management, taking into account the following:
  - The value of remunerations granted to the Board Members and the Executive Management in similar local and regional financial institutions.
  - The profits and achievements made by the Bank during the fiscal year and comparing them with the results of the previous years.
  - The economic and financial conditions during the fiscal year.
  - The responsibilities and scope of tasks of the Board members and the Senior Executive Management.
  - Taking into account the laws that determine the value of the remunerations of the Board Members and the relevant articles in the Masraf Al Rayan's Statute.
- Propose the bases that determine the annual remunerations for the staff.
- Present the remuneration policy and principles to the shareholders in a General Assembly meeting to be approved and announced to the public.

The Committee had a meeting on 9/1/2018.

Risks and Policies Committee

The Committee assumes the following responsibilities:

Risks Management

A. Operational Risks

Review the effectiveness of Risk Management at the Bank's level as a whole.

1. Assess the new significant risks that affect the Bank.
2. Identify the recent strategic risks, including the institutional matters such as regulatory frameworks, business development, and the like.
3. Review the key risk indicators and identify the matters that should draw the attention of the Board on a quarterly basis.
4. Review the influential operational losses
5. Review all the risk policies on an annual basis.

B. Credit Risks

1. Review the credit policies on an annual basis.
2. Establish and review the insurance powers as needed, at least once a year.
3. Adopt and review the maximum limits for dealing with other parties, and the maximum limits for dealing with other countries, when needed at least once a year.
4. Review the arrears and non-performing accounts, and recommend the suitable provisions for them.
5. Assess the write-off or return to profitability in comparison with the provisioning levels.
6. Review and monitor the filed cases and the collection processes.

C. Monitoring the reputation risks and other risks not mentioned above

D. Policies

1. Study, develop and update the policies that require the Board's approval.

   The committee held the following meetings in 2018:

– First Meeting	8/1/2018
– Second Meeting	9/4/2018
– Third Meeting	4/6/2018
– Fourth Meeting	11/9/2018
– Fifth Meeting	9/12/2018

Nominations and Governance Committee

The Committee assumes the following responsibilities:

- Adopt and publish the Committee's framework showing its authority and role.
- Supervise the implementation of the steps concerning the invitation for nominations to the Board's membership; and study the received applications to ensure that applicants meet the membership conditions.
- Determine the required qualifications for the Board's membership, including independence.
- Ensure that the candidates can give sufficient time to carry out their duties as Board members, in addition to their skills, knowledge, and experience, their professional, technical, academic qualifications, and their personality.
- Consider any conditions or requirements related to the nomination, election or appointment of the Board members, issued from Qatar Central Bank or any other authority.
- Assess the candidates' applications for Senior Executive Management positions, and submit recommendations to the Board of Directors.
- Perform an annual self-assessment for the Board's performance.
- Follow-up the Board Committees' self-assessments.
- Supervise the Board's structure and the formation of its committees.

– Review the annual corporate governance report of Masraf Al Rayan, and recommend its approval by the Board.
– Develop an induction program for new members and suggest training programs for them when required.

The Committee held a meeting on 9/1/2018.

Group's Investment Committee

The Committee assumes the following responsibilities:

– Develop and study the investment policies for the Group that includes the broad lines for investment and the identification of the assets and the prohibited investments.
– Review and approve the investment operations for the Group, and set the limits for the investments for the single transaction or the total transactions throughout the year according to what is mentioned in the Investment Policy.
– Monitor the Group's investment portfolio management to ensure the compliance with what has been stated in the Investment Policy.
– Assess the investment portfolio's performance by comparing the actual returns with the expected returns, as well as comparing it with the other indicators approved by the Board; taking into account the extent of the investment's compliance with the policies, directions, and risk level.
– Review the periodic analyses and the reports submitted by the Management.
– Approve the investment limits in all the sector.
– Approve the countries' investment limits.
– Review the investment strategies whenever the need arises.
– Conduct other duties, assume the responsibilities, and have the powers, according to the Board's authorization.
– Prepare reports and submit them to the Board to inform it about the investment decisions that have been made, the policies, and the investments' performance.
– Carry out any other duties whenever requested, according to the changes in the Board's policies or the instructions of the Qatar Central Bank or the Qatar Financial Markets Authority, or according to the market's developments.
– Approve the investment deals according to the limits specified for the Committee, and submit recommendations for deals with higher limits to be approved by the Board.
– Invite concerned individuals to the Committee's meetings to give their opinions in the specialized fields.

The Committee held the following meetings during the year 2018:

• First Meeting	10/4/2018
• Second Meeting	5/6/2018
• Third Meeting	11/9/2018
• Fourth Meeting	2/12/2018

Board's Remunerations

Every year, the Remunerations and Compensations Committee discusses the remunerations of the Board Members, and the Senior Management; and the Committee views what is applicable in the similar banks and institutions. In addition, the Committee connects the remunerations to the profits and achievements that the Bank had realized during the fiscal year and compares them with the results of previous years.

The Committee also takes into consideration the economic and financial conditions during the fiscal year, the responsibilities and the scope of duties of the Board Members and the Senior Executive Management; provided that the remunerations are within the permitted limit in the Statute, the relevant laws, and the instructions issued by the Qatar Central Bank.

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

The list of remunerations, fees, and allowances of the Board Members is updated on an annual basis by the Nominations and Governance Committee; as some instructions related to these issued by the supervisory authorities have been entered.

As for the list of remunerations, fees, and allowances of the Masraf Al Rayan Board Members, it will be submitted to the Committee in its planned meeting on 15/1/2019, to recommend its approval in case there are no obstacles or objections. They will later be referred to the Board to approve them before being submitted to Masraf Al Rayan's Ordinary General Assembly to be endorsed.

The list includes a presentation for the instructions on which the list was based; the Board's decisions in this regard; and the bases on which the remunerations of the Masraf Al Rayan Board Members and Senior Management are defined. It also includes the previous instructions of the Qatar Central Bank in this regard.

Shari'a Supervisory Board

Masraf Al Rayan's General Assembly approved in its meeting held on 2/4/2017 to reappoint its Shari'a Supervisory Board for the three years from 2017 to 2019. The formation of the Shari'a Supervisory Board is as follows:

Honorable Sheikh Dr. Waleed Bin Hadi
Chairman of the Shari'a Supervisory Board

Honorable Sheikh Dr. Abdullah Sattar Abu Ghuddah
Member of the Shari'a Supervisory Board

Honorable Sheikh Dr. Mohamed Ahmeen
Member of the Shari'a Supervisory Board

The Shari'a Supervisory Board's work includes reviewing contracts, answering the Shari'a-related questions, and developing solutions for the difficulties that arise during the application. The Supervisory Board directly oversees the Bank's operations and ensures the proper application of what has been decided by the Supervisory Board, along with ensuring that the banking operations may be conducted in accordance with the legitimate provisions.

The Supervisory Board also submits its report annually for each fiscal year to the Ordinary General Assembly in its periodic meeting.

Regulatory Policies in Masraf Al Rayan

Masraf Al Rayan is committed in its work to follow an adopted set of policies that constitute the regulatory framework for the Bank's approach and its management method, and these policies also determine its frameworks and controls in all the activities. Masraf Al Rayan constantly updates these policies through the Risks and Policies Committee when needed, and then submit it to the Board for approval.

Masraf Al Rayan currently follows the updated versions of a wide set of policies, which include without limitation the following:

- Shari'a Policy
- Governance Policy
- Internal Audit Policy
- Risk Monitoring Policy
- Compliance Policy
- Financial Policy
- Liquidity Risk Management Policy
- Liquidity Contingency Funding Plan
- Internal Capital Adequacy Assessment Process (ICAAP)
- Credit Policy
- Investment Policy
- Stress Testing Policy
- Customer Acceptance Policy
- Anti-Money Laundering and Combating of Terrorism Financing Policy
- Whistleblower Protection Policy
- Code of Conduct
- Personnel Affairs Regulation at Masraf Al Rayan
- Replacement Policy
- Outsourcing Policy
- IT Management

Masraf Al Rayan's Compliance with the Rules and Conditions governing the Disclosure and Listing on the Market

Masraf Al Rayan Board is committed to the principle of transparency in performing its business and duties towards the shareholders and in all that is related to the requirements of public disclosure for all that may affect the Bank's financial performance or the movement of its share price. The Board Members' information can be provided to Qatar Financial Markets Authority (QFMA), in addition to the Qatar Stock Exchange, while stating the contributor number for each of them, through which they can view their ownership of the shares. The Board Charter has detailed the responsibilities of the Board and its committees.

On the other hand, the Board is also keen on providing the Qatar Stock Exchange with financial statements and clarifications, as set by the Qatar Stock Exchange; furthermore, it publishes its financial statements upon being approved by the Board of Directors according to the Commercial Companies Law, the Qatar Central Bank's instructions, the Qatar Stock Exchange's regulation, and the Qatar Financial Markets Authority's instructions.

Financial statements are published together with the report of the External Auditor, who confirms in his reports that the financial reports and statements of Masraf Al Rayan are issued in conformity with the International Accounting and Auditing Standards, and that he has obtained all the data and information that are necessary for performing the audit.

The financial statements and the External Auditor's report are published on the Qatar Stock Exchange website and in the local newspapers and some GCC newspapers, according to what is stated in the Masraf Al Rayan's Statute and the Commercial Companies Law No. (11) of 2015.

Masraf Al Rayan's Compliance with Internal Control Systems for Risk Identification and Management

The Board of Directors gives special attention to developing internal control systems through a clear identification for its responsibilities, including its position in the organizational structure and its relationship with other departments and functions in a manner that would ensure its necessary independence and effectiveness; along with providing adequate resources and fast and clear channels for submitting reports to the Board of Directors or the Senior Management and providing it with the necessary authority to access information within a clear and adequate policy framework and a procedures manual; in addition to conducting annual revisions to these policies and ensuring that the Internal Audit's tasks include the revision of the Compliance Monitoring Officer's activities. Furthermore, the Executive Management, in collaboration and coordination with the Compliance Monitoring Officer, take the necessary corrective and disciplinary actions if any violations are discovered, and submit periodical reports to the Board on matters related to the compliance policies and procedures in order to help improving them.

Risk Management and Internal Control Procedures, including the Supervision of the Financial Affairs and the Investments

The Risk Management, Internal Controls, and Compliance Officers form the first level of the tools used to follow up with the compliance with the directions from the regulatory authorities; as each of these officers submit reports, when needed, directly to the Executive Management or the Board through its committees; and so the Board will be fully informed about of the internal control results, which include the following:

- Granting and Assessing credit - Anti-Money Laundering and Counter Terrorism Financing
- Investment – Assets Insurance
- Liquidity – Relevant Parties and Conflict of Interests
- Market Risks – Compliance with laws, rules, regulations, and supervisory instructions
- Capital Adequacy Risks
- Concentrations Risks – Internal and External Audit
- Foreign Exchange Risks – Performance Assessment
- Interest Rate Risks – Disclosures to all relevant parties
- Pricing – Operational and Accounting Risks
- Profitability and Balances – Legal Risks

This is in addition to the policies related to the personnel's affairs, conduct, and work ethics, and the other policies that are reviewed to ensure the implementation of the best standards and the compliance with the regulatory requirements in this regard. Afterwards, the Internal Audit Management reviews the performance of the Risk and Compliance Officers to provide an assurance to the Board's Audit and Compliance Committee that these tasks are being carried out at a reasonable level of competency, along with highlighting the matters of concern in this regard. All the Masraf Al Rayan activities are subject to the controls specified by the policies adopted by the Board, which are mentioned above in the (Policies Clause). An assessment is made for the performance of the Board and Senior Management in applying the internal control system; which includes the number of times the Board has been notified about the control matters (including the risk management) and the method through which the Board has addressed these matters.

The internal controls work has only revealed the ordinary control matters, which have been addressed routinely by the Risk Officer and the Compliance Officer within the applicable policies, which did not require Board's intervention.

The Control Management constantly attempts to discover any potential failure in applying the internal controls, or even weaknesses in the implementation, or emergencies that may affect the financial performance of the Masraf Al Rayan; and it is responsible for following-up with the procedures taken by the Company to address the failure.

The internal control activities are distributed between the control managements; as they continually carry out constant and comprehensive inspections, and continuously submit reports to the Executive Management on the observations and violations; in order to take the necessary corrective actions. There has been no emergency that influences or may influence the Bank's financial performance.

Risk Management Operations and Internal Control Procedures in the Company

Masraf Al Rayan Board is responsible for managing risks, and the Board has assigned the Executive Management with the authority to take the decisions necessary to monitor the risks on a daily basis and to manage them via specified controls that ensure proper risk management at the Bank.

The wise supervision over the risk management stems from the Board and is managed at the departments' level, and this is performed through many methods, including weekly and monthly administrative reports, the key risk indicators, and the Bank's risk records. The managements develop their own standards to keep the risks at the acceptable limits within the maximum adopted limits. The maximum limits are set to be suitable with the risk acceptance level and its significance, either by the competent committee belonging to the Board of Directors or the competent administrative committee (according to the powers granted thereto) or by the concerned departments (within the main maximum limits specified for them); in order to provide services with risks that have been mitigated in an acceptable manner. The Bank has established an appropriate structure from the committees with various appropriate levels from the Board level all the way up to the Managements' level.

Masraf Al Rayan follows a risk management model at the enterprise level, which contains (three defensive lines); as the appropriate responsibilities and authorities lie in each of these defensive lines, and the Bank's committees perform its responsibilities as per their delegated authority at the various levels from the highest level at the Board itself, and passing by the Board Committees directly until the Executive Management Committees and the staff.

Risk Management is carried out through independent managements headed by experts such as the Chief Executive Officer of the Risk Management, the Compliance Manager, and the Head of the Internal Audit; as these managements identify, assess, provide consultation, monitor and submit reports on the various risks of non-compliance with applicable laws, instructions, and standards.

Internal control objectives are represented in protecting the Bank's assets, monitoring the use of the available resources, along with ensuring the accuracy of the accounting data, identifying authorities and responsibilities and complying with them, and following a clear policy in selecting the employees at the various management levels.

The Procedures Followed by the Bank to determine, assess, and manage the Risks Stress Testing

The measurement, observation and monitoring of the various risks is a vital matter in assuring the validity of the financial institutions and the financial system as a whole. In this context, stress testing has been widely used by the international financial institutions, along with the regulatory authorities recently, to ensure the ability of the banks and other financial institutions to withstand the different risk factors. The idea behind stress testing is to assess the effects of the exceptional but reasonable events on the Bank's financial position and other financial entities; as several quantitative technical methods have been developed, which can be divided into two main categories: sensitivity testing and scenario testing.

In compliance with the Qatar Central Bank's regulatory instructions related to Basel Committee's subject; the Bank conducts stress testing to cover all the risks that affect the Bank individually (Firm Specific Scenarios), which include credit risks, liquidity risks, market risks, and operational risks; furthermore, the Bank conducts stress testing to cover risks that could affect the economy in general and the whole financial system (Macroeconomic Scenarios)

These tests, which are performed by the Risk Management in order to measure the Bank's ability to bear future losses that it might be exposed thereto in light of specific scenarios regarding the future economic factors, start with what is known as the base scenario, or the scenario of the continuation of the current conditions as they are, and several other alternative scenarios that vary in the degree of severity of the assumptions made thereon. Specifically, these tests aim to ensure that the Bank will continue to have sufficient capital resources to face the potential losses, in case the worst scenario occurs from among these scenarios. Accordingly, the Bank can present a realistic view of its sensitivity and ability to withstand potential shocks to the economy, if the economic conditions continue to worsen; along with assessing the Bank's ability to sustain various shocks resulting from the credit and market risks. These tests are conducted based on the Bank's current financial data and the financial data expected for the next five years, and the information collected by the Monitoring Management on the risks surrounding the Bank.

The banking stress testing helps in taking the appropriate procedures and determining whether or not the Bank's position is solid, and that is through ensuring that the Bank's financial assets are sufficient to finance its obligations and cover its potential future losses in the worse possible assumptions, and then it enables the Bank to continue acting as a financial mediator, without government support, or the extent of its need for government assistance to continue its work, i.e. its need for government assistance through providing funds to assist it, or seeking to find other finance sources in the private finance market, including the possibility of making it go through merger. These are all assumptions that enhance the Bank to take care and provide studied options in case of any negative developments.

The Bank has complied with all Qatar Central Bank instructions concerning stress testing and has complied with providing the required reports.

Credit Risks

Risk is considered an integral part of the banking business, especially within the increased intensity in the competition and the size of the banking transactions, along with the technological developments and the need for larger banks. Today, banks are facing various banking risks that vary in their severity from one bank to the other. Therefore, the management of the total possible risks is considered from the factors that assist in the Bank's success and ensures its continuity in the banking market, which results in acceptable returns and reduced risks.

The credit policies developed by the Bank are considered the axis of the Credit Risk Management's operation. Therefore, the Bank is keen on developing a comprehensive mechanism to assess the credit, by developing a comprehensive credit policy representing the framework, which contains a group of indicative standards and conditions, provided to the competent Credit Granting

Management to ensure a standardized processing and the provision of sufficient flexibility.

Credit facilities are granted based on a standard internal assessment system that relies on a set of terms and controls, including the customer's experience, its financial efficiency, the presence of sufficient and reliable sources of payment, the proportionality of the finance conditions with the finance purpose, the identification and assessment of the finance risks, the presence of adequate guarantees that enables the Bank to recover its rights, in case of default or if the customer stops paying, without any losses.

Banking credit is granted through the approval of the Credit Committees in the Bank, which consist of four committees, depending on the size of the required facilities as follows:

- Retail Credit Committee
  (maximum approval limit: QR 15 Million)
- Group's Credit Committee
  (maximum approval limit: QR 150 Million)
- Executive Committee
  (maximum approval limit: QR 300 Million)
- Board of Directors
  (maximum approval limit: QR 300 Million)

Accordingly, there are no individual powers for non-personal finance.

As for personal finance, it is the finance granted to individuals up to a maximum of 2 million Qatari Riyals (according to Qatar Central Bank's instructions). The personal finance operations are monitored through an automated centralized system at the Bank used for monitoring the loans granted to the individuals; as the employee enters the finance request, then the branch managers or their deputies, according to their powers, will review the request; and if it is approved, it will be passed to the Operations Management to grant the finance. If there are any exceptions, the request will be submitted to the Retail Credit Committee.

Credit Risk Management

The Credit Risk Management at Masraf Al Rayan conducts a number of procedures to identify, measure, follow-up, and monitor the credit risks, and that is through the following:

Credit Risk Management Standards

Credit standards were developed containing the following:

1. Determination of the credit types that can be granted to the customers according to the (Economic) sectors.
2. Development of a maximum limit for granting credit to a single credit group, in addition to the credit pricing principles.
3. Determination of the guarantees' types, their assessment method, the relationship between the credit size and the guarantees' value, along with taking precautionary steps to maintain them, such as insurance, and periodical assessment of these guarantees.
4. Development of the credit granting approval rules, the rules for obtaining information and documents that must be available to grant the credit, and the powers for granting the credit; along with establishing independent credit review and its rating conditions, and forming the provisions.
5. Determination of the risk level that the Board / Bank agrees to enter into during the finance operation.
6. Preparation of independent credit recommendations for the Business Units.
7. Disclosure of all the information related to the customer to the Credit Committee with absolute transparency; in order to have the chance to make a correct credit decision.
8. Development of the Credit Management and Monitoring's role; in order to follow-up the completeness of all the required documents and guarantees, according to the Credit Committee's recommendation to activate the limits in the Bank's system.
9. Masraf Al Rayan has recently applied an internal system from (Moody's Company) to assess the risks of the Bank's customers in all the sectors (Corporate, SME, Private Banking & HNW Individuals); in order to establish a comprehensive mechanism for the credit risk assessment system, which includes a set of indicative standards and conditions that need to be performed when assessing the customers. This policy is considered the axis for the credit risk management and measurement; as the clients' assessment is based on a standard system that relies on a set of controls, and that is to maintain risks at the acceptable limits.
10. Implementation of the stress testing on the credit facilities to enhance the process of identifying and controlling the risks, along with providing complementary tools for the other credit management tools, in order to achieve an overall assessment for the credit risks.

Application of Proper Procedures to determine the Credit Risks

Proper procedures are applied to grant credit, which include the following:

1. The presence of a finance request signed by the customer or the authorized signatory.
2. Obtainment of the full information and documents in order to conduct a comprehensive assessment and review for the customer and the types of risks associated with the credit request, along with providing a credit rating for the customer, according to the Bank's internal credit rating system.
3. Understanding the purpose of the credit, the customer's reputation, experience, market position (within the economic sector).
4. Studying the nature of the current and future risks for the customer and sector, and the extent of sensitivity towards the economic developments, and the relation between the risks and profit.
5. Assessment of the payment sources and the customer's commitment to pay his previous obligations.
6. Obtainment and assessment of all the required guarantees.
7. Analysis of the customer's financial position using the updated audited budgets.
8. Resorting to the Qatar Credit Bureau's reports to assess the customer's efficiency and
9. Creditworthiness and his fulfillment of his obligations, and to the Qatar Central Bank's report to know the amount of the customer's indebtedness with other banks.
10. Determination of the credit ceilings according to the economic sectors and the regions / countries based on the country's credit risk rating degree.
11. Taking into consideration the maximum credit ceiling rate that can be granted for the equity rate at the level of a single customer or the group, or the total relevant customers, and those who have overlapping interests with the Bank.
12. Taking into account the Qatar Central Bank's instructions for granting finance.
13. Approval of the stress tests framework, which includes the policy, the structure, the methodology, to ensure the definition and identification of the suitable factors related to the credit risk, along with determining its associated responsibilities and their consequences, as well as presenting them to the specialized committees to support in taking the decisions.

Availability of Procedures to Handle and Follow-up with the Credit

The procedures for handling and following up with the credit include the following:

1. The presence of files to maintain the credit approvals and the enclosed documents, and update their data on a periodic basis.
2. Follow-up with the execution of the credit according to competent credit committee's approval and recommendations, along with ensuring their compliance with the policies, procedures, laws and regulatory instructions, and the availability /adequacy of the required guarantees.

3. Follow-up on the customers' utilization of the granted credit limits, and that is by submitting periodic reports on the entire credit portfolio.
4. Conducting an internal credit rating that helps in granting and pricing the credit and following up with its quality; along with determining the credit portfolio characteristics and the credit concentrations, and determining the non-performing loans and the sufficiency of its provisions.
5. Issuance of reports on the non-performing sectors of the business unit to take the necessary action.
6. Issuance of periodic reports and informing the Business Units and the Management with all that is needed.
7. The Credit Risk Management Unit is a unit independent from the Credit Audit Unit, and its tasks consist of reviewing the guarantees, conditions, and contracts, and completing them before granting the facilities, including follow-up with all the limits granted on the system and their update, along with using them and issuing the required reports.

Availability of Sufficient Procedures to Monitor the Credit Risks

These procedures include the following:

1. The presence of internal controls to ensure the reporting of any exceptions in the credit policies / credit procedures, the credit limits and / or the regulatory instructions.
2. The presence of a Collection Unit to detect the non-performing credit facilities and take the necessary procedures to solve it at an early stage, as periodic reports are prepared for the status of the non-performing accounts, along with notifying the responsible authority to take the necessary actions.
3. Periodic review of the powers of the signatories' authorized to sign the credit and its documents.
4. Development of the Bank's Credit Policy on a periodic basis to be in line with the latest developments and changes; in order to improve the risk management.
5. The Bank reviews all the granted credit facilities on a regular basis, and monitors the sectors' performance and the limits of the financial concentrations for each sector. The Bank also follows up with all the facilities and increases, and follows up with the guarantees and their completion, along with taking the necessary actions at the appropriate times. On the other hand, the Bank reviews the unused facilities, and submits recommendations, if any, to the concerned authorities.
6. Establishment of a common ground between the Risk Management and the relevant business units; in order to exchange information and disseminate the credit culture derived from the Bank's Risk Management Strategy.
7. The Risk Management's activities are ongoing and constantly evolving, and associated with the Bank's strategy.
8. Adoption and usage of systems to assess the customer's risks in accordance with the Basel requirements and the Qatar Central Bank's instructions.

Market Risks

The Bank's method for handling the market risk did not essentially change; because it relies on monitoring the market risks using the latest banking standards, depending on the Qatar Central Bank's directions and the Basel Principles, while using the expertise of experienced staff and those possess high and international competencies.

In order to solve and mitigate these risks in general, the Bank diversifies its activities in various countries, sectors, products and customer segments, and takes proactive steps to manage these risks.

The relevant employees monitors a set of market-related risks, such as foreign exchange risks, profit rates risks, pricing risks, liquidity risks, and general investments risks; and they monitor the banking rates specified by the Qatar Central Bank from liquidity rates, capital adequacy rates; in addition to monitoring the stability rates and the concentrations in the customers' deposits. Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the Management; in order to assist in taking proper decisions and monitoring the market risks as required.

These reports include daily reports such as the early-warning indicators reports on the market and liquidity risks and a daily report on the treasury; in addition to a monthly report to the Assets and Liabilities Committee (ALCO), which indicates the budget position, the banking ratios, the stress tests on budget, and the gap analysis in the assets and liabilities. The Assets and Liabilities Committee consisting of the Senior Management discuss this report in its monthly meeting, where it takes its decisions and follows up with them.

Credit Limits granted for the Banks and Countries

In compliance with Qatar Central Bank's instructions and within the Bank's credit policy, the credit limits for the banks that are being dealt with will be updated; along with the credit limits for the countries in which these banks are located according to their rating. The Board approves these limits after studying them according to the requirements imposed by the prevailing economic conditions, and then they are submitted to the Qatar Central Bank after their approval.

Operational Risks

In its effort to mitigate the possibilities of losses from the operational risks, the Masraf Al Rayan approved and applied policies and methodological procedures to determine, assess, monitor and manage systems and report any weakness therein. The controls of these policies and procedures include effective segregation of duties, along with restricting system access, and adopting effective procedures to delegate authority and make settlements; in addition to the continuous learning for the employees, and the ongoing performance assessment. Masraf Al Rayan uses a specialized system to manage all the operational risk indicators, including the database and losses risks.

Operational Risk Mitigation

Masraf Al Rayan is very keen on the efforts made to mitigate and manage the operational risks and encourages following the best practices in the risk management field. At Masraf Al Rayan, controls and programs are applied, which are capable of mitigating the exposure, frequency, or severity of a certain event; such controls are tested to know whether they actually mitigate the risk, or merely transfer the exposure to certain aspect of the operational risk to another business sector.

Best Applicable Practices to mitigate the Operational and Systems Risks

- Maintain the global ISO23301 certification for business continuity by complying with best international practices.
- Maintain the Information security management system (ISMS) by renewing the ISO27001 certification for information security.
- Use a specialized e-system for managing operational risks (SAS): in order to manage all the operational risks, which include following up and analyzing the incidents and the operational losses.
- Use the bank transfers monitoring system to ensure that there are no names that appear in the banned lists or those related to anti-money laundering and counter terrorism financing; and integrate this system with the SWIFT system to intercept any suspicious names at the same time when the transactions are taking place.
- Monitor the fraud cases preemptively to prevent any suspicious transactions: as a specialized unit works on monitoring the fraud cases 24 hours a day, 7 days a week to detect and prevent fraud on the Credit Cards and ATM Cards.
- Protect the Bank's valuable data in a preemptive manner as a precaution against any emergencies; and that is by providing a disaster recovery center through the (Meza) Company at the Qatar Science & Technology Park (QSTP), and by keeping a backup copy of the important data at the Qatar Data Center, and in the city of Nice, France.
- Use an advanced system (Malware Prevention System) to prevent the phishing attempts.
- Conduct the security breaches tests (Vulnerability Tests) on the IT systems.
- Successfully participate in a Cyber Security Drill organized by the Ministry of Transport and Communications.
- Continue to increase the number of the operational risk system user base.
- Use the Information Security and Event Management System (SEIM) 24 hours a day, 7 days a week.

Some risks that cannot be avoided, mitigated or accepted will be covered through various insurance operations.

Masraf Al Rayan Credit Rating

Masraf Rayan has maintained its rating at the Moody's Investors Services ("Moody's) since the 25th of August 2016; as the Masraf Al Rayan's long-term issuer ratings were rated as (A1/ Prime-1) compared to the short-term issuer ratings. In addition, Moody's reaffirmed the rating on the 18th of July 2018, and assessed the Counterparty Risk (CR) as stable (Aa3 Stable); and so this assessment raises the quality of the long-term issuer ratings for the Bank by four degrees from the Baseline Credit Assessment of Masraf Al Rayan, which was at (baa2).

Despite the challenges, this rating emphasizes the success of the conservative and wise strategy followed by Masraf Al Rayan, the strong financial solvency and the quality of its assets, and the success of the expansion of the income sources by contributing to the growth and profitability of its subsidiary company in the United Kingdom (Masraf

Al Rayan, UK); in addition to its continued strong financial performance that supports the high capital level, which has been achieved with the support of the strong economy of the State of Qatar and the availability of good supervision over the financial sector therein.

External Auditor

The Ordinary General Assembly of Masraf Al Rayan, in its meeting held on 27/2/2018, approved the appointment of the Deloitte Auditor to carry out the audit works in Masraf Al Rayan for the fiscal ended on the 31st of December 2018; and that is with recommendation from the Board after their proposal was chosen by the Audit and Compliance Committee, and obtaining the Qatar Central Bank's approval in this regard.

Deloitte was chosen due to its application of best professional practices and its maintenance of its independence, along with refraining from entering into any relationships containing conflicts of interest. The External Auditor attends the General Assembly; as he submits his annual report and responds to inquiries.

External Auditor's Tasks

The Auditor–an independent and qualified External Auditor appointed based on the recommendation made by the Audit Committee to the Board of Directors, and the decision of the Company's General Assembly – conducts an annual independent audit and quarterly reviews. The mentioned audit aims to provide objective assurance to the Board of Directors and the shareholders that the financial statements have been prepared in accordance with the Governance System, the relevant laws and regulations, and the international standards that govern the preparation of financial information. The financial statements fairly present, in all essential respects, the Group's consolidated financial position, the consolidated financial performance and the consolidated cash flows for the ended year, according to the International Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Qatar Central Bank's instructions.

The External Auditors must adhere to the best professional standards, and Masraf Al Rayan is committed not to contract with them to provide any consultations or services that may result in a conflict of interest; therefore, the External Auditors are considered to be completely independent from Masraf Al Rayan and its Board, and they absolutely have no conflicts of interest in their relations with Masraf Al Rayan.

The External Auditors are accountable to the shareholders and owe Masraf Al Rayan the duty of exerting the due professional care when conducting the audit. The External Auditor must also inform the Authority and any regulatory authorities if the Board does not take the appropriate action in regards to any suspicious matters raised or identified by the Auditors.

Shareholders' Equity

Masraf Al Rayan Board is keen on protecting its shareholders' equity, as specified in the relevant rules and regulations and the Masraf Al Rayan's Statute; which stated that each stock entitles its owner to a share equal to the share of other stocks without distinction in the ownership of the Bank's assets and in the profits divided as described in the System. It also allows shareholders to use their voting rights by proxy.

Shareholders' Register

Qatar Central Securities Depository Company (QCSD) maintains the shareholders' registers in the listed companies, and since the shareholders' information changes in real-time with the market's trading; the QCSD provides this information freely to the Bank once a month in the following cases:

1. When holding the Ordinary or Extraordinary General Assembly Meeting.
2. When distributing the profits.
3. When conducting an acquisition or merger.
4. When increasing the capital through subscription.
5. When the company changes its legal status.
6. Any other cases as determined by the Qatar Financial Markets Authority.

Masraf Al Rayan requests the shareholders' information from the mentioned company as needed and in such cases; for example, the data is requested on the convening day of the Ordinary or Extraordinary General Assembly; as it adopts this data to record the attendance and distribute the profits to the shareholders.

Information Access

Masraf Al Rayan's website www.alrayan.com provides all the important information and the information related to Masraf Al Rayan, which facilitate access to a wide range of information that concern the shareholders, investors, and other stakeholders.

Conflicts of Interest and Dealings with Insiders

Masraf Al Rayan is committed to adopt and announce the general rules and procedures governing its entry in any business transaction with a relevant party, and this is mentioned in the Governance Policy and the Board Charter. In any case, Masraf Al Rayan refrains from entering into any business transaction with a relevant party or contracting with him, except if it fully complies with the Bank's policy for the relevant parties. Such policy must ensure that the principles of transparency, fairness and disclosure are applied, and that any transaction with a relevant party must require its approval by the majority of shareholders' votes; provided that the relevant party does not vote.

In case of raising any matter regarding a conflict of interest or a business transaction between Masraf Al Rayan and one of the Board Members or any relevant party, i.e. related to this Board Member, during the Board's meeting, the subject will be discussed in the absence of the concerned member, who has absolutely no right to participate in the vote on the transaction. In any case, such transaction must be done according to the market prices and on a purely commercial basis, and it must not include conditions contrary to the Company's interest.

Fair Treatment of Shareholders and Voting Rights

Masraf Al Rayan's Statute states that each shareholder has the right to attend the General Assembly, and the shareholders, who are minors or interdicted, may be represented by their legal representatives, while the legal persons are represented by the persons authorized by them via a written organized authorization according to the legal principles.

The Statute has also stated that the shareholder, who attends the General Assembly, has the right to discuss the subjects listed on the Agenda, direct questions to the External Auditors; and the Board must respond to the shareholders' questions and inquiries in a manner that would not expose the Bank to any harm; and if the Shareholder finds that the answer is insufficient, he may invoke the General Assembly, and its decision will be enforceable.

Masraf Al Rayan's Statute has also stipulated that each shareholder has a number of votes that is equivalent to the number of his shares.

Shareholders' Rights in the Election of Board Members

Masraf Al Rayan is keen on applying the principle of providing shareholders with information about the candidates to the Board's membership before the elections, including a description of the candidates' professional and technical skills, their experience, and other qualifications.

According to the instructions of the Ministry of Commerce and Economy stated in their Circular published on 23/2/2016, and based on the Qatar Financial Markets Authority's decision, voting in the elections of the boards of the joint-stock companies listed in the market shall be as stipulated in Article (96) of the Commercial Companies Law issued by the Law No. (11) of 2015, which states:

"Each share shall have a single vote granted by the shareholder to whomever he selects from amongst the candidates for the Board's membership, and the shareholder may distribute the votes for his shares amongst several candidates; however, a single share may not be used for voting for more than one candidate."

Shareholders' Rights regarding Profits Distribution

The distribution of profits is completely linked to the financial results achieved by Masraf Al Rayan at the end of each year, in addition to the compliance with the relevant rules and instructions, especially the Qatar Central Bank's instructions with respect to all forms of reserves (legal reserve, risk reserve, fair value reserve). The Board annually studies the several scenarios and choses the best of them; and then presents it to the Ordinary General Assembly in detail, showing the achieved profits and their distribution. The General Assembly has the full right to accept the Board's proposal or amend it.

Capital Structure, Shareholders' Rights, and Major Transactions

Banks' work is mainly based on the financing operations for the individuals, companies, governmental and semi-governmental agencies; and Qatar Central Bank issues its instructions regarding the maximum limits for credit concentrations for the single transaction or the total transactions of a single customer, or his group, or a single sector.

Other Stakeholders' Rights

The Governance Policy adopted by Masraf Al Rayan ensures the need to provide full respect to all the parties that are being dealt with, including the other stakeholders. The Personnel Affairs Regulation establishes the principles of fairness and justice between employees without prejudice to race, gender, or religion. The Management annually allocates remunerations to the employees proportionate to the achieved profits and the efforts and performance of each employee, according to a studied systematic approach.

At the same time, the Whistleblower Protection Policy adopted by the Board gives each employee the opportunity to deliver his complaints to the Management without fear of reprisal or being influenced; while the Masraf Al Rayan employees comply with the Code of Conduct (signed by each employee) which includes the basic principles for work ethics.

Masraf Al Rayan's Responsibility towards Society and Environment

The principles of Corporate Social Responsibility towards the society and the environment, and the extent of their ability to maintain the business's continuity, are associated with their sound governance. Masraf Al Rayan is keen on contributing to the development of his surrounding community by supporting the individuals (especially the Qatari cadres) and the national authorities, in order to exercise their role in building a better society. This is reflected in Masraf Al Rayan's faith in the importance of its social responsibility and its keenness on its contributions to building a better society, and its encouragement on protecting the natural resources and avoiding any harm to the environment. The Bank also promotes health practices and supports sports activities and various charitable works; all of which falls in the best interest of the society and the environment, in which the Bank operates, along with achieving the national objectives within good governance.

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

BUSINESS OVERVIEW

Vision

To become the leading, full-fledged Islamic bank in Qatar and the World, by offering a broad spectrum of Shari'a-compliant products and services, through efficient and reliable channels, to all sectors of the market in which we operate and to maintain our twin objectives of generating a high return on shareholder investment and satisfying our customer's needs.

Mission

- To build a well-balanced financial institution across Retail, Wholesale, Advisory and Asset Management services.
- To provide market-leading financial services holding Shari'a principles at the heart of all activities.
- To build a solid and well recognized service delivery and brand distinction model
- To become a market leader through building expertise in financing, advisory services and financial offerings.
- To build a strong franchise servicing all customers in the region and beyond.
- To focus on product and service innovation delivered according to international standards.
- To build a large capital and strong shareholder base.

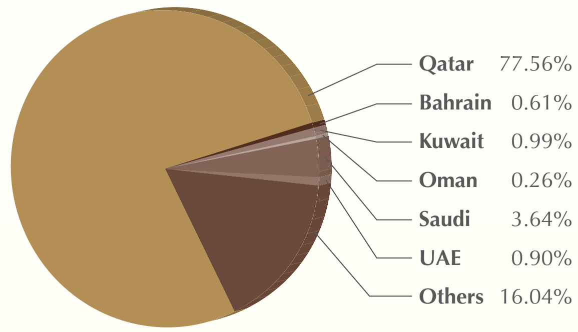
Strategy

- Connect the financial and real economies into one efficient capital allocation system.
- Expand our commercial banking capabilities by increasing our footprint and penetrations in the region and Europe.
- Develop new and innovative shari'a-compliant products and services.
- Bridging Asia, Middle East and Europe in terms of trade and banking services.
- Prudently and efficiently pursue an organic and acquisition based expansion strategy.
- Prudently use Masraf Al Rayan's large capital and maintain strong shareholder base to support growth.

A Summary of MAR Shareholders' Information

as of 31 December 2018

Nationality	Shareholders	No of Shares	Percentage
Bahrain	20,102	4,590,847	0.61%
Kuwait	21,262	7,408,523	0.99%
Oman	7,451	1,948,628	0.26%
Qatar	51,588	581,676,624	77.56%
Saudi	66,947	27,294,869	3.64%
UAE	24,189	6,714,798	0.90%
Others	2,536	120,365,711	16.04%
Total	194,075	750,000,000	100.00%



Top 10 Shareholders

as of 31 December 2018

Shareholders	Sector	Country	No. of Shares	Percentage
Qatar Holding Company	Government	Qatari	87,348,739	11.65%
Qatar Armed Forces Investment Portfolio	Government	Qatari	69,857,478	9.31%
Qatar Investment Authority	Government	Qatari	30,690,402	4.09%
General Retirement Authority's Pensions Fund	Government	Qatari	21,572,827	2.88%
Al Watani Fund 3	Commercial	Qatari	18,019,831	2.40%
Al Taybeen Commercial OPC	Commercial	Qatari	14,909,255	1.99%
Ithmar Construction and Commerce OPC	Commercial	Qatari	14,030,793	1.87%
Burooq Commercial Company	Commercial	Qatari	13,950,000	1.86%
Hamad bin Abdullah Al Thani	Individual	Qatari	13,596,065	1.81%
Al Watani Fund 4	Commercial	Qatari	11,776,108	1.57%

Masraf Al Rayan Group Companies

as of 31 December 2018

Entity Name	Country	Capital	Activity	Ownership %
Subsidiaries				
Al Rayan Investment L.L.C.	Qatar	USD 100,000,000	Investment Banking	100%
Al Rayan Financial Brokerage*	Qatar	QAR 50,000,000	Financial Brokerage	100%
Al Rayan (UK) Limited	UK	GBP 100,000,000	Investment activities	70%
Al Rayan Partners	Qatar	QAR 10,000,000	Real Estate Consulting	100%
Lusail Waterfront Investment Co.	Cayman Islands	USD 50,000	Investment activities	100%
MAR Sukuk Limited	Cayman Islands	USD 50,000	Sukuk Issuance	100%
Associates				
Ci-San Trading W.L.L.	Qatar	QAR 30,600,000	Investing and trading	50.00%
Kirnaf Finance Company	KSA	SAR 600,000,000	Leasing	48.76%
Linc Facility Services W.L.L.	Qatar	QAR 6,000,000	Facility Management	33.50%
Daman Islamic Insurance - Beema	Qatar	QAR 200,000,000	Insurance	20.00%
National Mass Housing	Oman	OMR 15,000,000	Real Estate services	20.00%

** The operations has ceased from 12 January 2017 after Qatar Financial Markets Authority ("QFMA") approved to freeze its license for two years*

Masraf Al Rayan Business Lines, Products & Segments

	Retail Banking	Private Banking	Wholesale Banking	Investment Banking	Treasury
Products	• Time Deposits • Savings Account • Current Account • Credit Card • Tasheel Al Rayan • Goods Finance • Auto Finance • Housing Finance • Personal Finance • Call Center • ATM	• Private Banking • Investment Planning • Asset Management • Wealth Protection • Reddit Planning and Management • Cash Management • Business Planning (for private business owners)	• Direct Finance - *Murabaha, Mudharaba, Ijara, Istisna'a, Tawarruq* • Trade Finance - *Letters of Credit, Murabaha L/C, PB, APG, Tender Bonds, Finance Guarantees* - *Cash Management* - *Syndicated Financing* - *Import Financing* - *Inventory Financing* - *Transaction Banking*	• Asset Management • Financial Advisory • Institutional Sales • Investments and Underwriting • Financial Brokerage	• Forex • Money-market • Hedging • Sukuk • Equities
Customers	• Individuals	• High Net Worth individuals • Premier Customers	• Corporates • Banks & Financial Institutions • Government/ Semi-government • Small & Medium Enterprises • High Net Worth Individuals	• Non-Banks & Financial Institutions • Banks & Financial Institutions • Government/ Semi-government Institutions • Private Sector Businesses • High Net Worth Individuals	• Corporates • Banks & Financial Institutions • Government/ Semi-government Institutions • Private Sector Businesses • High Net Worth Individuals

Masraf Al Rayan Branch Network

Branch Name	Address	Telephone
Grand Hamad	Grand Hamad Street	4425 3333
Al Salam	Al-Shafi Street	4425 3162
City Center	1st Floor	4425 3171 / 4425 3177
Salwa Road	Next to Hyundai Showroom	4425 3200 / 4425 3201
C Ring Road	The Financial Square	4425 3243
Wathnan Mall	North Muaither	4425 3306
Al Wakra	Al Wakra Main Road	4425 3286
Al Sadd	Al Bustan Building	4425 3135
Royal Plaza	Ground Floor	4425 3314 / 4425 3313
Doha Festival City	Ground Floor	4425 3354
Al Hazem Mall	Al Jassasiya Street, Al Markhiya	4425 3325
Qatar Olympic Committee	West Bay	4425 3271
Al Hilal	Al Sharq Plaza Building	4425 3340
Gulf Mall	Al Gharafa	4425 3476

Retail & Private Banking

With the increasing demand for innovative solutions, Retail and Private banking strategy focuses on providing convenient access to electronic services and deliver premium banking experience through innovative products and services to all segments.

In 2018, Retail and Private banking successfully realized its plans, providing broad benefits to an extensive range of customers. A variety of solutions were created, allowing clients to take advantage of many products and services designed to suit all their needs and increasing Masraf Al Rayan market share.

Masraf Al Rayan retail market share is increasing in Financing Activities moving up from 11.62% in 2016 to 13.72% in 2017 reaching 14.81% in 2018; and Retail customer's deposits, moving up from 6.82% in 2016 to 7.33% in 2017 and 8.15% in 2018.

Launching a new segment under "Premier Banking" contributed efficiently in serving a new category of customers through two dedicated branches at Al Hazem Mall and Al Hilal.

Expansion in the network of branches is strategic with a new branch at Al Khor area.

With the rise of e-channels activity and growing digital retail base, new features and functions are introduced to the Internet banking and mobile banking application while ensuring upmost security. New retail offerings and innovative measures are rolled out to enhance the security of banking transactions within the entire branch network and alternative delivery channels.

Cards business is growing, thanks to a diversity of cards for all segments including High Net worth individuals. All credit cards, namely Signature Card, Platinum Card and Infinite Card, in addition to the Eqtisadi Prepaid Card, are all offering accessed to airport lounges and merchant discounts.

In 2018, merchant discount base increased from 120 up to 400, in addition to a new customized mobile application offering "Buy One Get one free "at 1500 outlet.

Internally, we continued the work on improving our customer service operating procedures, service level agreements and automation of internal processes to enhance customer experience and minimize operational risks. In 2018, centralization of daily operation at branches is completed; additional features are added on IVR for better service & more convenience.

Wholesale Banking Group

Throughout 2018, the Wholesale Banking Group continued to play a prominent role in Masraf Al Rayan's growth and revenue, serving the entire range of clients from large corporate and government-related entities, to mid-corporates, and smaller sized enterprises.

Masraf Al Rayan's commitment to National Vision 2030 remains steadfast. The Government team continued to work hand-in-hand with our clients to build a stronger Qatar. In 2018, the Wholesale Banking Group continued to support and finance various mega projects in preparation to the 2022 World Cup. More importantly, we have been involved in financing detrimental projects improving Qatar's economic self-sufficiency and national security. We have significantly increased our non-funded operations on strategic government projects.

On the corporate segment, we strategically re-balanced our commitments to address Qatar's national priorities, supporting strategic sectors while reducing our exposure to the Real-Estate industry. Accordingly, we successfully provided financial product and transaction banking solutions across various sectors, such as Transportation, Aviation, Health Care, Telecom, Sports, Water and Electricity, Real Estate Trade, Financial Services, Energy, Petrochemical, Media and Manufacturing.

The Financial Institutions group proved the resilience of its banking relations in 2018, despite the ongoing blockade. It was demonstrated by Masraf Al Rayan's ability to diversify its funding mix and secure attractive funding conditions globally, which ultimately benefits each and every client. Masraf Al Rayan's new milestones at the international level included our debut syndicated loan facility and our debut Sukuk-type private placement. Welcoming new hires, our Financial Institutions team doubled in size, enabling Masraf Al Rayan to broaden and strength our trade finance and international transfer capabilities. We entertain a network of more than 300 counterparties across all continents to satisfy our clients' banking needs.

Masraf Al Rayan Transaction Banking and Cash Management products and services continued to prosper in 2018 by providing innovative solutions and service excellence to our corporate clients. We have enhanced further our systems and our technology solutions to facilitate our clients' daily banking operations.

These achievements would not have been possible without our continuous investment in our employees. Over the years, the Wholesale Banking Group has offered a broader set of training opportunities, covering both technical and soft skills, available to Wholesale Banking employees to ensure Masraf Al Rayan delivers a seamless client experience to our corporate clients. Consequently, the total of training hours has increased by 6% in 2018.

In order to preserve our strong financial position and performance, we remained cautious in evaluating new business proposals. We have also expanded our credit analyst team by 50% in order to reduce the credit approval timeline.

We continued to diversify our income base into various economic sectors working together with our treasury, investment, asset management, retail, private banking and wealth management teams. It was by investing in the right expertise, we delivered a full range of both cross-border and local banking solutions in cash management, trade finance, foreign exchange, profit rate hedging, asset management, Sukuk and structured finance.

Masraf Al Rayan has been proud to become the partner of choice and help each segment grow in 2018. As always, we are committed to deliver sustainable value in 2019 to our stakeholders while strictly mitigating short- and long-term risks.

Quality Assurance and Service Quality

In line with Masraf Al Rayan's strategy, Service Quality Department carried on various innovations and creative improvements to meet and deliver sustainable customer experience and excellence across different channels and departments.

Service Quality Department continued monitoring Voice of Customer (VOC) to assure that our Customer Experience and Satisfaction is achieved through various Quality Methods such as Customer Management System (CMS), Mystery Shoppers, Customer Satisfaction Surveys, Branch Evaluation and Calls Evaluation. Service Quality enriched the Voice of Customer (VOC) program through various improvements to excel in tracking, monitor and assuring that our customer feedback, suggestion, appreciation and requests are being addressed and resolved on time. Continuous enhancements was introduced to the Mystery Shopper Program, Branch Evaluation, Call Evaluation to develop better understanding of our customer satisfaction and deliver outstanding services across all touch points and to meet their expectations. Voice of Customer (VOC) program in Service Quality Department will always analyze, measure and improve to serve our customers to the highest level of service.

In addition, Service Quality department advanced in the "Improvement Program" that re-engineered and continuously improved the Voice of Business (VOB) to streamline process across different channels and department in Masraf Al Rayan, The program focused on achieving process efficiency and effectiveness in their End-to-End Standard Operating Procedures (SOPs) along with Service Level Agreements (SLAs), Turnaround Time (TAT), User Manuals and Process Flow Maps using various quality tools and methods. The «Improvement Program» included also a range of innovation and improvement of the Customer Relationship Management system (CRM) in all departments within the Group, to improve the customer requests life cycle and automation capabilities to achieve process excellence and enhance Voice of Business (VOB).

Service Quality Department will continue in 2019 and the coming years to seek better business solutions through adopting innovative plans to improve the overall customer satisfaction experience and expectations.

Human Resources

We continued to advocate our long-term plans shaped to achieve Masraf Al Rayan's objectives in the domain of human resource, human capital management and development, in line with the Bank's vision and strategy.

We continued to execute many projects and structures to grow Masraf Al Rayan's overall business strategy that covers major areas: culture, people, organization and human resource systems.

The department sustained a process to engineer projection of future staffing needs and creating plans for recruiting, hiring and retaining top talent thought-out 2018.

Training and development process remains at the forefront of Masraf Al Rayan's core value and strategy. We continued to apply, under the supervision of the Executive Management and the direction of our Board of Directors, comprehensive measures and programs to develop our human capital and to ensure effective and efficient implementation and operational compliance of human resources policies, processes and procedures within the Bank.

The Human Resources Department also continued to create and utilize all opportunities for better collaboration with the Ministry of Labor and the leading institutions of higher learning in Qatar to execute Masraf Al Rayan's Qatarization plan.

Training and Talent Development

In 2018, we continued to execute our plan to develop all employees across the bank, especially Qataris, by espousing long term strategies in collaboration with the Ministry of Labor and other related local players. The number of training hours exceeded 13,700 'training hours' covering all kinds of theoretical and on-the-job training. We presented opportunities for our junior employees to enroll in professional English skills programs which positively reflect on facilitating the speed and quality of their job performance.

The training programs were tailored to cover administrative and supervisory aspects such as the 'Lead Now' program, technical and procedural aspects, as well as work environment skills.

During 2018, Masraf Al Rayan has actively participated in all of QFBA development and management programs to increase the national cadre's competencies, administrative and leadership qualification such as: Kwader Program, in which three Qatari employees from Masraf Al Rayan joined the program. This is in addition to the introduction of electronic technical education service from various international companies such as "Fitch International" and the "American Quality Association", which aimed at raising the banking and financial competency levels of Masraf Al Rayan employees, as well as joining "JPMorgan Finance School" in London as part of the "Qataris Development Program".

In keeping up with the need of safety of our staff, we continued to train our staff on the principles of first aid and firefighting, as well as preparing a "Rapid Response Team" to act when disasters occur.

All of 2018 training programs were designed to cover various administrative and supervisory aspects such as the "Leadership Now Program" along with the technical, procedural and work environment aspects. 2018 also, witnessed an increased level of participation by Masraf Al Rayan employees in work-related conferences and workshops that were held regularly by known experts from Qatar Central Bank and Qatar Exchange.

The Bank supported local universities and Qatari schools of banking and business management by providing students with vocational training opportunities as part of its social responsibility strategy to develop a promising banking generation of Qataris.

During 2018, the Training and Talent Development Department continued to implement the 'Branch Development Project', which aimed to raise the level of service and efficiency of the Bank's branches through intensive and continuous training of employees.

Corporate Social Responsibility

With regard to the implementation of Masraf Al Rayan's strategy towards its corporate social responsibility, the department has implemented a variety of programs aimed at providing institutional support to various groups within the community, including:

- Qatar University: conducting on-the-job field training for 30 students from Qatar University in the different departments of the Bank.
- The co-operation with Qatar Independent School of Banking and Business Management resulted in Masraf Al Rayan hosting 15 students, as part of a career guidance project, aimed at introducing them to the environment and familiarizing them with a Shari'a complaint banker's work. In addition, managers from different departments coached the participants on the nature and tasks of their daily work to give the students a clear sense of the various job related activities of banks.
- As part of the celebration of World Social Responsibility Day, and under the patronage of Qatar Central Bank, during the United Nations week for sustainable development 2019, Masraf Al Rayan was honored for winning the "Award for Excellence in Corporate Partnership and Responsibility" for Financial Institutions and Islamic Banking Industries in 2018.
- Masraf Al Rayan was recognized by Qatar University for its clear contribution in providing academic summer training opportunities, and recruiting students and graduates of the university and also for its continuous cooperation with various faculties to enrich the lives of students.

SUBSIDIARY
AL RAYAN INVESTMENT LLC

Vision

To become the region's leading Shari'a-compliant investment bank.

Mission

Invest in developing a wide product suite that caters to the growing demand for Islamic finance products.

Values

- **Culture**
  Invest in people to nurture an environment, fostering teamwork to achieve excellence.
- **Integrity**
  The institution to trust.
- **Client 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.

Divisions

- Asset Management Group
- Financial Advisory Group
- Strategic Investments
- Operations

During 2018, we continued the momentum achieved in 2015, 2016 and 2017 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 Qatar and the neighboring markets with more focus on Asset Management and Advisory businesses.

Asset Management Group

Unlike most global equity markets which fell sharply in 2018, the Gulf led the way, with Qatar the second best performing market during the year, up more than 20%. A few other regional markets also ended positively. Apart from the 30% increase in average oil price, Qatar was buoyed by the increased weighting of key blue-chip stocks in the FTSE and MSCI emerging market indices which forced funds tracking these indices to purchase shares. In addition, most actively-managed emerging market funds have long been very underweight Qatar and were aggressively adding over the year. In total, foreign investors were net buyers of more than $2.5 billion of Qatari equities during the year.

In contrast to regional equities, fixed income had a poor year hurt by three increases in US interest rates and sharply higher US Treasury yields (the reference point for regional credits). With the benefit of a December rally, regional sukuk ended the year up approximately by 0.5%.

For ARI, 2018 was a landmark year with the March listing of the largest Shari'a-compliant equity ETF in the world on the Qatar Stock Exchange. The Al Rayan Qatar ETF (stock exchange ticker 'QATR') seeks to track the performance of the QE Al Rayan Islamic index, an index of Shari'a-compliant Qatari equities which meet the index criteria. With a Total Expense Ratio (TER) of just 0.50%, QATR is among the cheapest single-country ETFs available across emerging markets. QATR pays an annual cash dividend in the second quarter of each year.

In addition to QATR, the other regulated fund ARI manages is Masraf Al Rayan's Al Rayan GCC Fund, which remains the largest mutual fund based in Qatar and the largest Shari'a-compliant GCC equity fund in the world.

The bulk of ARI's business remains the management of segregated equity and sukuk portfolios for institutional investors. For portfolios benchmarked to specific indices, performance for the year was well ahead of target.

During 2018, ARI also began to offer sukuk execution services which saw very strong take-up from both institutional and high-net worth individual investors. We expect this business to continue to grow in 2019.

Our disciplined investment approach and robust processes, combined with dynamic risk management and strong returns have resulted in further external recognition. In December 2018, at Global Investor's annual industry award ceremony (Global Investor is Euromoney's asset management publication), ARI was the only manager to pick up three awards: 'Qatar asset manager of the year', 'Best new fund' and 'ETF provider of the year'.

Financial Advisory Group

Despite strengthening fundamentals of Qatar's economy and a sharp rally (+20.8%) in the local stock market in 2018, it was yet another lean year for IPOs. Qatar Aluminum Manufacturing Company raised QAR 2.73 billion in the only stock market flotation for the year in Qatar. On the other hand, primary credit market activity was overshadowed by Qatar's USD 12 billion jumbo bonds. Supply from domestic corporate and FI issuers were relatively limited. Only a few Qatari banks tapped the international debt market through issuance of conventional bonds, while reliance on private placement of debt emerged as a growing trend.

Against this backdrop, ARI successfully executed issuance of a debut sukuk for one of our clients during the second half of the year. However, deal execution involving equity capital markets and mergers and acquisitions (M&A) proved more challenging as a change in market dynamics led to transaction delays.

Going into 2019, M&A activity and restructuring initiatives are likely to be pivotal considerations for companies seeking growth and improvement in profitability. At the same time, as companies reassess and adapt their business strategy and potentially enact corporate or financial restructuring, transactions are likely to be characterized by longer lead times.

SHARI'A SUPERVISORY BOARD REPORT

for the period ended on 31 December, 2018

All praise be to Allah, and His peace and blessings be upon His prophet, his family, his companions and those who followed him.

Masraf Al Rayan Shari'a Supervisory Board has reviewed the products and operational activities presented to it as well as the 2018 Balance Sheet and Income Statements and are of the opinion that the latter do not contravene with shari'a rulings.

May Allah grant success and accomplishment to all towards whatever he likes and pleases Him.

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

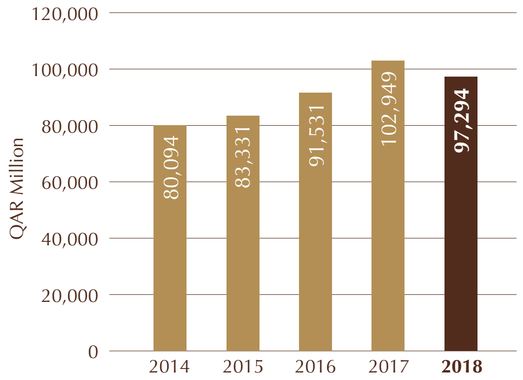
His Eminence
Sheikh Dr. Abdul Sattar Abu Ghuddah
Shari'a Supervisory Board Member

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

SUMMARY OF FINANCIAL STATEMENTS

As at 31 December 2018

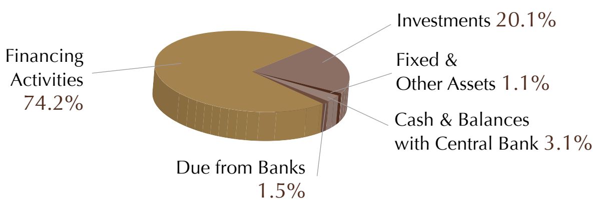
Total Assets



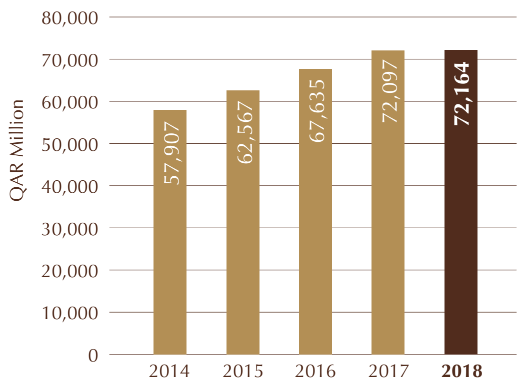
Highlights

5 Years Compound Annual Growth Rate (CAGR)	5.0%
Decline for the Year	-5.5%
Capital Adequacy Ratio	19.23%
Return on Average Assets	2.13%

Weight of Asset Categories



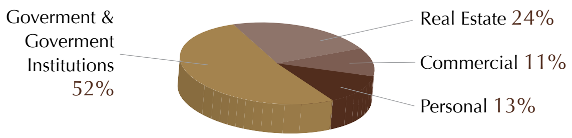
Financing Activities



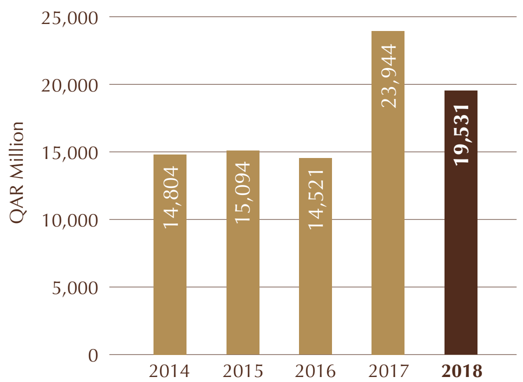
Highlights

5 Years Compound Annual Growth Rate (CAGR)	5.7%
Growth for the Year	0.1%
Non Performing Loans Ratio (NPL)	0.83%

Breakdown by Sectors



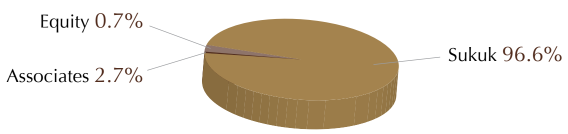
Investments



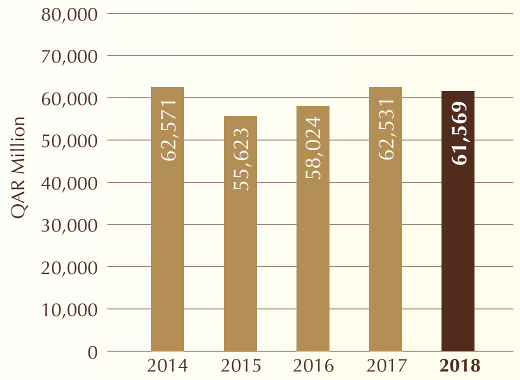
Highlights

5 Years Compound Annual Growth Rate (CAGR)	7.2%
Decline for the Year	-18.4%
Sovereign Sukuk	89.7%

Breakdown of Investments by Type



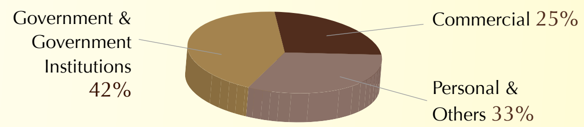
Customers' Deposits



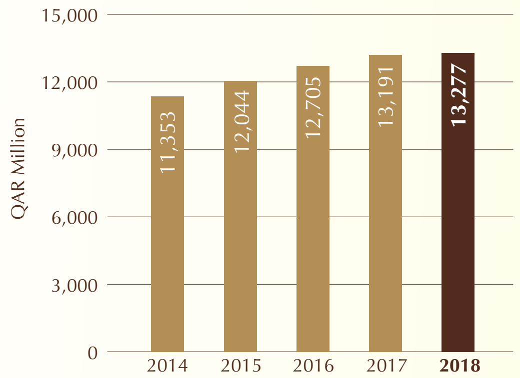
Highlights

5 Years Compound Annual Growth Rate (CAGR)	-0.4%
Decline for the Year	-1.5%

Breakdown of Customers' Deposits by Sector



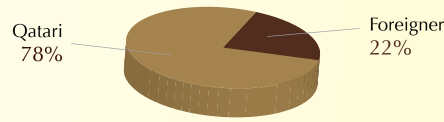
Equity Pre Appropriation



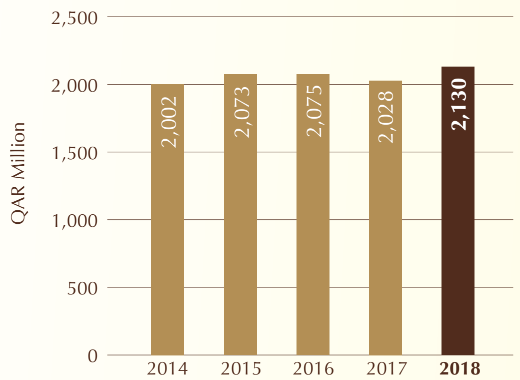
Highlights

5 Years Compound Annual Growth Rate (CAGR)	4.0%
Growth for the Year	0.7%
Book Value per Share	QAR 17.70
Return on Average Equity	16.1%

Shareholders



Net Profit



Highlights

5 Years Compound Annual Growth Rate (CAGR)	1.6%
Growth for the Year	5.0%
Earnings per Share	QAR 2.841
Operating Income to Operating Expenses Ratios	24.06%

	2018	2017
Operating Income	100.0%	100.0%
General & Administrative Expenses	(13.8)%	(13.4)%
Impairment Losses	(0.5)%	(2.6)%
Minority Interest	(0.2)%	(0.3)%
Profit for Accounts & Equity holders	86.5%	83.7%
Profit Share – Customers & Banks	(42.8)%	(37.0)%
Share of Profit to Equity holders of the Bank	43.7%	46.7%

INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Masraf Al Rayan (Q.P.S.C.)
Doha - Qatar

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Masraf Al Rayan (Q.P.S.C.) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and the applicable provisions of Qatar Central Bank regulations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Codes of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Qatar, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in our audit
Early adoption of FAS 30 : Impairment, Credit losses and onerous commitments	
The Group adopted FAS 30 : Impairment, Credit losses and onerous commitments from 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of FAS 30, the Group elected not to restate the comparative figures and recorded an adjustment of QAR 491.1 million to the opening retained earnings as at 1 January 2018.	We updated our understanding of the Group's adoption of FAS 30 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard.
The changes required to processes, systems and controls to comply with FAS 30 were complex and significant, as the standard requires a fundamental change to the way, when Expected Credit Losses (ECL) are recognised and how these are measured. There was a risk that: - judgements, assumptions and estimates, which includes adopting a 'default' definition and developing probability of defaults (PDs) at origination, lifetime-PDs, and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays may be inadequate; - inadequate data, as well as lack of uniformity in the data being used which makes it difficult to develop models, which are sufficient for FAS 30 impairment requirements. Refer to the following notes of the consolidated financial statements: • Note 3a – New standards, amendments and interpretations effective from January 1, 2018. • Note 3g – Significant accounting policies on impairment of financial assets • Note 4 – Financial risk management • Note 7 – Fair value and classification of financial instruments • Note 9 – Due from banks • Note 10 – Financing assets • Note 11 – Investment securities • Note 14 – Other assets	In addition, our work performed include the below procedures: - Evaluated the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with FAS 30 impairment requirements. - Evaluated with the assistance of our specialists, the reasonableness of management's key judgements and estimates made in the ECL calculation, which include but not limited to the selection of methods, models, assumptions and data sources. - Evaluated the appropriateness and testing the mathematical accuracy of the ECL model applied. - Tested the IT controls related to the credit impairment process and verified the integrity of data used as input to the models - evaluated system-based and manual controls over the recognition and measurement of impairment allowances. - Evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments. - Assessed the reasonableness of forward looking information incorporated into the impairment calculations Further, we ensured that the component auditors of the Group's significant components have performed consistent audit procedures as per the above, as applicable. We have also assessed whether the related disclosures of this area were adequate in accordance with the requirements of Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and applicable provision of QCB regulations.

INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters	How the matter was addressed in our audit
Impairment of financial assets	
The Group's financial assets, both on and off balance sheet, amounted to QAR 112.2 billion and QAR 115.9 billion as at 31 December 2018 and 2017 respectively. In addition, the expected credit loss (ECL) provisioning recognized for the year ended December 31, 2018 amounted to QAR 668 million. The Group has adopted FAS 30 from January 1, 2018, which is a complex accounting standard that requires considerable judgements, which were key in the development of new models to measure expected credit losses on financial assets, including debt type investments carried at amortized cost. There is a risk that financial assets are impaired and adequate impairment provisions are not provided in accordance to requirements of FAS 30 and the applicable provisions of Qatar Central Bank regulations. Financial assets might be inaccurate due to: - The methodologies used to develop probability of default (PD); loss given default (LGD); and (exposure at default EAD) are inappropriate. - Inappropriate segmentation of portfolios is used to develop risk parameters. - The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes. - Extrapolation techniques used to project scenarios and parameters (PD, LGD, and EAD) in future periods are inappropriate. - The methodology used to allocate a probability to each scenario is inappropriate or unsupported. - Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis. - Assumptions incorporated in the ECL model are not updated on a timely basis.	We have assessed and tested the design and operating effectiveness of the relevant controls over data governance, methodologies, inputs and assumptions used by the Group in calculating impairment allowances. In addition, IT controls with respect to the ECL model were tested. In addition, our work performed include the below procedures, among others on the Group's FAS 30 ECL model: - Review and assessment of the appropriateness of data, assumptions and methodologies used within the Bank's FAS 30 ECL model (PD, LGD, and EAD) and customer internal rating systems and methodology. - Assessment on whether significant increase in credit risk (SICR) indicators are present for the financing assets portfolio based on FAS 30 and Qatar Central Banks guidance and the possible implications on the ECL staging and expected provisioning. - Assessment of the ECL methodology, macroeconomic scenarios weightage, model validation/testing, on a sample basis. Further, we ensured that the component auditors of the Group's significant components have performed consistent audit procedures as per the above, as applicable. We have assessed whether the related disclosures of this area are adequate in accordance to the requirements of Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and applicable provision of QCB regulations.
Refer to the following notes of the consolidated financial statements: • Note 3a – New standards, amendments and interpretations effective from January 1, 2018. • Note 3g – Significant accounting policies on impairment of financial assets • Note 4 – Financial risk management • Note 7 – Fair value and classification of financial instruments • Note 9 – Due from banks • Note 10 – Financing assets • Note 11 – Investment securities • Note 14 – Other assets	
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology. The extensive volume and variety of transactions processed daily raises a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems. Our audit procedures included: • Obtain the IT understanding on applications relevant to financial reporting including the Equation - core banking system, Opics - Treasury system, TI – Trade finance system, LOS – retail and corporate financing assets business and the Swift messaging and the infrastructure supporting these applications; • Testing the key automated input / processing and output controls relevant to business processes. • Testing the IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations; • Assessing accuracy and completeness of computer generated information used in financial reporting;

INDEPENDENT AUDITOR'S REPORT (Continued)

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 16 January 2018.

Other information

Board of Directors is responsible for the other information. The other information comprises the Board of Directors Report which we obtained prior to the date of this auditor's report and other information included in the Annual Report, which is expected to be made available to us after the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS issued by AAOIFI, the Qatar Central Bank regulations, and for such internal control as Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We are also of the opinion that proper books of account were maintained by the Group. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the consolidated financial information included in the Board of Directors' report addressed to the General Assembly is in agreement with the books and records of the Group. To the best of our knowledge and belief and according to the information given to us, no contraventions of the applicable provisions of Qatar Central Bank Law, Qatar Commercial Companies Law and the Bank's Articles of Association were committed during the year which would materially affect the Group's financial position or its financial performance.

Doha - Qatar
5th February 2019

For Deloitte & Touche
Qatar Branch

Walid Slim
Partner
License No. 319
QFMA Auditor
License No. 120156

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

QAR '000s

	Notes	2018	2017
ASSETS			
Cash and balances with Qatar Central Bank	8	3,026,994	2,799,819
Due from banks	9	1,496,296	3,311,900
Financing assets	10	72,163,836	72,097,080
Investment securities	11	19,005,273	23,423,469
Investment in associates	12	525,859	520,287
Fixed assets	13	188,979	159,951
Other assets	14	886,976	636,466
TOTAL ASSETS		**97,294,213**	**102,948,972**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY			
LIABILITIES			
Due to banks	15	16,483,776	25,123,319
Customer current accounts	16	7,268,816	6,620,840
Sukuk financing	17	1,717,832	–
Other borrowings	18	2,042,938	–
Other liabilities	19	2,007,017	1,904,529
TOTAL LIABILITIES		**29,520,379**	**33,648,688**
EQUITY OF INVESTMENT ACCOUNT HOLDERS	20	**54,300,051**	**55,910,346**
EQUITY			
Share capital	21	7,500,000	7,500,000
Legal reserve	21	2,278,783	2,065,741
Risk reserve	21	1,574,695	1,507,567
Fair value reserves	21	9,768	3,074
Foreign currency translation reserve	21	(13,809)	(7,519)
Other reserves	21	118,910	113,001
Retained earnings		1,808,968	2,009,007
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**13,277,315**	13,190,871
Non-controlling interest	22	**196,468**	199,067
TOTAL EQUITY		**13,473,783**	**13,389,938**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY		**97,294,213**	**102,948,972**

These consolidated financial statements were approved by the Board of Directors on 21 January 2019 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 39 form part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

QAR '000s

	Notes	2018	2017
Income from financing activities	23	3,538,629	3,100,667
Income from investing activities	24	838,228	792,002
Total income from financing and investing activities		**4,376,857**	**3,892,669**
Fee and commission income		318,734	278,647
Fee and commission expense		(3,596)	(4,913)
Net fee and commission income	**25**	**315,138**	**273,734**
Foreign exchange gain (net)	26	152,479	142,527
Share of results of associates	12	21,904	28,203
Other income	27	7,900	9,164
TOTAL INCOME		**4,874,278**	**4,346,297**
Staff costs	28	(374,583)	(327,698)
Depreciation	13	(14,589)	(16,865)
Other expenses	29	(279,251)	(232,621)
Finance expense		(759,856)	(494,812)
TOTAL EXPENSES		**(1,428,279)**	**(1,071,996)**
Net reversals on due from banks		387	–
Net recoveries and reversals / (impairment losses) on financing assets	10(b)	14,591	(107,818)
Net impairment losses on investment securities		(9,014)	(5,621)
Net reversals on off balance sheet exposures subject to credit risk		16,092	–
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		**3,468,055**	**3,160,862**
Less: Return to investment account holders	20(c)	(1,326,114)	(1,115,406)
PROFIT BEFORE TAX FOR THE YEAR		**2,141,941**	**2,045,456**
Tax expense		(2,432)	(4,719)
NET PROFIT FOR THE YEAR		**2,139,509**	**2,040,737**
Net profit for the year attributable to:			
Equity holders of the Bank		2,130,415	2,028,145
Non-controlling interest		9,094	12,592
		2,139,509	**2,040,737**
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	33	2.841	2.704

The attached notes 1 to 39 form part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

QAR '000s

	Share capital	Legal reserve	Risk reserve	Fair value reserves	Foreign currency translation reserve	Other reserves	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
Balance at 31 December 2017 (Audited)	7,500,000	2,065,741	1,507,567	3,074	(7,519)	113,001	2,009,007	13,190,871	199,067	13,389,938
Adoption of FAS 30 (Note 3)	–	–	–	–	–	–	(491,115)	(491,115)	–	(491,115)
Restated - Balance at 1 January 2018	7,500,000	2,065,741	1,507,567	3,074	(7,519)	113,001	1,517,892	12,699,756	199,067	12,898,823
Change in foreign currency translation reserve	–	–	–	–	(105,655)	–	–	(105,655)	–	(105,655)
Net gain on hedging of net investment in a foreign subsidiary	–	–	–	–	99,365	–	–	99,365	–	99,365
Fair value reserve movement (Note 11)	–	–	–	6,694	–	–	–	6,694	–	6,694
Profit for the year	–	–	–	–	–	–	2,130,415	2,130,415	9,094	2,139,509
Dividend declared and approved for 2017	–	–	–	–	–	–	(1,500,000)	(1,500,000)	–	(1,500,000)
Transfer to legal reserve	–	213,042	–	–	–	–	(213,042)	–	–	–
Transfer to risk reserve	–	–	67,128	–	–	–	(67,128)	–	–	–
Net movement in other reserves	–	–	–	–	–	5,909	(5,909)	–	–	–
Social and sports fund appropriation (Note 39)	–	–	–	–	–	–	(53,260)	(53,260)	–	(53,260)
Net movement in non-controlling interest	–	–	–	–	–	–	–	–	(11,693)	(11,693)
Balance at 31 December 2018	**7,500,000**	**2,278,783**	**1,574,695**	**9,768**	**(13,809)**	**118,910**	**1,808,968**	**13,277,315**	**196,468**	**13,473,783**
Balance at 1 January 2017	7,500,000	1,862,926	1,345,733	1,98	(14,942)	107,146	1,902,070	12,704,916	168,597	12,873,513
Change in foreign currency translation reserve	–	–	–	–	(72,363)	–	–	(72,363)	–	(72,363)
Net gain on hedging of net investment in a foreign subsidiary	–	–	–	–	79,786	–	–	79,786	–	79,786
Fair value reserve movement (Note 11)	–	–	–	1,091	–	–	–	1,091	–	1,091
Profit for the year	–	–	–	–	–	–	2,028,145	2,028,145	12,592	2,040,737
Dividend declared and approved for 2016	–	–	–	–	–	–	(1,500,000)	(1,500,000)	–	(1,500,000)
Transfer to legal reserve	–	202,815	–	–	–	–	(202,815)	–	–	–
Transfer to risk reserve	–	–	161,834	–	–	–	(161,834)	–	–	–
Net movement in other reserves	–	–	–	–	–	5,855	(5,855)	–	–	–
Social and sports fund appropriation (Note 39)	–	–	–	–	–	–	(50,704)	(50,704)	–	(50,704)
Net movement in non-controlling interest	–	–	–	–	–	–	–	–	17,878	17,878
Balance at 31 December 2017	**7,500,000**	**2,065,741**	**1,507,567**	**3,074**	**(7,519)**	**113,001**	**2,009,007**	**13,190,871**	**199,067**	**13,389,938**

The attached notes 1 to 39 form part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

QAR '000s

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		2,141,941	2,045,456
Adjustments for:			
Net (recoveries and reversals) / impairment losses on financing assets		(14,591)	107,818
Net impairment losses on investment securities		9,014	5,621
Net reversals on other financial assets		(16,479)	–
Fair value loss / (gain) on investment securities carried as fair value through income statement		101	(3)
Unrealized loss / (gain) on revaluation of Shari'a compliant risk management instruments		60	(2,970)
Depreciation	13	14,589	16,865
Net gain on sale of investment securities		(17,468)	(10,818)
Dividend income		(5,718)	(8,125)
Share of results of associates	12	(21,904)	(28,203)
Amortisation of premium and discount on investment securities		(9,231)	(1,809)
Employees' end of service benefit provisions		7,972	2,889
Profit before changes in operating assets and liabilities		**2,088,286**	**2,126,721**
Change in reserve account with Qatar Central Bank		(158,181)	47,856
Change in due from banks		396,012	(669,050)
Change in financing assets		(475,699)	(4,572,266)
Change in other assets		(183,847)	(232,505)
Change in due to banks		(8,639,543)	6,063,614
Change in customer current accounts		647,976	(3,912,787)
Change in other liabilities		(147,317)	148,925
		(6,472,313)	**(999,492)**
Dividend received		5,718	8,125
Employees' end of service benefits paid		(2,186)	(1,406)
Tax paid		(284)	(3,041)
Net cash used in operating activities		**(6,469,065)**	**(995,814)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(1,104,338)	(13,461,883)
Proceed from sale / redemption of investment securities		5,501,254	4,133,261
Acquisition of fixed assets	13	(45,211)	(25,832)
Dividend received from associates	12	16,059	17,479
Net cash from / (used in) investing activities		**4,367,764**	**(9,336,975)**

The attached notes 1 to 39 form part of, and should be read in conjunction with, these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December

QAR '000s

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in equity of investment account holders		(1,610,587)	8,420,002
Proceeds from sukuk financing		1,717,832	–
Proceeds from other borrowings	18	2,042,938	–
Dividends paid		(1,425,123)	(1,363,858)
Net movement in non-controlling interest		(11,693)	17,878
Net cash from financing activities		**713,367**	**7,074,022**
Net decrease in cash and cash equivalents		(1,387,934)	(3,258,767)
Cash and cash equivalents at 1 January		3,124,051	6,451,850
NON-CASH ITEMS			
Expected credit losses for due from banks	9	(403)	–
Effects of exchange rate changes on cash and cash equivalents held		37,739	(69,032)
Cash and cash equivalents at 31 December	34	**1,773,453**	**3,124,051**

The attached notes 1 to 39 form part of, and should be read in conjunction with, these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

1. REPORTING ENTITY

Masraf Al Rayan (Q.P.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 Qatar Commercial Companies' Law No. 5 of 2002, as amended by Qatar Commercial Companies' Law No. 11 of 2015 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 Street, Doha, Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as "the Group" and individually as "Group entities"). The Group is primarily involved in Islamic banking, financing, investing and brokerage activities, and has 18 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan (Q.P.S.C.).

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 2018	2017
Al Rayan Investment L.L.C.	Qatar	USD 100,000,000	Investment banking	**100.0%**	100.0%
Al Rayan Financial Brokerage1	Qatar	QAR 50,000,000	Financial brokerage	**100.0%**	100.0%
Al Rayan (UK) Limited2	UK	GBP 100,000,000	Investment activities	**70.0%**	70.0%
Al Rayan Partners	Qatar	QAR 10,000,000	Real estate consulting	**100.0%**	100.0%
Lusail Waterfront Investment Co.	Cayman Islands	USD 50,000	Investment activities	**100.0%**	100.0%
MAR Sukuk Limited3	Cayman Islands	USD 50,000	Sukuk issuance	**100.0%**	–

[1] The operations have ceased since 12 January 2017 after Qatar Financial Markets Authority ("QFMA") approved to freeze its license for two years.

[2] Al Rayan (UK) Limited owns 98.34% of its subsidiary, Al Rayan Bank PLC (formerly known as Islamic Bank of Britain PLC). Effectively, the Bank owns 68.84% of Al Rayan Bank PLC. Al Rayan Bank PLC is the designated "Servicer" of Tolkien Funding Sukuk No. 1 Plc, a special purpose entity incorporated in the UK for the purpose of sukuk issuance for the benefit of Al Rayan Bank PLC.

[3] MAR Sukuk Limited was incorporated in the Cayman Islands as an exempted company with limited liability for the purpose of sukuk issuance and other activities, for the benefit of the Bank.

The Bank and two other local unlisted banks, namely Barwa Bank Q.S.C. and International Bank of Qatar Q.S.C., announced on 19 December 2016 that they have entered into initial negotiations regarding a potential merger of the three banks.

On 14 June 2018, the Bank and the two other local unlisted banks announced that the negotiations on the proposed merger between the three banks have ended. The three banks could not reach to an agreement to complete the transaction. Accordingly, the three banks shall continue their business as usual in line with their individual business plans.

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") and the applicable provisions of the Qatar Central Bank ("QCB") regulations ("QCB regulations"). 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 Shari'a-compliant risk management 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 judgments, 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 judgments 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 except for the effect of adoption of FAS 30 on 1 January 2018, as described in Note 3(a)-i, and have been applied consistently by Group entities.

(a) New standards and interpretations

New standards, amendments and interpretations effective from 1 January 2018

FAS 30 Impairment, Credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and impairment provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS 30 has replaced FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deal with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets: 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

Expected credit losses ('ECL')

FAS 30 introduces the Credit Losses approach with a forward-looking 'expected credit loss' model. The Credit Losses approach for receivables and off balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss. The new impairment model is applied to financial assets which are subject to credit risk, and a number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

The standard is effective from financial periods beginning on or after 1 January 2020 with early adoption permitted.

As required by the QCB, the Group has early adopted FAS 30 with effect from 1 January 2018 and as permitted by the standard, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interest of the current year.

ADOPTION OF FAS 30

The adoption of FAS 30 has resulted in changes in the accounting policies for impairment of financial assets. Set out below are the FAS 30 transition impact disclosures for the Group.

(i) Impact of adopting FAS 30

The impact from the adoption of FAS 30 as at 1 January 2018 has been to decrease retained earnings by QAR 491 million.

	Retained earnings	Non-controlling interest
Closing balance as at 31 December 2017	**2,009,007**	**199,067**
Impact on recognition of Expected Credit Losses		
Due from banks	792	–
Financing assets	424,203	–
Debt type securities at amortized cost	3,017	–
Off balance sheet exposures subject to credit risk	63,103	–
	491,115	**–**
Opening balance under FAS 30 on date of initial application of 1 January 2018	**1,517,892**	**199,067**

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) **New standards and interpretations (Continued)**

New standards, amendments and interpretations effective from 1 January 2018 (Continued)

FAS 30 Impairment, Credit losses and onerous commitments (Continued)

Financial Liabilities

There were no changes to the classification and measurement of financial liabilities.

(ii) **Expected credit loss / Impairment allowances**

The following table reconciles the closing impairment allowance for financial assets in accordance with the existing FAS as at 31 December 2017 to the opening ECL allowance determined in accordance with FAS 30 as at 1 January 2018.

	31 December 2017	Re-measurement	1 January 2018
Due from banks	–	792	792
Financing assets	165,680	424,203	589,883
Debt type investments carried at amortised cost	25,484	3,017	28,501
Off balance sheet exposures subject to credit risk	–	63,103	63,103
	191,164	**491,115**	**682,279**

(iii) **Changes in Accounting Policies and Significant Estimates and Judgements**

Key changes to the Group's accounting policies

The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on existing FAS and applicable QCB regulations as disclosed in the audited consolidated financial statements as of and for the year ended 31 December 2017.

Impairment of financial assets

FAS 30 replaces the 'incurred loss' model in existing FAS with an 'expected credit loss' model. The new impairment model also applies to certain financing asset commitments and financial guarantee contracts but not to equity investments. Under FAS 30, credit losses are recognised earlier than under existing FAS. Key changes in the Group's accounting policy for impairment of financial assets are listed below:

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk (i. local sovereign that carry credit rating of (Aaa) or (Aa) and carry (zero) credit weight in accordance with capital adequacy instructions of the QCB, ii. externally rated debt instruments of rating Aaa or Aa, iii. other financial assets which the Group may classify as such after obtaining QCB's no objection) at the reporting date. For these assets, 12-month ECL are recognised and profit is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but profit is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD') as the weight.

Stage 3: Non performing - credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the QCB's instructions. For these assets, lifetime ECL is recognised and treated with the profit calculated on them, according to QCB's instructions as disclosed in most recent annual financial statements. When transitioning financial assets from stage 2 to stage 3, the percentage of provision made for such assets should not be less than the percentage of provision made before transition.

(iv) **Changes to Group's financial risk management objectives and policies**

1) **Credit Risk Measurement**

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

2) **Credit risk grading**

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

3) **Credit quality assessments**

Pursuant to the adoption of FAS 30, the Group has mapped its internal credit rating scale to Moody's rating scale. The table below provides an analysis of counterparties by rating grades and credit quality of the Group's credit risk, based on Moody's ratings (or their equivalent) as at 31 December 2018.

Rating grade	Financing assets	Due from Banks	Debt type investments carried at amortised cost	Off balance sheet exposures subject to credit risk
AAA to AA-	37,295,495	64,227	17,847,631	3,102,140
A+ to A-	8,491,355	1,126,508	127,077	6,520,544
BBB to BBB-	8,592,454	279,759	510,270	4,598,809
BB+ to B-	6,777,156	842	330,010	1,164,907
Unrated	11,596,250	25,363	58,567	50,565
Total	**72,752,710**	**1,496,699**	**18,873,555**	**15,436,965**

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) New standards and interpretations (Continued)

New standards, amendments and interpretations effective from 1 January 2018 (Continued)

FAS 30 Impairment, Credit losses and onerous commitments (Continued)

(iv) Changes to Group's financial risk management objectives and policies (Continued)

New standards, amendments and interpretations issued but not yet effective

The Group has not yet applied the following new and revised FASs that have been issued but are not yet effective:

New and revised FASs	Effective for annual periods beginning on or after
FAS 28 Murabaha and other deferred payment sales	1 January 2019
FAS 31 Investment Agency (Al – Wakala Bi-Al – Istithmar)	1 January 2020
FAS 35 Risk Reserves	1 January 2021

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(ii) Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders 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 equity. Gains or losses on disposals to non-controlling interests are also recorded in 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 arrangement or financial asset. In addition, any amounts previously recognised in 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.

(iii) 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.

(iv) Associates (equity-accounted investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

The results and assets and liabilities of associates or are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses in an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate , any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

(iv) Associates (equity-accounted investees) (Continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with FAS 30. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(v) 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.

(c) 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.

(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 equity as 'foreign currency translation reserve'.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the spot closing rate.

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 equity, and presented in the foreign exchange translation reserve in equity.

(d) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investment securities (Continued)

(i) Classification (Continued)

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. 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.

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 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.

(e) 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, 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. 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)**

(e) **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.

(f) **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.

(g) **Impairment of financial assets (other than equity type investments classified as fair value through equity)**

Policy applicable from 1 January 2018:

The adoption of FAS 30 has fundamentally changed the Group's accounting for impairment loss on financing assets by replacing FAS 11's (IAS 39's) incurred loss approach with a forward-looking expected credit loss (ECL) approach. FAS 30 requires the Group to record an allowance for ECLs for all financing assets and other debt financial assets not held at FVPL, together with financing asset commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at fair value through income statement:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Financing commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) **Impairment of financial assets (other than equity type investments classified as fair value through equity)**
Policy applicable from 1 January 2018: (Continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitments and Letter of credit: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The determination of the FAS 30 provision results from a two-step approach:

Step 1: The facilities will have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has been credit impaired.

Step 2: The expected credit loss is calculated i.e., 12-month expected loss for all facilities in stage 1 and lifetime expected credit loss for all facilities in stage 2. The facilities in stage 3 are covered by specific provisions as per QCB regulations.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from existing asset;

If the expected restructuring will result in derecognition of existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. The amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through equity are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a financing asset by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Qatar), is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

Any credit exposures to the Government of Qatar, represented by the Ministry of Finance and QCB are exempted from the application of expected credit loss model as per QCB's Circular 9 / 2017.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Financing commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the financing asset commitment / off balance sheet component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn components is presented as a provision in other liabilities; and
- Debt instruments measured at fair value through equity: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financing assets and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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.

Policy applicable up to 31 December 2017:

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of financial assets (other than equity type investments classified as fair value through equity) (Continued)

Policy applicable up to 31 December 2017: (Continued)

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.

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.

(h) Modification of financial assets and liabilities

Financial Assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Policy applicable from 1 January 2018:

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated income statement. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit.

Policy applicable up to 31 December 2017:

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the premodification profit rate.

Financial Liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated income statement.

(i) 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.

(j) Shari'a-compliant risk management instruments

Shari'a-compliant risk management instruments are measured at fair value on the consolidated statement of financial position.

The Group's Shari'a-compliant risk management instruments include unilateral promise to buy/sell currencies and profit rate swaps. After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, Shari'a-compliant risk management instruments are subsequently measured at fair value. Fair value represents quoted market price or internal pricing models, as appropriate. The resulting gains or losses are included in the consolidated income statement, except for unilateral promise to buy/sell currencies which are designated as the hedging instrument in a hedge of a net investment in a foreign operation.

(k) 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.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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 equipment	3 years

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

(l) 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.

(m) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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 its equity holders.
– 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 profit.
– 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.

(p) 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.

(q) Sukuk financing

Sukuk financing represents common shares in the ownership of assets or benefits or services which bears quarterly profit and mature after 5 to 34 years from issuance date. Profits are recognised periodically until maturity. Sukuks are recognised at amoritised cost. Sukuks are disclosed as a separate line in the consolidated financial statements as "Sukuk financing"

(r) 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.

(s) Employees benefits

Defined contribution plans

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.

Defined benefit plan

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.

(t) 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 equity holders.

(u) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue recognition (Continued)

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.

(v) Income tax

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) 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 equity holders 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 equity holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) 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 allowance for impairment.

(y) 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.

(z) 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 Shari'a-compliant risk management instruments.

(aa) 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.

(bb) 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.

(cc) 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.

(dd) Comparatives

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

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Introduction and overview (Continued)

Risk management and structure (Continued)

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 financing: cash or securities.
- For commercial financing: mortgages over real estate properties, inventory, cash or securities.
- For retail financing: 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 31.

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

	2018	2017
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)	2,491,426	2,426,373
Due from banks	1,496,296	3,311,900
Financing assets	72,163,836	72,097,080
Investment securities - debt	18,860,823	23,227,167
Other assets	594,462	414,451
	95,606,843	**101,476,971**
Other credit risk exposures are as follows:		
Guarantees	14,389,848	12,069,394
Letters of credit	1,047,117	1,784,111
	15,436,965	**13,853,505**

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.

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
2018					
Assets recorded on the consolidated statement of financial position:					
Cash and balances with QCB (excluding cash on hand)	2,491,426	–	–	–	2,491,426
Due from banks	846,238	5,194	1,200	643,664	1,496,296
Financing assets	58,387,677	69,453	3,514,373	10,192,333	72,163,836
Investment securities - debt	17,811,919	621,388	50,938	376,578	18,860,823
Other assets	589,704	–	–	4,758	594,462
	80,126,964	**696,035**	**3,566,511**	**11,217,333**	**95,606,843**
2017					
Assets recorded on the consolidated statement of financial position:					
Cash and balances with QCB (excluding cash on hand)	2,426,373	–	–	–	2,426,373
Due from banks	1,940,254	641,440	1,699	728,507	3,311,900
Financing assets	58,982,850	96,633	3,378,307	9,639,290	72,097,080
Investment securities - debt	22,379,942	282,004	50,685	514,536	23,227,167
Other assets	401,804	–	–	12,647	414,451
	86,131,223	**1,020,077**	**3,430,691**	**10,894,980**	**101,476,971**

	Qatar	Other GCC	Other Middle East	Others	Total
2018					
Guarantees	12,736,167	14,264	201,410	1,438,007	14,389,848
Letters of credit	1,015,351	3,753	20,414	7,599	1,047,117
	13,751,518	**18,017**	**221,824**	**1,445,606**	**15,436,965**
2017					
Guarantees	9,620,249	7,362	266,169	2,175,614	12,069,394
Letters of credit	1,759,898	5,285	16,598	2,330	1,784,111
	11,380,147	**12,647**	**282,767**	**2,177,944**	**13,853,505**

(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 2018	Gross exposure 2017
Funded and unfunded		
Government	25,162,862	30,792,504
Government agencies	32,537,168	33,135,371
Industry	1,009,393	1,382,315
Commercial	4,596,212	4,894,025
Services	2,505,737	4,724,805
Contracting	1,670,085	1,184,007
Real estate	18,452,795	16,348,087
Personal	9,077,021	8,574,407
Others	595,570	441,450
Contingent liabilities	15,436,965	13,853,505
Total	**111,043,808**	**115,330,476**

4.2.5 Credit quality

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings. The Group follows an internal obligor risk rating (ORR) mechanism for grading relationships across its credit portfolio. The Group utilises a ten-scale credit rating system with positive and negative modifiers, giving a total scale range of 22, of which 19 (with positive and negative modifiers) relate to performing and three to non-performing. Within performing, ORR 1 to 4- represents investment grade, ORR 5+ to 7 represents sub-investment grade and 7- represents watchlist. ORR 8 to 10 represents sub-standard, doubtful and loss respectively. All credits are assigned a rating in accordance with the defined criteria. The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group. All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

The following table sets out information about the credit quality of financial assets, commitments and financial guarantees.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Due from banks					
Investment grade	1,494,874	–	–	1,494,874	3,311,900
Sub-investment grade	841	984	–	1,825	–
Substandard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
	1,495,715	984	–	1,496,699	3,311,900
Loss allowance	(403)	–	–	(403)	-
Carrying amount	**1,495,312**	**984**	**–**	**1,496,296**	**3,311,900**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Credit risk (Continued)

4.2.5 Credit quality (Continued)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Financing assets					
Investment grade	51,313,202	7,626,205	–	58,939,407	38,829,436
Sub-investment grade	11,056,045	2,153,218	–	13,209,263	33,093,372
Substandard	–	–	343,439	343,439	232,207
Doubtful	–	–	84,350	84,350	55,424
Loss	–	–	176,251	176,251	52,321
	62,369,247	9,779,423	604,040	72,752,710	72,262,760
Loss allowance	(58,657)	(225,239)	(304,978)	(588,874)	(165,680)
Carrying amount	**62,310,590**	**9,554,184**	**299,062**	**72,163,836**	**72,097,080**

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Investment securities - debt					
Investment grade	18,553,127	7,602	–	18,560,729	22,064,559
Sub-investment grade	280,832	–	–	280,832	1,137,125
Substandard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	50,967	50,967	50,967
	18,833,959	7,602	50,967	18,892,528	23,252,651
Loss allowance	(5,991)	(230)	(25,484)	(31,705)	(25,484)
Carrying amount	**18,827,968**	**7,372**	**25,483**	**18,860,823**	**23,227,167**

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Other credit risk exposures					
Investment grade	13,282,846	941,868	–	14,224,714	13,853,505
Sub-investment grade	727,472	463,752	–	1,191,224	–
Substandard	–	–	11,802	11,802	–
Doubtful	–	–	395	395	–
Loss	–	–	8,830	8,830	–
	14,010,318	1,405,620	21,027	15,436,965	13,853,505
Loss allowance	(11,724)	(35,287)	–	(47,011)	–
Carrying amount	**13,998,594**	**1,370,333**	**21,027**	**15,389,954**	**13,853,505**

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.

	Aggregate collateral	
Past due category:	2018	2017
Up to 30 days	899,274	656,805
31 to 60 days	490,786	270,486
61 – 90 days	487,881	999,498
91 days and above	1,201,390	97,095
	3,079,331	**2,023,884**

The fair value of the collateral held against credit-impaired financing assets as at 31 December 2018 is QAR 1,201 million (2017: QAR 97 million).

Rescheduled 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. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts as non impaired. The carrying value of renegotiated financing assets as at 31 December 2018 was QAR 1,011 million (2017: QAR 543 million).

There were no financial assets that were modified that had a loss allowance measured at an amount equal to lifetime ECL.

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 contractual amount of financial assets written off during the year, subject to enforcement activity as at 31 December 2018 was QAR 179 thousand (2017: QAR 1,358 thousand).

4. **FINANCIAL RISK MANAGEMENT (Continued)**

4.2 Credit risk (Continued)

4.2.8 Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition following criteria's are considered:

i. Two notches down for rating from Aaa to Baa or one notch down for ratings from Ba to Ca;
ii. Facilities restructured during previous twelve months; and
iii. Contractual payments overdue by more than 60 days as at the reporting date.

Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of Probability of Default (PD)

The Group employs Moody's Risk Analyst to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures.

Renegotiated financing assets

The contractual terms of a financing asset may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing asset whose terms have been modified may be derecognised and the renegotiated financing asset recognised as a new financing asset at fair value. Where possible, the Group seeks to restructure financing assets rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new financing asset conditions. Management continuously reviews renegotiated financing assets to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in past 12 months will be classified under Stage 2.

Definition of default

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
– the borrower is past due more than 90 days on any material credit obligation to the Group; or
– the borrower is rated 9 or 10.

In assessing whether a borrower is in default, the Group also considers indicators that are:

– quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
– based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macro – economic parameters are statistically significant or the results of forecasted PD's are too much deviated from the present forecast of the economic conditions, qualitative PD overlay shall be used by management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

– Probability of Default (PD);
– Loss Given Default (LGD);
– Exposure at Default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment data where available.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimation icludes:

1) Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.
2) Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.
3) Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics
that include:

– credit risk grading's;
– product type; and
– geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Credit risk (Continued)

4.2.8 Inputs, assumptions and techniques used for estimating impairment (Continued)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
Due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	–	–	–	–	–
Impact of initial application	531	261	–	792	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Charge / (reversal) (net)	(126)	(261)	–	(387)	–
Impairment allowance for the year, net	405	–	–	405	–
Amounts written off	–	–	–	–	–
Foreign currency translation	(2)	–	–	(2)	–
Balance at 31 December	**403**	**–**	**–**	**403**	**–**

	2018				2017
Financing assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	–	–	165,680	165,680	50,460
Impact of initial application	129,979	294,224	–	424,203	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(49,444)	49,444	–	–	–
Transfers to Stage 3	(524)	(38,890)	39,414	–	–
Charge / (reversal) (net)	(20,991)	(79,470)	100,074	(387)	115,920
Impairment allowance for the year, net	59,020	225,308	139,488	423,816	115,920
Amounts written off	–	–	(179)	(179)	(1,358)
Foreign currency translation	(363)	(69)	(11)	(443)	658
Balance at 31 December	**58,657**	**225,239**	**304,978**	**588,874**	**165,680**

	2018				2017
Investment securities - debt	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	–	–	25,484	25,484	25,484
Impact of initial application	1,879	1,138	–	3,017	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(129)	129	–	–	–
Transfers to Stage 3	–	–	–	–	–
Charge / (reversal) (net)	4,242	(1,037)	–	3,205	–
Impairment allowance for the year, net	5,992	230	–	6,222	–
Amounts written off	–	–	–	–	–
Foreign currency translation	(1)	–	–	(1)	–
Balance at 31 December	**5,991**	**230**	**25,484**	**31,705**	**25,484**

	2018				2017
Other credit risk exposures	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	–	–	–	–	–
Impact of initial application	13,151	49,952	–	63,103	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(1,946)	1,946	–	–	–
Transfers to Stage 3	–	–	–	–	–
Charge / (reversal) (net)	519	(16,611)	–	(16,092)	–
Impairment allowance for the year, net	11,724	35,287	–	47,011	–
Amounts written off	–	–	–	–	–
Foreign currency translation	–	–	–	–	–
Balance at 31 December	**11,724**	**35,287**	**–**	**47,011**	**–**

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
As at and for the year ended 31 December 2018

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:

				Re-Pricing in:			
	Carrying amount	**Less than 3 months**	**3 to 12 months**	**One to 3 months**	**Over 5 years**	**Non-Profit sensitive**	**Effective profit rate**
2018							
Cash and balances with QCB	3,026,994	–	–	–	–	3,026,994	
Due from banks	1,496,296	478,800	–	389,118	–	628,378	4.41%
Financing assets	72,163,836	46,081,910	10,230,323	7,711,515	8,140,088	–	4.86%
Investment securities	18,856,451	–	–	–	–	18,856,451	3.79%
	95,543,577	**46,560,710**	**10,230,323**	**8,100,633**	**8,140,088**	**22,511,823**	
Due to banks	(16,483,776)	(14,818,969)	(1,526,491)	–	–	(138,316)	3.33%
Customer current accounts	(7,268,816)	–	–	–	–	(7,268,816)	
Sukuk financing	(1,717,832)	(1,717,832)	–	–	–	–	3.92%
Other borrowings	(2,042,938)	(2,042,938)	–	–	–	–	3.98%
	(27,513,362)	**(18,579,739)**	**(1,526,491)**	**–**	**–**	**(7,407,132)**	
Equity of investment account holders	**(54,300,051)**	**(33,301,904)**	**(17,524,421)**	**(3,473,726)**	**–**	**–**	3.16%
Consolidated statement of financial position items	13,730,164	(5,320,933)	(8,820,589)	4,626,907	8,140,088	15,104,691	
Off consolidated statement of financial position items	(21,231,348)	(3,834,929)	–	–	–	(17,396,419)	
Profit Rate Sensitivity Gap	**(7,501,184)**	**(9,155,862)**	**(8,820,589)**	**4,626,907**	**8,140,088**	**(2,291,728)**	
Cumulative Profit Rate Sensitivity Gap	**(7,501,184)**	**(9,155,862)**	**(17,976,451)**	**(13,349,544)**	**(5,209,456)**	**(7,501,184)**	

				Re-Pricing in:			
	Carrying amount	**Less than 3 months**	**3 to 12 months**	**One to 3 months**	**Over 5 years**	**Non-Profit sensitive**	**Effective profit rate**
2017							
Cash and balances with QCB	2,799,819	–	–	–	–	2,799,819	
Due from banks	3,311,900	1,563,027	305,000	413,279	–	1,030,594	3.26%
Financing assets	72,097,080	43,709,419	9,708,387	9,850,082	8,829,192	–	4.50%
Investment securities	23,222,693	4,435,893	–	–	–	18,786,800	3.78%
	101,431,492	**49,708,339**	**10,013,387**	**10,263,361**	**8,829,192**	**22,617,213**	
Due to banks	(25,123,319)	(24,960,896)	(73,902)	–	(49,229)	(39,292)	2.47%
Customer current accounts	(6,620,840)	–	–	–	–	(6,620,840)	
	(31,744,159)	(24,960,896)	(73,902)	–	(49,229)	(6,660,132)	
Equity of investment account holders	(55,910,346)	(39,289,796)	(14,463,492)	(2,157,058)	–	–	2.17%
Consolidated statement of financial position items	**13,776,987**	**(14,542,353)**	**(4,524,007)**	**8,106,303**	**8,779,963**	**15,957,081**	
Off consolidated statement of financial position items	**(31,452,705)**	**(4,052,993)**	**–**	**–**	**–**	**(27,399,712)**	
Profit Rate Sensitivity Gap	**(17,675,718)**	**(18,595,346)**	**(4,524,007)**	**8,106,303**	**8,779,963**	**(11,442,631)**	
Cumulative Profit Rate Sensitivity Gap	**(17,675,718)**	**(18,595,346)**	**(23,119,353)**	**(15,013,050)**	**(6,233,087)**	**(17,675,718)**	

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 12-month 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:

	10 bp parallel increase	10 bp parallel decrease
Sensitivity of net profit		
2018		
At 31 December	1,895	(1,895)
2017		
At 31 December	1,779	(1,779)

Overall non-trading profit rate risk positions are managed by Group Central Treasury, which uses financial investments, advances to banks, deposits from banks and Shari'a-compliant 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).

	2018	2017
Net foreign currency exposure:		
EUR	1,958	(985)
GBP	497	(322)
Others	8,308	15,771

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	
	2018	2017
5% increase / (decrease) in currency exchange rate		
EUR	98	(50)
GBP	25	(16)
Others	415	789

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:

	2018	2017
5% increase / (decrease) in QE 30 index/other indices		
Increase / (decrease) in profit and loss	–	–
Increase / (decrease) in equity	2,447	5,035

4.3.4 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Market risk (Continued)

4.3.4 Valuation of financial instruments (Continued)

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.

4.3.5 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
2018				
Shari'a-compliant risk management instruments	–	80,287	–	80,287
Investment securities	67,912	95,511	–	163,423
	67,912	**175,798**	**–**	**243,710**
Shari'a-compliant risk management instruments	–	75,992	–	75,992
	–	**75,992**	**–**	**75,992**
2017				
Shari'a-compliant risk management instruments	–	13,624	–	13,624
Investment securities	136,779	91,146	–	227,925
	136,779	**104,770**	**–**	**241,549**
Shari'a-compliant risk management instruments	–	9,269	–	9,269
	–	**9,269**	**–**	**9,269**

The fair values of financial assets and financial liabilities carried at amortized cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for certain investment securities for which the fair value amounts to QAR 2,575 million (2017: QAR 2,567 million), which is derived using Level 1 fair value hierarchy. The details of the Group's classification of financial assets and liabilities are disclosed in Note 7.

Investment securities totalling QAR nil are carried at cost (2017: QAR 4,456 thousand).

During the reporting periods 31 December 2018 and 2017, there were no transfers among Levels 1, 2 and 3 fair value measurements.

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 Shari'a-compliant risk management instruments 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:

	2018	2017
At 31 December	93%	78%
Average for the year	88%	88%
Maximum for the year	94%	101%
Minimum for the year	79%	76%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Liquidity risk (Continued)

4.4.2 Maturity analysis

The following table sets out the maturity profile of the Group's assets and liabilities. The contractual/expected maturities of assets and liabilities have been determined on the basis of the remaining period at 31 December to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

	Carrying amount	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2018						
Cash and balances with QCB	3,026,994	550,195	–	–	–	2,476,799
Due from banks	1,496,296	1,100,927	6,251	–	389,118	–
Financing assets	72,163,836	4,533,936	1,297,853	6,878,683	12,612,246	46,841,118
Investment securities	19,005,273	2,027,864	123,648	539,284	5,301,078	11,013,399
Other assets	594,462	594,462	–	–	–	–
Total financial assets	**96,286,861**	**8,807,384**	**1,427,752**	**7,417,967**	**18,302,442**	**60,331,316**
Due to banks	16,483,776	7,196,617	7,635,147	1,652,012	–	–
Customer current accounts	7,268,816	7,268,816	–	–	–	–
Sukuk financing	1,717,832	–	–	–	690,668	1,027,164
Other borrowings	2,042,938	–	–	–	2,042,938	–
Total financial liabilities	27,513,362	14,465,433	7,635,147	1,652,012	2,733,606	1,027,164
Equity of investment account holders	54,300,051	14,090,182	19,211,722	17,524,421	3,473,726	–
Total financial liabilities and equity of investment account holders	**81,813,413**	**28,555,615**	**26,846,869**	**19,176,433**	**6,207,332**	**1,027,164**
Difference	**14,473,448**	**(19,748,231)**	**(25,419,117)**	**(11,758,466)**	**12,095,110**	**59,304,152**

	Carrying amount	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2017						
Cash and balances with QCB	2,799,819	481,201	–	–	–	2,318,618
Due from banks	3,311,900	2,593,621	–	305,000	413,279	–
Financing assets	72,097,080	6,131,259	1,395,112	4,301,460	33,349,098	26,920,151
Investment securities	23,423,469	4,536,507	204,610	2,619,079	4,535,871	11,527,402
Other assets	414,451	414,451	–	–	–	–
Total financial assets	**102,046,719**	**14,157,039**	**1,599,722**	**7,225,539**	**38,298,248**	**40,766,171**
Due to banks	25,123,319	23,000,274	1,999,914	73,902	–	49,229
Customer current accounts	6,620,840	6,620,840	–	–	–	–
Total financial liabilities	31,744,159	29,621,114	1,999,914	73,902	–	49,229
Equity of investment account holders	55,910,346	16,335,138	22,981,138	14,437,011	2,157,059	–
Total financial liabilities and equity of investment account holders	**87,654,505**	**45,956,252**	**24,981,052**	**14,510,913**	**2,157,059**	**49,229**
Difference	**14,392,214**	**(31,799,213)**	**(23,381,330)**	**(7,285,374)**	**36,141,189**	**40,716,942**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Maturity analysis (Financial liabilities and Shari'a-compliant risk management instruments)

The table below summarises the maturity profile of the Group's financial liabilities based on remaining 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	Grass undiscounted cash flows	Less than one month	One to 3 months	3-12 Years	1 to 5 Years	Over 5 years
2018							
Non-derivative liabilities							
Due to banks	16,483,776	16,521,343	7,215,977	7,643,619	1,661,747	–	–
Customer current accounts	7,268,816	7,268,816	7,268,816	–	–	–	–
Sukuk financing	1,717,832	2,876,691	–	5,991	45,511	938,009	1,887,180
Other borrowings	2,042,938	2,267,973	–	11,311	62,851	2,193,811	–
Other liabilities	2,007,017	2,007,017	2,007,017	–	–	–	–
Total liabilities	**29,520,379**	**30,941,840**	**16,491,810**	**7,660,921**	**1,770,109**	**3,131,820**	**1,887,180**
Equity of investment account holders	**54,300,051**	**54,822,487**	**14,109,784**	**19,237,896**	**17,837,432**	**3,637,375**	**–**
Shari'a-compliant risk management instruments							
Risk management:	**4,295**						
Outflow		(77,997)	(3,516)	(486)	(57,442)	(1,625)	(14,928)
Inflow		82,292	4,573	541	59,093	2,005	16,080
	83,824,725	**85,768,622**	**30,602,651**	**26,898,872**	**19,609,192**	**6,769,575**	**1,888,332**

	Carrying amount	Grass undiscounted cash flows	Less than one month	One to 3 months	3-12 Years	1 to 5 Years	Over 5 years
2017							
Non-derivative liabilities							
Due to banks	25,123,319	25,144,560	23,013,934	2,006,742	74,655	–	49,229
Customer current accounts	6,620,840	6,620,840	6,620,840	–	–	–	–
Other liabilities	1,904,529	1,904,529	1,904,529	–	–	–	–
Total liabilities	**33,648,688**	**33,669,929**	**31,539,303**	**2,006,742**	**74,655**	**–**	**49,229**
Equity of investment account holders	**55,910,337**	**56,254,714**	**16,351,147**	**23,009,628**	**14,652,597**	**2,241,342**	**–**
Shari'a-compliant risk management instruments							
Risk management:	**4,355**						
Outflow		(10,802)	(3,964)	(3,843)	(2,593)	(402)	–
Inflow		15,157	4,495	7,216	3,019	427	–
	89,563,380	**89,928,998**	**47,890,981**	**25,019,743**	**14,727,678**	**2,241,367**	**49,229**

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 equity holders' 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 year.

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

The Group is currently in the process of analyzing new capital requirements for Profit Rate Risk on Banking Book (PRRBB) and will start setting aside capital based on new standard under Pillar II from 2019 onwards.

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

	2018 Basel III	2017 Basel III
Common Equity Tier 1 (CET 1) capital	11,955,147	11,854,806
Tier 1 capital	–	38,573
Tier 2 capital	338,142	38,573
Total regulatory capital	**12,293,289**	**11,931,952**
Risk weighted assets		
Risk weighted assets for credit risk	56,446,425	53,649,225
Risk weighted assets for market risk	2,895,665	3,755,450
Risk weighted assets for operational risk	4,601,974	4,359,598
Total risk weighted assets	**63,944,064**	**61,764,273**

	CET 1 ratio without capital conservation buffer	CET 1 ratio including capital conservation buffer	Tier 1 capital ratio including capital conservation buffer	Tier 1 and 2 capital ratio including capital conservatio buffer	Total capital including capital conservation buffer and DSIB[1] buffer	Total capital including conservation buffer, DSIB[1] buffer and ICAAP Pillar II capital charge
2018						
Actual	18.70%	18.70%	18.70%	19.23%	19.23%	19.23%
Minimum QCB limit	6.00%	8.50%	10.50%	12.50%	13.50%	14.55%
2017						
Actual	19.19%	19.19%	19.26%	19.32%	19.32%	19.32%
Minimum QCB limit	6.00%	8.50%	10.50%	12.50%	13.25%	14.53%

1 Domestic Systemically Important Bank

Had the Group not adopted FAS 30, total capital adequacy ratio and CET 1 capital adequacy ratio would have been as follows:

	2018
CET1/Tier 1 Ratio	19.46%
Total Capital Ratio	19.46%

5. USE OF ESTIMATES AND JUDGMENTS

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.

(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.

6. OPERATING SEGMENTS

The Group has four 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 other services to Corporate, Commercial and Multinational Customers.
- Retail Banking provides investment accounts services, credit card and Islamic financing to retail and individual customers.
- Asset Management 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.
- International Operations includes financing assets, deposits and other products and services with corporate and individual customers in the Group's international locations.

Unallocated assets, liabilities and revenues are related to some central functions and non-core business operations, like common property & equipment, 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	International operations	Unallocated	Total
2018						
External revenue:						
Total income from financing and investing activities	3,003,588	1,031,734	32,882	308,653	–	4,376,857
Net fee and commission income	295,023	–	16,506	3,609	–	315,138
Foreign exchange gain / (loss)	152,851	–	(237)	(135)	–	152,479
Share of results of associates	–	–	–	–	21,904	21,904
Other income	–	–	–	–	7,900	7,900
Total segment revenue	**3,451,462**	**1,031,734**	**49,151**	**312,127**	**29,804**	**4,874,278**
Other material non-cash items:						
Net recoveries and reversals / (impairment losses) on financing assets	(42,645)	58,439	–	(1,203)	–	14,591
Net impairment losses on investment securities	(4,527)	–	(4,448)	(39)	–	(9,014)
Net reversals / (impairment losses)on off balance sheet exposures subject to credit risk	16,484	–	–	(5)	–	16,479
Reportable segment profit before tax	**1,769,454**	**779,685**	**26,182**	**29,637**	**(463,017)**	**2,141,941**
Reportable segment assets	**67,055,218**	**19,029,437**	**643,157**	**9,130,468**	**1,435,933**	**97,294,213**
Reportable segment liabilities	**22,892,345**	**2,175,227**	**134,242**	**2,681,096**	**1,637,469**	**29,520,379**
Reportable segment equity of investment account holders	**36,026,333**	**12,455,440**	**–**	**5,818,278**	**–**	**54,300,051**

6. OPERATING SEGMENTS (Continued)

Information about operating segments (Continued)

	Corporate Banking	Retail Banking	Asset Management	International operations	Unallocated	Total
2017						
External revenue:						
Total income from financing and investing activities	2,788,624	854,914	18,208	230,923	–	3,892,669
Net fee and commission income	238,141	–	19,414	16,179	–	273,734
Foreign exchange gain / (loss)	142,596	–	(47)	(22)	–	142,527
Share of results of associates	–	–	–	–	28,203	28,203
Other income	–	–	–	–	9,164	9,164
Total segment revenue	**3,169,361**	**854,914**	**37,575**	**247,080**	**37,367**	**4,346,297**
Other material non-cash items:						
Net impairment losses on financing assets	(82,657)	(23,048)	–	(2,113)	–	(107,818)
Net impairment loss on investment securities	–	–	(5,621)	–	–	(5,621)
Reportable segment profit before tax	**1,793,676**	**602,863**	**13,670**	**44,615**	**(409,368)**	**2,045,456**
Reportable segment assets	**75,577,495**	**16,800,950**	**493,217**	**8,883,962**	**1,193,348**	**102,948,972**
Reportable segment liabilities	**28,426,819**	**2,162,009**	**6,993**	**1,708,405**	**1,344,462**	**33,648,688**
Reportable segment equity of investment account holders	**35,660,354**	**13,713,904**	**–**	**6,536,088**	**–**	**55,910,346**

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:

	Fair value through income statement	Fair value through equity	Amortised cost	Total carrying amount	Fair value
2018					
Cash and balances with QCB	–	–	3,026,994	3,026,994	3,026,994
Due from banks	–	–	1,496,296	1,496,296	1,496,296
Financing assets	–	–	72,163,836	72,163,836	72,163,836
Investment securities:					
- Measured at fair value	4,372	159,051	–	163,423	163,423
- Measured at amortised cost	–	–	18,841,850	18,841,850	18,775,369
Other assets	–	–	594,462	594,462	594,462
Shari'a-compliant risk management instruments	80,287	–	–	80,287	80,287
	84,659	**159,051**	**96,123,438**	**96,367,148**	**96,300,667**
Due to banks	–	–	16,483,776	16,483,776	16,483,776
Customer current accounts	–	–	7,268,816	7,268,816	7,268,816
Sukuk financing	–	–	1,717,832	1,717,832	1,717,832
Other borrowings	–	–	2,042,938	2,042,938	2,042,938
Other liabilities	–	–	1,053,277	1,053,277	1,053,277
Equity of investment account holders	–	–	54,300,051	54,300,051	54,300,051
Shari'a-compliant risk management instruments	75,992	–	–	75,992	75,992
	75,992	**–**	**82,866,690**	**82,942,682**	**82,942,682**
2017					
Cash and balances with QCB	–	–	2,799,819	2,799,819	2,799,819
Due from banks	–	–	3,311,900	3,311,900	3,311,900
Financing assets	–	–	72,097,080	72,097,080	72,097,080
Investment securities:					
- Measured at fair value	4,474	227,907	–	232,381	232,381
- Measured at amortised cost	–	–	23,191,088	23,191,088	23,282,183
Other assets	–	–	414,451	414,451	414,451
Shari'a-compliant risk management instruments	13,624	–	–	13,624	13,624
	18,098	**227,907**	**101,814,338**	**102,060,343**	**102,151,438**
Due to banks	–	–	25,123,319	25,123,319	25,123,319
Customer current accounts	–	–	6,620,840	6,620,840	6,620,840
Other liabilities	–	–	1,206,724	1,206,724	1,206,724
Equity of investment account holders	–	–	55,910,346	55,910,346	55,910,346
Shari'a-compliant risk management instruments	9,269	–	–	9,269	9,269
	9,269	**–**	**88,861,229**	**88,870,498**	**88,870,498**

8. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2018	2017
Cash on hand	535,568	373,446
Cash reserve with QCB*	2,476,799	2,318,618
Current account with QCB	14,627	107,755
	3,026,994	**2,799,819**

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

9. DUE FROM BANKS

	2018	2017
Current accounts	628,378	1,030,595
Wakala placements with banks	380,494	687,960
Commodity murabaha receivable	487,827	1,593,345
Allowance for impairment*	(403)	–
	1,496,296	**3,311,900**

* For stage-wise exposure and allowance for impairment, refer to Note 4.2.8.

10. FINANCING ASSETS

(a) By type

	2018	2017
Receivables and balances from financing activities:		
Murabaha	53,960,332	56,148,558
Ijarah	15,421,063	13,502,681
Istisna'a	1,009,207	1,391,659
Musharaka	6,281,030	5,817,142
Others	378,307	562,755
Total receivables and balances from financing activities	**77,049,939**	**77,422,795**
Deferred profit	(4,297,229)	(5,160,035)
Allowance for impairment - Performing (Stages 1 and 2)*	(283,896)	–
Allowance for impairment - Non-performing (Stage3)*	(280,754)	(155,660)
Profit in suspense*	(24,224)	(10,020)
Net financing assets	**72,163,836**	**72,097,080**

* For stage-wise exposure and allowance for impairment, refer to Note 4.2.8.

The total non-performing financing assets net of deferred profit at 31 December 2018 amounted to QAR 604,040 thousand representing 0.83% of the gross financing assets (2017: QAR 339,952 thousand, representing 0.47% of the total financing assets net of deferred profit).

Specific impairment of financing assets includes QAR 24,224 thousand of profit in suspense (2017: QAR 10,020 thousand).

(b) Movement in the allowance for impairment and profit in suspense on financing assets

	2018	Profit in suspense	Total 2018
Balance as at 1 January	155,660	10,020	165,680
Impact of initial application	424,203	–	424,203
Charge for the year	265,686	14,748	280,434
Recoveries / reversals during the year	(280,277)	(544)	(280,821)
Write off during the year	(179)	–	(179)
Effect of foreign currency movement	(443)	–	(443)
Balance at 31 December	**564,650**	**24,224**	**588,874**

	2017	Profit in suspense	Total 2017
Balance as at 1 January	48,542	1,918	50,460
Charge for the year	113,546	8,587	122,133
Recoveries / reversals during the year	(5,728)	(485)	(6,213)
Write off during the year	(1,358)	–	(1,358)
Effect of foreign currency movement	658	–	658
Balance at 31 December	**155,660**	**10,020**	**165,680**

10. FINANCING ASSETS (Continued)

(c)Movement in the allowance for impairment (including profit in suspense) on financing assets sector-wise

	Corporate			SME			Retail			Real estate			Total 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Stage 1**	**Stage 2**	**Stage 3**
Balance as at 1 January 2018	–	–	76,599	–	–	44,336	–	–	26,765	–	–	17,980	**–**	**–**	**165,680**
Impact of initial application	82,720	78,637	–	6,629	3,380	–	1,520	59	–	39,110	212,148	–	**129,979**	**294,224**	**–**
Charge for the year	25,117	20,975	127,931	1,343	2,713	25,456	11,235	10,400	25,194	1,273	3,948	33,270	**38,968**	**38,036**	**211,851**
Recoveries / reversals during the year	(66,645)	(31,955)	(31,520)	(5,760)	(2,880)	(869)	(3,970)	(2,659)	(13,381)	(33,552)	(69,458)	(26,593)	**(109,927)**	**(106,952)**	**(72,363)**
Write off during the year	–	–	(6)	–	–	(134)	–	–	(39)	–	–	–	**–**	**–**	**(179)**
Effect of foreign currency movement	–	–	–	–	–	–	(363)	(69)	(11)	–	–	–	**(363)**	**(69)**	**(11)**
Balance at 31 December 2018	**41,192**	**67,657**	**173,004**	**2,212**	**3,213**	**68,789**	**8,422**	**7,731**	**38,528**	**6,831**	**146,638**	**24,657**	**58,657**	**225,239**	**304,978**

	Corporate			SME			Retail			Real estate			Total 2017		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balance as at 1 January 2017	–	–	23,922	–	–	6,457	–	–	19,886	–	–	195	–	–	50,460
Impact of initial application	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Charge for the year	–	–	56,320	–	–	37,969	–	–	10,039	–	–	17,805	–	–	122,133
Recoveries / reversals during the year	–	–	(3,643)	–	–	(90)	–	–	(2,460)	–	–	(20)	–	–	(6,213)
Write off during the year	–	–	–	–	–	–	–	–	(1,358)	–	–	–	–	–	(1,358)
Effect of foreign currency movement	–	–	–	–	–	–	–	–	658	–	–	–	–	–	658
Balance at 31 December 2017	**–**	**–**	**76,599**	**–**	**–**	**44,336**	**–**	**–**	**26,765**	**–**	**–**	**17,980**	**–**	**–**	**165,680**

(d) By sector

	Murabaha	Ijarah	Istisna'a	Musharaka	Others	Total 2018
Government and related agencies	38,622,424	1,547,246	–	–	28,523	40,198,193
Non-banking financial institutions	597,057	–	–	–	56	597,113
Industry	195,392	–	–	–	3,531	198,923
Commercial	4,042,735	298,746	–	456,086	114,336	4,911,903
Services	510,168	558,506	–	22,832	88,661	1,180,167
Contracting	1,824,007	5,582	–	–	33,004	1,862,593
Real estate	4,152,865	12,804,051	1,009,207	598,348	2,747	18,567,218
Personal	4,015,641	206,932	–	5,203,764	106,380	9,532,717
Other	43	–	–	–	1,069	1,112
	53,960,332	**15,421,063**	**1,009,207**	**6,281,030**	**378,307**	**77,049,939**
Less: Deferred profit						(4,297,229)
Allowance for impairment - Performing (Stages 1 and 2)						(283,896)
Allowance for impairment - Non-performing (Stage3)						(280,754)
Profit in suspense						(24,224)
						72,163,836

	Murabaha	Ijarah	Istisna'a	Musharaka	Others	Total 2017
Government and related agencies	41,219,466	1,317,857	345,346	–	48,912	42,931,581
Non-banking financial institutions	689,963	–	–	–	1,802	691,765
Industry	197,132	–	–	–	3,391	200,523
Commercial	4,129,901	58,206	–	601,607	310,843	5,100,557
Services	1,036,172	604,837	–	–	21,357	1,662,366
Contracting	1,192,531	8,113	–	23,236	31,063	1,254,943
Real estate	3,313,775	11,314,596	1,046,313	787,586	622	16,462,892
Personal	4,369,086	199,072	–	4,404,713	141,066	9,113,937
Other	532	–	–	–	3,699	4,231
	56,148,558	**13,502,681**	**1,391,659**	**5,817,142**	**562,755**	**77,422,795**
Less: Deferred profit						(5,160,035)
Allowance for impairment - Performing (Stages 1 and 2)						–
Allowance for impairment - Non-performing (Stage3)						(155,660)
Profit in suspense						(10,020)
						72,097,080

11. INVESTMENT SECURITIES

	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Investments classified as fair value through income statement						
Investments classified as held for trading						
• Debt type investments - Fixed profit rate	4,372	–	4,372	4,474	–	4,474
	4,372	**–**	**4,372**	**4,474**	**–**	**4,474**
Debt-type investments classified at amortised cost						
Fixed profit rate	1,350,495	–	1,350,495	1,131,080	–	1,131,080
Floating profit rate	–	–	–	20,933	–	20,933
Government of Qatar Sukuk	1,323,060	16,200,000	17,523,060	1,349,599	20,714,960	22,064,559
Allowance for impairment*	(31,705)	–	(31,705)	(25,484)	–	(25,484)
	2,641,850	**16,200,000**	**18,841,850**	**2,476,128**	**20,714,960**	**23,191,088**
Investments classified as fair value through equity						
• Equity type investments	48,939	95,511	144,450	100,700	95,602	196,302
• Debt type investments - Fixed profit rate	14,601	–	14,601	31,605	–	31,605
	63,540	**95,511**	**159,051**	132,305	95,602	227,907
	2,709,762	**16,295,511**	**19,005,273**	**2,612,907**	**20,810,562**	**23,423,469**

* For stage-wise exposure and allowance for impairment, refer to Note 4.2.8.

The Group has recognized impairment loss for certain equity-type investments classified as fair value through equity during the year totalling QAR 5,809 thousand (2017: QAR 5,621 thousand), due to significant and prolonged reduction in fair values.

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

	2018			2017		
	Positive fair value	Negative fair value	Total	Positive fair value	Negative fair value	Total
Balance at 1 January	5,525	(2,451)	3,074	6,538	(4,555)	1,983
Net change in fair value	11,576	(7,036)	4,540	(193)	(7,598)	(7,791)
Transferred to consolidated income statement on sale	(6,587)	–	(6,587)	(1,823)	4,081	2,258
Transferred to consolidated income statement due to impairment	–	9,014	9,014	–	5,621	5,621
Share of other comprehensive income of associates	(273)	–	(273)	1,003	–	1,003
Net fair value movement	4,716	1,978	6,694	(1,013)	2,104	1,091
Balance at 31 December	**10,241**	**(473)**	**9,768**	**5,525**	**(2,451)**	**3,074**

12. INVESTMENT IN ASSOCIATES

Associates' movement during the year is as follows:

	2018	2017
Balance at 1 January	520,287	508,560
Share of results	21,904	28,203
Cash dividend received	(16,059)	(17,479)
Share of other comprehensive income	(273)	1,003
Balance at 31 December	**525,859**	**520,287**

Name of the Company	Country	Company's activities	Ownership % 2018	Ownership % 2017
National Mass Housing ("NMH")	Oman	Real estate services	20.00	20.00
CI San Trading ("Ci San")	Qatar	Investing and trading	50.00	50.00
Kirnaf Finance Company ("Kirnaf")	Saudi Arabia	Leasing	48.76	48.76
Daman Insurance – Beema ("Daman")	Qatar	Insurance	20.00	20.00
Linc Facility Services ("Linc")	Qatar	Facility management	33.50	33.50

All investments are not listed.

The financial position, revenue and results of associates are as follows:

2018	NMH	Ci San	Kirnaf	Daman	Linc
Total assets	153,342	133,614	1,065,476	1,154,878	131,936
Total liabilities	6,585	69,683	294,870	802,909	17,725
Total revenue	3,954	47,771	–	74,067	123,634
Net profit / (loss)	(365)	2,297	–	44,166	35,807
Share of profit recognised	(73)	1,149	–	8,833	11,995

2017	NMH	Ci San	Kirnaf	Daman	Linc
Total assets	155,929	128,938	1,065,476	1,011,421	98,307
Total liabilities	1,914	67,547	294,870	679,452	19,903
Total revenue	12,493	111,180	85,275	73,254	179,934
Net profit	3,911	6,073	22,458	43,977	50,537
Share of profit recognised	782	3,037	(1,341)	8,795	16,930

13. FIXED ASSETS

	Land and building	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Work in progress	Total
Cost:						
Balance at 1 January 2018	96,859	89,256	45,435	105,464	19,361	356,375
Additions	–	1,742	3,570	4,909	34,990	45,211
Transfers during the year	–	1,927	811	–	(2,738)	–
Effect of foreign currency movement	(1,043)	(1,378)	(287)	(975)	–	(3,683)
Balance at 31 December 2018	**95,816**	**91,547**	**49,529**	**109,398**	**51,613**	**397,903**
Accumulated depreciation:						
Balance at 1 January 2018	3,929	67,098	30,601	94,796	–	196,424
Depreciation for the year	539	4,196	3,775	6,079	–	14,589
Effect of foreign currency movement	(29)	(959)	(199)	(902)	–	(2,089)
Balance at 31 December 2018	**4,439**	**70,335**	**34,177**	**99,973**	**–**	**208,924**
Net book value:						
At 31 December 2018	**91,377**	**21,212**	**15,352**	**9,425**	**51,613**	**188,979**

	Land and building	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Work in progress	Total
Cost:						
Balance at 1 January 2017	95,054	81,017	41,608	99,449	7,570	324,698
Additions	103	2,350	2,831	4,502	16,046	25,832
Transfers during the year	–	3,681	574	–	(4,255)	–
Effect of foreign currency movement	1,702	2,208	422	1,513	–	5,845
Balance at 31 December 2017	**96,859**	**89,256**	**45,435**	**105,464**	**19,361**	**356,375**
Accumulated depreciation:						
Balance at 1 January 2017	3,364	59,070	26,718	87,352	–	176,504
Depreciation for the year	536	6,571	3,628	6,130	–	16,865
Effect of foreign currency movement	29	1,457	255	1,314	–	3,055
Balance at 31 December 2017	***3,929***	***67,098***	***30,601***	***94,796***	**–**	***196,424***
Net book value:						
At 31 December 2017	**92,930**	**22,158**	**14,834**	**10,668**	**19,361**	**159,951**

14. OTHER ASSETS

	2018	2017
Accrued profit	597,588	417,577
Prepayments and other receivables	236,552	146,229
Advances to suppliers	55,962	75,786
	890,102	**639,592**
Less: Allowance for impairment losses	(3,126)	(3,126)
	886,976	**636,466**

Notes:
(i) Allowance for impairment losses pertain to accrued profit relating to certain debt type investments.
(ii) Other receivables include positive fair value of Shari'a-compliant risk management instruments amounting to QAR 80,287 thousand (2017: QAR 13,624 thousand).

15. DUE TO BANKS

	2018	2017
Current and call accounts	138,316	39,292
Commodity murabaha payable	856,505	933,155
Short-term Murabaha facilities from banks	272,310	309,807
Wakala payable	14,193,217	15,473,958
Repurchase agreements	1,023,428	8,367,107
	16,483,776	**25,123,319**

Wakala payable includes various facilities with maturities up to 6 months and carries a profit rate of 0.05% to 3.50% (2017: maturities up to 6 months and carries a profit rate of 0.05% to 2.60%).

16. CUSTOMER CURRENT ACCOUNTS

	2018	2017
By sector:		
Government	896,080	820,284
Non-banking financial institutions	12,249	15,858
Corporate	3,399,605	2,682,326
Individuals	2,960,882	3,102,372
	7,268,816	**6,620,840**

17. SUKUK FINANCING

The Group has issued the following debt securities under its sukuk programs:

Instrument	Issuer	Issued amount	Issued on	Maturity	Profit rate
Sukuk	MAR Sukuk Limited	USD 100 million	20 November 2018	20 November 2023	3-month USD LIBOR + 1.75% p.a. payable quarterly
Sukuk	MAR Sukuk Limited	USD 90 million	21 November 2018	21 November 2023	3-month USD LIBOR + 1.75% payable quarterly
Sukuk	Tolkien Funding Sukuk No.1 Plc	GBP 221 million	20 February 2018	20 July 2052	3-month Sterling LIBOR + 0. 8% payable quarterly

18. OTHER BORROWINGS

Other borrowings are USD floating rate syndications that are priced at spreads over LIBOR and which have residual maturities of 1 to 3 years. The movement in other borrowings issued by the Group during the year is as follows:

	2018	2017
Balance at 1 January	–	–
Issuances during the year	2,042,356	–
Other movements	582	–
Balance at 31 December	**2,042,938**	**–**

19. OTHER LIABILITIES

	2018	2017
Dividend payable	772,758	702,207
Acceptances	227,259	453,813
Unearned commission	183,142	149,725
Funds received against dividend payment on behalf of customers	116,115	106,901
Other staff provisions	86,226	82,936
Negative fair value of Shari'a-compliant risk management instruments	75,992	9,269
Profit payable to banks	71,581	60,027
Accrued expenses	55,753	44,423
Social and sports fund (Note 37)	53,260	50,704
Manager's cheque and prepaid cards	150,609	117,314
Allowance for impairment for off balance sheet exposures subject to credit risk	47,011	–
Provision for employees' end of service benefits (a)	43,262	37,476
Others	124,049	89,734
	2,007,017	**1,904,529**

(a) Provision for employees' end of service benefits

	2018	2017
Balance at 1 January	37,476	35,993
Provisions made during the year	7,972	2,889
Paid during the year	(2,186)	(1,406)
Balance at 31 December	**43,262**	**37,476**

20. EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) By type

	2018	2017
Saving accounts	4,365,748	3,915,695
Term accounts	46,050,982	47,037,216
Short-term investment accounts	3,559,045	4,612,683
Profit payable to equity of investment account holders	323,859	344,627
Share in the fair value reserve	417	125
	54,300,051	**55,910,346**

(b) By sector

	2018	2017
Government	25,205,751	23,319,595
Non-banking financial institutions	65,035	61,033
Retail	17,329,527	15,721,211
Corporate	11,375,462	16,463,755
Profit payable to equity of investment account holders	323,859	344,627
Share in the fair value reserve	417	125
	54,300,051	**55,910,346**

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

	2018	2017
Return on equity of investment account holders in the profit before Masraf's Mudaraba income	2,504,034	2,319,450
Masraf's Mudaraba income	(2,365,861)	(2,196,372)
Return on investment account holders	138,173	123,078
Support provided by Masraf	1,187,941	992,328
Return on investment account holders after Masraf's support	**1,326,114**	**1,115,406**

20. EQUITY OF INVESTMENT ACCOUNT HOLDERS (Continued)

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

Rates of profit allotment	2018 %	2017 %
More than one year deposits	2.85	2.43
One year deposits	2.49	2.35
Six months deposits	1.59	1.59
Three months deposits	1.45	1.47
Short-term investment accounts	0.99	1.01
Saving accounts	1.40	1.41
Saving accounts-millionaire	1.60	1.60

21. EQUITY

(a) Share capital

	2018	2017
Authorised, issued and paid up 750,000,000 shares at QAR 10 each	**7,500,000**	**7,500,000**

(b) Legal reserve

	2018	2017
Balance at 1 January	2,065,741	1,862,926
Transfer from retained earnings (i)	213,042	202,815
Balance at 31 December	**2,278,783**	**2,065,741**

(i) According to QCB Law No. 13 of 2012, 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. At 31 December 2018, the Group transferred to legal reserve 10% of the net profit for the year (2017: 10% of the net profit).

(c) Risk reserve

In accordance with QCB circular 102/2011, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 2.5% of the total private sector exposure granted by the Group 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 instructions. As of 31 December 2018, an amount of QAR 67 million has been transferred to the risk reserve (2017: QAR 162 million).

(d) Fair value reserve

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

	2018	2017
Balance at the 1 January	3,074	1,983
Net unrealised losses	4,957	(7,666)
Transferred to consolidated income statement	(6,587)	2,258
Transferred to consolidated income statement due to impairment	9,014	5,621
Share of other comprehensive income of associates	(273)	1,003
Share of equity of investment account holders in the fair value reserve	(417)	(125)
Net fair value movement	6,694	1,091
Balance at 31 December (shareholders' share)	**9,768**	**3,074**

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

(e) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities and gains and losses on Shari'a-compliant risk management instruments that hedge the Group's net investment in foreign operations.

(f) Other reserves

This represents the Group's share of profit from investment in associates and joint arrangements, net of cash dividend received, as required by QCB regulations.

	2018	2017
Balance at 1 January	113,001	107,146
Share of results of associates	21,904	28,203
Dividend from associates transferred to retained earnings	(4,000)	(5,418)
Other movement	(11,995)	(16,930)
Balance at 31 December	**118,910**	**113,001**

(g) Proposed dividend

The Board of Directors in its meeting held on 21 January 2019 proposed a cash dividend of 20% (2017: 20%) of the share capital amounting to QAR 1,500 million (2017: QAR 1,500 million).

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

22. NON-CONTROLLING INTEREST

This represents the Group's non-controlling interest in Al Rayan (UK) Limited (30%) and Al Rayan Bank PLC (31.16%) (31 December 2017: Al Rayan (UK) Limited - 30% and Al Rayan Bank PLC - 31.16%).

23. INCOME FROM FINANCING ACTIVITIES

	2018	2017
Income from Murabaha	2,428,363	2,287,250
Income from Istisna'a	69,571	57,082
Income from Ijarah	783,340	542,108
Income from Musharaka	257,355	214,227
	3,538,629	**3,100,667**

24. INCOME FROM INVESTING ACTIVITIES

	2018	2017
Income from investment in debt-type instruments	728,061	701,346
Dividend income	5,718	8,125
Income from inter-bank placements with Islamic banks	87,082	71,710
Net gain / (loss) on sale of equity-type investments	11,489	(1,876)
Net gain on sale of debt-type investments	5,979	12,694
Fair value (loss) / gain on investment securities carried as fair value through income statement	(101)	3
	838,228	**792,002**

25. NET FEE AND COMMISSION INCOME

	2018	2017
Commission on financing activities	186,852	155,113
Commission on trade finance activities	94,026	85,599
Commission on banking services	37,856	37,935
	318,734	278,647
Fee and commission expenses	(3,596)	(4,913)
	315,138	**273,734**

26. FOREIGN EXCHANGE GAIN

	2018	2017
Dealing in foreign currencies	152,764	142,811
Revaluation of assets and liabilities	(285)	(284)
	152,479	**142,527**

27. OTHER INCOME

	2018	2017
Rental income	2,492	2,786
Miscellaneous	5,408	6,378
	7,900	**9,164**

28. STAFF COSTS

	2018	2017
Salaries, allowances and other staff costs	359,524	318,418
Staff indemnity costs	7,972	2,889
Staff pension fund costs	7,087	6,391
	374,583	**327,698**

29. OTHER EXPENSES

	2018	2017
Rent and maintenance	65,946	61,828
Advertising expenses	39,149	37,399
Board of Directors' remuneration (Note 35c)	19,683	19,168
Legal, professional and consulting fees	48,530	25,659
Information technology	28,026	20,827
Shari'a Board compensation	1,616	844
Other operating expenses	76,301	66,896
	279,251	**232,621**

30. 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:

	2018	2017
Payable not later than 1 year	15,251	26,206
Payable later than 1 year and not later than 5 years	30,518	74,331
	45,769	**100,537**

(b) Contingent liabilities

	2018	2017
Unutilised credit facilities	630,007	2,532,721
Guarantees	14,389,848	12,069,394
Letters of credit	1,047,117	1,784,111
	16,066,972	**16,386,226**

(c) Other undertakings and commitments

	2018	2017
Profit rate swap	3,834,929	4,052,993
Unilateral promise to buy/sell currencies	17,396,419	27,399,712
	21,231,348	31,452,705
Capital commitments in respect of Head Office building under construction	**418,320**	–

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

Geographical sector	Qatar	Other GCC	Europe	North America	Others	Total
2018						
Cash and balances with QCB	3,019,938	–	7,056	–	–	3,026,994
Due from banks	846,239	5,194	578,601	64,614	1,648	1,496,296
Financing assets	58,387,678	69,453	10,192,332	–	3,514,373	72,163,836
Investment securities	17,950,900	647,214	181,479	–	225,680	19,005,273
Investment in associates	120,760	405,099	–	–	–	525,859
Fixed assets	162,499	–	26,480	–	–	188,979
Other assets	823,048	–	63,928	–	–	886,976
TOTAL ASSETS	**81,311,062**	**1,126,960**	**11,049,876**	**64,614**	**3,741,701**	**97,294,213**
Due to banks	12,223,514	2,753,427	591,520	–	915,315	16,483,776
Customer current accounts	6,176,380	60,764	1,011,820	282	19,570	7,268,816
Sukuk financing	690,668	–	1,027,164	–	–	1,717,832
Other borrowings	–	236,632	1,806,306	–	–	2,042,938
Other liabilities	1,945,030	–	61,987	–	–	2,007,017
Total liabilities	21,035,592	3,050,823	4,498,797	282	934,885	29,520,379
Equity of investment account holders	47,003,421	2,312,439	4,929,978	3,590	50,623	54,300,051
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**68,039,013**	**5,363,262**	**9,428,775**	**3,872**	**985,508**	**83,820,430**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

31. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (Continued)

	Qatar	Other GCC	Europe	North America	Others	Total
2017						
Cash and balances with QCB	2,795,945	–	3,874	–	–	2,799,819
Due from banks	1,940,256	641,440	715,015	13,465	1,724	3,311,900
Financing assets	58,982,852	96,633	9,655,961	–	3,361,634	72,097,080
Investment securities	22,501,145	352,602	220,499	–	349,223	23,423,469
Investment in associates	115,154	405,133	–	–	–	520,287
Fixed assets	129,860	–	30,091	–	–	159,951
Other assets	576,341	–	60,125	–	–	636,466
TOTAL ASSETS	**87,041,553**	**1,495,808**	**10,685,565**	**13,465**	**3,712,581**	**102,948,972**
Due to banks	21,204,155	2,740,710	240,425	25	938,004	25,123,319
Customer current accounts	5,520,274	84,581	1,002,368	352	13,265	6,620,840
Other liabilities	1,865,296	–	39,233	–	–	1,904,529
Total liabilities	28,589,725	2,825,291	1,282,026	377	951,269	33,648,688
Equity of investment account holders	45,813,320	4,760,435	5,296,593	3,602	36,396	55,910,346
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**74,403,045**	**7,585,726**	**6,578,619**	**3,979**	**987,665**	**89,559,034**

Industrial sector	Real estate	Construction, engineering and manufacturing	Oil and gas	Financial services	Individuals	Others	Total
2018							
Cash and balances with QCB	–	–	–	3,026,994	–	–	3,026,994
Due from banks	–	–	–	1,496,296	–	–	1,496,296
Financing assets	18,119,682	1,818,207	36,005	596,959	9,077,020	42,515,963	72,163,836
Investment securities	333,113	15,446	5,192	257,097	–	18,394,425	19,005,273
Investment in associates	29,351	–	–	438,332	–	58,176	525,859
Fixed assets	–	–	–	–	–	188,979	188,979
Other assets	–	–	–	–	–	886,976	886,976
TOTAL ASSETS	**18,482,146**	**1,833,653**	**41,197**	**5,815,678**	**9,077,020**	**62,044,519**	**97,294,213**
Due to banks	–	–	–	16,483,776	–	–	16,483,776
Customer current accounts	21,172	240,576	847	12,251	2,960,882	4,033,088	7,268,816
Sukuk financing	–	–	–	1,717,832	–	–	1,717,832
Other borrowings	–	–	–	2,042,938	–	–	2,042,938
Other liabilities	–	–	–	–	–	2,007,017	2,007,017
Total liabilities	21,172	240,576	847	20,256,797	2,960,88	6,040,105	29,520,379
Equity of investment account holders	62,610	869,430	73,194	2,186,009	17,329,526	33,779,282	54,300,051
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**83,782**	**1,110,006**	**74,041**	**22,442,806**	**20,290,408**	**39,819,387**	**83,820,430**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2018

31. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (Continued)

Industrial sector (Continued)	Real estate	Construction, engineering and manufacturing	Oil and gas	Financial services	Individuals	Others	Total
2017							
Cash and balances with QCB	–	–	–	2,799,819	–	–	2,799,819
Due from banks	–	–	–	3,311,900	–	–	3,311,900
Financing assets	16,215,742	1,348,471	13,124	591,458	8,574,407	45,353,878	72,097,080
Investment securities	154,119	16,592	6,600	318,782	–	22,927,376	23,423,469
Investment in associates	29,385	–	–	433,932	–	56,970	520,287
Fixed assets	–	–	–	–	–	159,951	159,951
Other assets	–	–	–	–	–	636,466	636,466
TOTAL ASSETS	**16,399,246**	**1,365,063**	**19,724**	**7,455,891**	**8,574,407**	**69,134,641**	**102,948,972**
Due to banks	–	–	–	25,123,319	–	–	25,123,319
Customer current accounts	139,150	186,244	1,163	15,614	3,102,372	3,176,297	6,620,840
Other liabilities	–	–	–	–	–	1,904,529	1,904,529
Total liabilities	139,150	186,244	1,163	25,138,933	3,102,372	5,080,826	33,648,688
Equity of investment account holders	67,376	80,174	3,151	74,933	15,721,210	39,963,502	55,910,346
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**206,526**	**266,418**	**4,314**	**25,213,866**	**18,823,582**	**45,044,328**	**89,559,034**

32 MATURITY PROFILE

	Up to 3 months	3-6 months	6 months - 1 year	1-5 years	Over 5 years	Total
2018						
Cash and balances with QCB	550,195	–	–	–	2,476,799	3,026,994
Due from banks	1,107,178	–	–	389,118	–	1,496,296
Financing assets	5,831,789	1,121,351	5,757,332	12,612,246	46,841,118	72,163,836
Investment securities	2,151,512	281,983	257,301	5,301,078	11,013,399	19,005,273
Investment in associates	–	–	–	–	525,859	525,859
Fixed assets	–	–	–	–	188,979	188,979
Other assets	886,976	–	–	–	–	886,976
TOTAL ASSETS	**10,527,650**	**1,403,334**	**6,014,633**	**18,302,442**	**61,046,154**	**97,294,213**
Due to banks	14,831,764	1,652,012	–	–	–	16,483,776
Customer current accounts	7,268,816	–	–	–	–	7,268,816
Sukuk financing	–	–	–	690,668	1,027,164	1,717,832
Other borrowings	–	–	–	2,042,938	–	2,042,938
Other liabilities	1,921,633	26,759	35,413	23,212	–	2,007,017
Total liabilities	24,022,213	1,678,771	35,413	2,756,818	1,027,164	29,520,379
Equity of investment account holders	33,301,904	7,316,377	10,208,044	3,473,726	–	54,300,051
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**57,324,117**	**8,995,148**	**10,243,457**	**6,230,544**	**1,027,164**	**83,820,430**
MATURITY GAP	**(46,796,467)**	**(7,591,814)**	**(4,228,824)**	**12,071,898**	**60,018,990**	**13,473,783**
2017						
Cash and balances with QCB	481,201	–	–	–	2,318,618	2,799,819
Due from banks	2,593,621	305,000	–	413,279	–	3,311,900
Financing assets	7,306,713	1,546,072	2,975,046	33,349,098	26,920,151	72,097,080
Investment securities	4,741,117	1,503,248	1,115,831	4,535,871	11,527,402	23,423,469
Investment in associates	–	–	–	–	520,287	520,287
Fixed assets	–	–	–	–	159,951	159,951
Other assets	636,466	–	–	–	–	636,466
TOTAL ASSETS	**15,759,118**	**3,354,320**	**4,090,877**	**38,298,248**	**41,446,409**	**102,948,972**
Due to banks	25,000,188	73,902	–	–	49,229	25,123,319
Customer current accounts	6,620,840	–	–	–	–	6,620,840
Other liabilities	1,684,871	88,506	131,152	–	–	1,904,529
Total liabilities	33,305,899	162,408	131,152	–	49,229	33,648,688
Equity of investment account holders	39,289,796	7,251,753	7,211,739	2,157,058	–	55,910,346
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**72,595,695**	**7,414,161**	**7,342,891**	**2,157,058**	**49,229**	**89,559,034**
MATURITY GAP	**(56,836,577)**	**(4,059,841)**	**(3,252,014)**	**36,141,190**	**41,397,180**	**13,389,938**

33. 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.

	2018	2017
Profit for the year attributable to equity holders of the Bank	2,130,415	2,028,145
Weighted average number of shares outstanding during the year (thousand)	750,000	750,000
Basic earnings per share (QAR)	2.841	2.704

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.

34. 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:

	2018	2017
Cash on hand and balances with QCB excluding cash reserve	550,195	481,201
Due from bank	1,223,258	2,642,850
	1,773,453	3,124,051

35. 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 equity holders and entities over which the Group and the equity holders exercise significant influence, directors and executive management of the Group.

Transactions with related parties

(a) Consolidated statement of financial position items

	2018	2017
Liabilities		
Equity of investment account holders - customer	3,098,096	3,301,475

(b) Consolidated income statement items

	2018	2017
Return on equity of investment account holders - customer	72,908	25,177

(c) Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the year as follows:

	2018	2017
Financing	584	837

The remuneration of directors and other members of key management during the year were as follows:

	2018	2017
Remuneration to Board of Directors including meeting allowances (Note 29)	19,683	19,168
Salaries and other benefits to key management	15,706	14,799

36. SHARI'A-COMPLIANT 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.

36. SHARI'A-COMPLIANT RISK MANAGEMENT INSTRUMENTS (Continued)

(B) Unilateral promise to buy/sell currencies (Continued)

The table below shows the positive and negative fair values of Shari'a-compliant risk management 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 fair value of Shari'a-compliant risk management instruments.

	Positive fair value	Negative fair value	Notional amount	Within three	3 - 12 months	1 - 5 years	Over 5 years
2018							
Shari'a-compliant risk management instruments							
Profit rate swaps	28,777	26,818	3,834,929	–	3,250,240	256,248	328,441
Unilateral promise to buy /sell currencies	51,510	49,174	17,396,419	12,841,981	4,554,438	–	–
	80,28	**75,992**	**21,231,348**	**12,841,981**	**7,804,678**	**256,248**	**328,441**

	Positive fair value	Negative fair value	Notional amount	Within three	3 - 12 months	1 - 5 years	Over 5 years
2017							
Shari'a-compliant risk management instruments							
Profit rate swaps	413	413	4,052,993	–	–	3,446,030	606,963
Unilateral promise to buy /sell currencies	13,211	8,856	27,399,712	24,618,984	2,756,541	24,187	–
	13,624	**9,269**	**31,452,705**	**24,618,984**	**2,756,541**	**3,470,217**	**606,963**

37. ZAKAT

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

38. 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.

39. 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 53.3 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2018 (2017: QAR 50.7 million) for the support of sports, cultural and charitable activities.

FINANCIAL STATEMENTS OF THE PARENT BANK

(A) STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

	2018	2017
ASSETS		
Cash and balances with QCB	3,005,836	2,795,830
Due from banks	954,088	2,508,356
Financing assets	64,695,388	65,315,407
Investment securities	18,105,192	22,408,838
Investment in subsidiaries and associates	1,107,326	1,126,905*
Fixed assets	161,769	129,130
Other assets	815,273	572,134
TOTAL ASSETS	**88,844,872**	**94,856,600**
LIABILITIES		
Due to banks	16,483,832	25,372,481
Customer current accounts	5,830,990	5,043,815
Sukuk financing	690,668	–
Other borrowings	2,042,938	–
Other liabilities	2,052,901	1,981,935
TOTAL LIABILITIES	**27,101,329**	**32,398,231**
EQUITY OF INVESTMENT ACCOUNT HOLDERS	**48,934,200**	**49,671,438**
EQUITY		
Share capital	7,500,000	7,500,000
Legal reserve	2,278,783	2,065,741
Risk reserve	1,574,695	1,507,567
Fair value reserves	7,111	5,965
Retained earnings	1,448,754	1,707,658
TOTAL EQUITY	**12,809,343**	**12,786,931**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY	**88,844,872**	**94,856,600**

FINANCIAL STATEMENTS OF THE PARENT BANK (Continued)

Parent bank financial information

Statement of financial position and income statement of the Parent bank, disclosed as supplementary financial information as required by the QCB, are prepared following the same accounting policies as mentioned in Notes 3b for investment in subsidiaries and associates which are carried at cost, less impairment if any.

(B) INCOME STATEMENT OF THE PARENT BANK

	2018	2017
Net income from financing activities	3,253,961	2,891,598
Net income from investing activities	803,413	767,569
Total net income from financing and investing activities	**4,057,374**	**3,659,167**
Fee and commission income	296,050	239,392
Fee and commission expense	(527)	(1,270)
Net fee and commission income	**295,523**	**238,122**
Foreign exchange gain	152,851	142,596
Other income	9,849	7,670
TOTAL INCOME	**4,515,597**	**4,047,555**
Staff costs	(278,724)	(250,761)
Depreciation	(11,135)	(12,648)
Other expenses	(207,117)	(185,142)
Finance expense	(752,334)	(489,352)
TOTAL EXPENSES	**(1,249,310)**	**(937,903)**
Net reversals on due from banks	392	–
Net recoveries and reversals / (impairment losses) on financing assets	15,794	(105,705)
Net impairment losses on investment securities	(4,527)*	(660)*
Net reversals on off balance sheet exposures subject to credit risk	16,092	–
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS	**3,294,038**	**3,003,287**
Less: Return to investment account holders	(1,230,536)	(1,043,593)
NET PROFIT FOR THE YEAR	**2,063,502**	**1,959,694**

* This includes impairment loss recognized against investment in a subsidiary amounting to QAR nil representing losses for the year ended 31 December 2018 (31 December 2017: QAR 660 thousand representing losses for the year ended 31 December 2017).