مصرف الريان

MASRAF AL RAYAN

ANNUAL REPORT 2017

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

Contents

Message from the Chairman and Managing Director

MASRAF AL RAYAN ACHIEVED THESE RESULTS WITH THE SUPPORT OF THE QATARI ECONOMY, WHICH GREW BY 2.3% IN 2017.

Dr. Hussain Ali Al Abdulla
Chairman & Managing Director

The past year, given the circumstances, was truly challenging; however, Masraf Al Rayan managed to grow steadily – thanks to the sensible strategy set by the Board of Directors and the effort exerted by the management and staff to deliver strong results and maintain its local leadership status among banks within Qatar and the region.

Masraf Al Rayan achieved these results with the support of the Qatari economy, which grew by 2.3% in 2017 and with the prudent economic measures taken by the wise leadership of the State of Qatar.

Masraf Al Rayan announced its financial results for 2017 - achieving a growth in operational profits for the financial year 2017, realizing 12.5% growth of its total assets, 6.6% growth in financing activities, and 7.8% growth in customer deposits, over comparable periods in 2016. The total shareholders' equity before dividend distribution reached QR 13,191 million. All these clearly disclose the constant ascending performance of the bank.

Net profits for the fiscal year 2017 amounted to QR 2,028 million, a slight decrease of 2.3% over the previous year due to non-operating and non-recurring profits realized from associates during 2016; otherwise, it would have been a positive growth of 2.3% despite recognition of impairment losses on financing assets and investments.

Masraf Al Rayan maintained commendable financial indicators and credit ratings. The credit rating for the long-term issue of Masraf Al Rayan remains at A1 Moody's Global Investors Services.

At its meeting held on 16 January 2018, the Board of Directors recommended a cash dividend of QAR 2 per share, or 20% of the paid-up capital, which was approved by Qatar Central Bank and the General Assembly in a meeting held on 27 February 2018.

The Board of Directors and the Executive Management worked hard to pursue the best interests of our shareholders through a system of well-engaged strategies studying different low risk business opportunities with due diligence, care and attentiveness.

With regard to human resources and training, senior management at Masraf Al Rayan pays the utmost attention to the process of growing our employees in general, with a particular focus on Qatari staff. The Bank's different departments work in an integrated and meticulous manner to raise the competencies of its professional and administrative staff in cooperation with various local training agencies and training centers. The Bank supports local universities and Qatari specialized schools of banking and business management by providing students with vocational training opportunities as part of the bank's social responsibility to develop a promising homegrown banking generation. Masraf Al Rayan continues to support many sporting, charitable and social activities aimed at building a better society.

Masraf Al Rayan is keen to implement the principles of good corporate governance that facilitate the adoption of sound decisions in order to deal with exceptional circumstances, and to maintain the best and utmost contemporary applications of good governance. This will, in turn, enhance controls necessary in achieving set objectives and protect shareholders and other stakeholders' objectives and enhance market confidence.

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 Emir of the State of Qatar, for his vision and direction to guide the success of the economy of the State of Qatar. I would also like to thank His Excellency Sheikh Abdullah Bin Saud Al Thani, the Governor of Qatar Central Bank and His Excellency Sheikh Fahad Bin Faisal Al-Thani, Deputy Governor of Qatar Central Bank for their diligent work in providing conditions conducive to maintaining liquidity and financial stability in Qatar.

I also extend my thanks and appreciation to Masraf Al Rayan 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 to achieve even better results in the years to come.

Message from the Group Chief Executive Officer

MOODY'S GLOBAL INVESTORS SERVICES' CREDIT RATING FOR THE LONG-TERM ISSUE OF THE BANK STRONGLY REMAINS AT A1 AND COUNTERPARTY RISK (CR) ASSESSMENT AT AA3 (CR).

Adel Mustafawi
Group Chief Executive Officer

The Bank's financial position and strong financial performance indicators announced at the end of the year demonstrated the rising performance trend of the bank's record year after year. The net profit increased by 2.3%, adjusting for the non-recurring investment profits realized from other associates during 2016. The profits of Masraf Al Rayan achieved from its banking operations also exceeded those realized in the same period of 2016 by 15.8%.

Other financial performance indicators and ratios validate the success of the plans carried out by the executive management, where total assets increased to QAR 102,949 million, a growth of 12.5% from 2016. Financing activities also increased by 6.6% to QAR 72,097 million and total shareholders' equity, before dividend distribution, reached QAR 13,191 million, a growth of 3.8% from the previous year.

Return on average assets continues to be one of the highest in the financial market at 2.09%. Return on average shareholders' equity, before distribution, reached 15.66%, earnings per share for the period reached QAR 2.704 and book value per share, before distribution, reached QAR 17.59. Capital adequacy ratio continues to be strong at 19.32% applying Basel-III and QCB standards. Operational efficiency ratio (cost to income ratio) is at 21.27% as it continues to be one of the best in the region. The non-performing financing ratio at 0.50% continues to be one of the lowest in the banking industry reflecting a very strong and prudent credit risk management policies and procedures.

Moody's Global Investors Services' credit rating for the long-term issue of the bank strongly remains at A1 and Counterparty Risk (CR) Assessment at Aa3 (cr). This comes in light of the success of Masraf Al Rayan's wise strategy, strong financial standing and financial performance which was made possible by the support of the strong economy of the State of Qatar and the notable supervisory role of the financial sector. Moody's rating has taken into consideration the quality and strength of Masraf Al Rayan's assets and performance since its inception in 2006 and the low rate of non-performing loans, which we have managed to sustain throughout 2017.

On the business front, Masraf Al Rayan pays great attention to improving its products and services, through providing integrated Sharia compliant financing solutions to retail and corporate customers alike. This includes banking and financing solutions for individuals to meet their various needs, such as the launch of Premier Banking services for premium customers, introduction of privilege cards (Infiniti and Signature), various discount programs and tailored marketing promotions including the 2018 World Cup packages to Russia.

In the operational side, top management at Masraf Al Rayan has been devoting its utmost attention to the process of training and development of employees, with a particular focus on Qatari staff. The Bank's departments continued to work throughout 2017, in an integrated and diligent manner, to raise the competencies of their respective professional and administrative staff in collaboration with various local and international specialized training centers (QFBA, Fitch-Thomson Reuters). The number of training packages performed in 2017 exceeded 15,500 training hours covering various theoretical and practical training programs. The Bank also supported local universities and businesses, management and banking schools by providing students with vocational training opportunities as part of its social responsibility to develop a promising Qatari banking generation.

During 2017, Masraf Al Rayan continued to honor its social responsibility role towards the society, which is embedded in its corporate governance principles and practice, by supporting many events and activities that benefit individuals and institutions alike to enable them to exercise their role in building a better society. These programs covered humanitarian, health and sporting activities.

In conclusion, I am pleased, on behalf of the Executive Management, to extend my thanks to the members of the Board of Directors for bestowing their trust and confidence in us to perform. I would also like to thank all employees who have exerted the necessary efforts to achieve these results. We look forward to continue our well-planned journey to satisfy the interests 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 the 'Qatar Financial Markets Authority', as well as comply with the 'Qatar Central Bank' 'Corporate Governance Guidelines' for banks and financial institution; 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 Faisal bin Saud Al-Thani
Board member

Mr. Nasser Jaralla Al Marri
Board member

Dr. Menahi Khalid M A Alhajri
Board member

Sheikh Nasser bin Hamad bin Nasser Al Thani
Board member

Mr. Abdulla Ahmed Almaleki Aljahni
Board member

Mr. Ali Mohammed Ali Al Obaidli
Board member

Senior Management

Adel Mustafawi
Group Chief Executive Officer

Ahmed Sheikh
Chief Operating Officer

Mohamed Jama
General Manager, Chief Risk Officer

Hamad Al Jamali
AGM, Retail & Private Banking

Mohammed Ismail Al Emadi
AGM, Head of Wholesale Banking

Khalid Fakhroo
General Manager,
Engineering & Real Estate

Mahboob Haider
AGM, Head of SME

Hasan Al-Hammadi
AGM, Head of Treasury

Nasser Raeissi
AGM, HR & Administration

Howaida Abdulla Al-Mohannadi
AGM, Operations

Chidambaram Pichappan
AGM, Head of Information Technology

Muhamad Tauseef Malik
AGM, Financial Controls

Adel Attia
AGM, Chief Internal Auditor

Abdel Monem El Hassan
General Legal Counsel, Head of Legal

Mohamed Hussein
Executive Manager, Head of
Operational Risk & Information Security

Dareer Mohamed
Head of Compliance

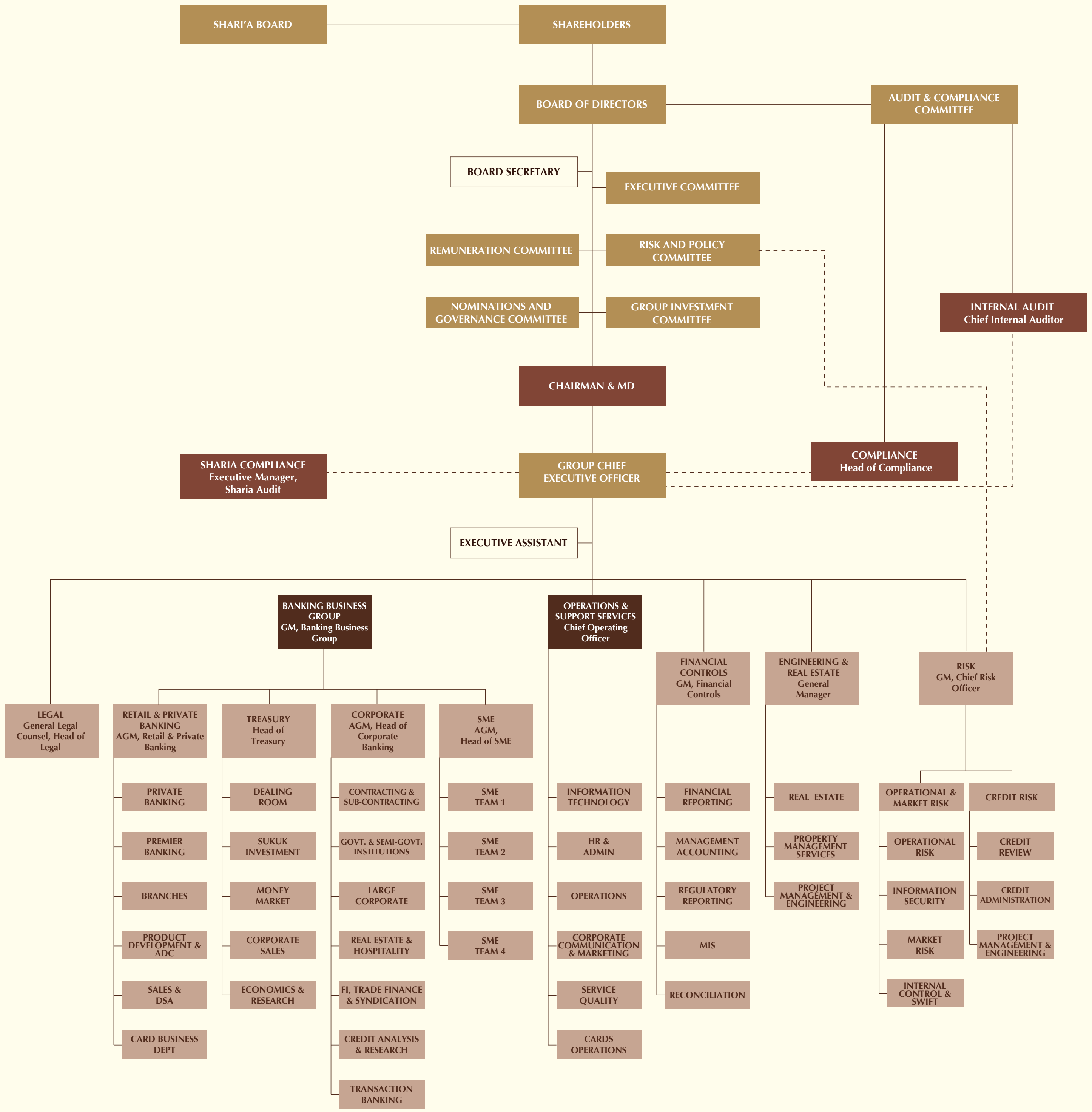
Shari'a Supervisory Board

Sheikh Dr. Waleed Bin Hadi
Chairman

Sheikh Dr. Abdull Sattar Abu Ghuddah
Member

Sheikh Dr. Mohamed Ahmeen
Member

Organizational Chart



Board of Directors' Corporate Governance Report 2017

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.

Introduction

Sound corporate governance is the main factor for winning the confidence of the market, shareholders and investors; it is also an important factor in boosting confidence in Masraf Al Rayan as a bank that intends to reasonably maintain its sustainability and ability to succeed in the face of current and potential future challenges. Masraf Al Rayan's vision of sound corporate governance also includes its role as a part of the Qatari economy and a contributor to its success, as well as a financial institution delivering Islamic banking services, and its role in compliance with anti-money laundering and financing terrorism within the local, regional and international mechanism in all relevant jurisdictions in which it has transactions; and ultimately its responsibilities towards society and the environment.

Believing in this vision and its responsibilities, Masraf Al Rayan has been keen on following the best practices of sound governance and adopting the principles of corporate governance issued by Qatar Central Bank (QCB) as per circular No. (68/20150) on 26th July7 2017 as well as "The Corporate Governance Code for Companies and Legal Entities Listed on the Main Market", issued by Qatar Financial Market Authority (QFMA) and which was published in the official gazette on the 15th of May 2017.

Masraf Al Rayan has adhered by these regulations throughout 2017. issued all necessary reports, and made the required disclosures transparently, thus maintaining Shareholders' confidence.

Masraf Al Rayan Ownership

Top 10 Shareholders (as on 31 December 2017)

Name	Sector	Nation	Shares	Percent
Qatar Holding Company	Government	Qatar	89,300,000	11.91%
Qatar Armed Forces Investment Portfolio	Government	Qatar	69,857,478	9.31%
Qatar Investment Authority	Government	Qatar	31,292,000	4.17%
Pensions Fund – General Retirement and Social Insurance Authority	Government	Qatar	21,674,633	2.89%
Al Watani Fund 3	Commercial	Qatar	15,144,407	2.02%
Al Taybeen Company S.P.C	Commercial	Qatar	14,909,255	1.99%
Ithmar Construction and Commerce	Commercial	Qatar	14,030,793	1.87%
Burooq Commercial	Commercial	Qatar	13,950,000	1.86%
Sh. Hamad bin Abdullah Al Thani	Individual	Qatar	12,800,000	1.71%
Al Watani Fund 4	Commercial	Qatar	11,868,580	1.58%

Board Members Ownership of Masraf Al Rayan, Titles, and Committee Memberships

Name	Title and Committees	Nationality	Status	Shares as of 31 Dec 2017		
				Frozen	Available	Mortgaged
Dr .Hussain Ali Al Abdulla	Chairman and Managing Director	Qatar	Not Independent Non-Executive	100,000	700,000	0
General Retirement and Social Insurance Authority (Qatar) represented by Mr. Turki Mohammed Al Khater	Vice Chairman Executive committee Chairman Risks and policies committee member	Qatar	Not Independent Non-Executive	100,000	21,574,633	0
Qatar Holding Company Represented by Sh. Faisal bin Saud Al-Thani	Nominations and Governance Member Group Investment Committee Chairman	Qatar	Not Independent Non-Executive	100,000	89,200,000	0
Ministry of Defense - Qatar Armed Forces Represented by Mr. Nasser Jarallah Al Marrri	Remuneration and Compensation Committee Chairman Risks and Policies Committee Member Group Investment Committee Member Audit and Compliance Committee Member	Qatar	Not Independent Non-Executive	100,000	69,757,478	0
Ministry of Interior - Employee Loans Fund Represented by Dr. Menahi Khalid M. A. Alhajri	Executive committee Member Nominations and Governance Committee Chairman	Qatar	Not Independent Non-Executive	0	0	0
Sh. Ali bin Jassim Al Thani	Executive Committee Member	Qatar	Independent* Non-Executive	100,000	1,541,795	0
Sh. Nasser bin Hamad bin Nasser Al Thani	Executive Committee Member Remuneration and Compensation Committee Member,	Qatar	Independent* Non-Executive	100,000	0	0
Mr. Abdulla Ahmed Al Maleki Aljahni	Group Investment Committee Member Remuneration and Compensation Committee Member Nomination and Governance Committee Member Audit and Compliance Committee Member	Qatar	Independent* Non-Executive	100,000	211,492	0
Taskeen Business and Investment Company Represented by Mr. Ali Mohammed Ali Al Obaidli	Risks and Policies Committee Member Audit and compliance Committee Member	Qatar	Not Independent Non-Executive	100,000	0	0

Board Charter

The Corporate Governance Charter has been placed with the objective to lay out a framework of responsibility and control at Masraf Al Rayan, as well as the setup of a management whose methodology is based on respect for values in accordance with the relevant laws and regulations. Masraf Al Rayan believes that following the Charter will enhance the long-term trust of Shareholders, clients, employees , and all stakeholders as well as firmly cementing the position of Masraf Al Rayan as a leader within capital markets.

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

As in previous years, Masraf Al Rayan's Board of Directors remained committed in 2017 to work according to its charter which was endorsed by the new board of directors at the time as per resolution no. 8\4\2014 issued in 21/7/2014 work is currently underway to update it in 2018.

The charter contained in detail the functions of the board, its responsibilities and duties of the board members on the basis of the governance's regulations issued by each of Qatar Central Bank and Qatar Market Authority to the effect. The charter was published on the Masraf Al Rayan website to be available for shareholders and the public.

Board Duties and Responsibilities

Masraf Al Rayan is operated by an effective Board that is collectively responsible for appropriately supervising the Bank's Management. In addition to the responsibilities stipulated in Board Charter, the Board responsibilities include the following as well:

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

Board Members' Entrusted Responsibilities

Each Board Member owes due diligence and care towards executing their instituted and stipulated responsibilities in adherence to relevant rules and regulations, including the Corporate Governance

Code for Companies Listed in Markets Regulated By The Qatar Financial Markets Authority, and the Board Charter.

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

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

Chairman of the Board of Directors' Duties

The Chairman of the Board of Directors is responsible for the proper functioning of the Board of Directors, in an appropriate and effective manner; including that Board Members obtain complete and correct information in a timely manner. The Chairman may not be a Member of any of the Board's Committees as stipulated in Board Charter. The duties and responsibilities of the Chairman include, but are not limited to, the following:

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

Board of Directors Formation

The new Board of Directors of Masraf Al Rayan was elected for the fourth term in 2017.
The formation of the board was as follows:

Members of the Board of Directors of Masraf Al Rayan - 4th term (2017-2019)

Name	Title	Nationality
Dr. Hussain Ali Al Abdulla	Chairman and Managing Director	Qatari
General Retirement and Social Insurance Authority(Qatar) represented by Mr. Turki Mohammed Al Khater	Vice Chairman	Qatari
Qatar Holding Company Represented by Sh. Faisal bin Saud Al-Thani	Board Member	Qatari
Ministry of Defense Qatar armed forces Represented by Mr. Nasser Jarallah Al Marrri	Board Member	Qatari
Ministry of Interior Employees loans Fund Represented by Dr. Menahi Khalid M . A . Alhajri	Board Member	Qatari
Sh. Ali bin Jassim bin Ali Al Thani	Board Member	Qatari
Sh. Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari
Mr. Abdulla Ahmed Almaleki Aljahni	Board Member	Qatari
Taskeen Business and Investment Company Represented by Mr. Ali Mohammed Ali Al Obaidli	Board Member	Qatari

The Board

Masraf Al Rayan's Board composition has changed since its formation based on the last elections held in 2014. Mr. Nasser Jaralla Al Marri succeeded Dr. Thani Abdulrahman Al Kuwari as a representative of the Qatar Armed Forces in 2016, and Mr. Turki Mohammad Al Khater has been elected as Vice Chairman of the Board. Accordingly, the new Board formation was as follows:

About the Board of Directors

Dr. Hussain Ali Abdulrahman Al Abdulla (Chairman)

Ph.D. Economics
Masters in Special Law

Holds the following positions:

- Minister of State
- Board Member - Qatar Investment Authority
- Board Member - The Supreme Council for Economic Affairs
- Chairman and Managing Director - Masraf Al Rayan
- Chairman - Kirnaf Finance (Kingdom of Saudi Arabia)
- Board Member - Gulf Investment Corporation (Kuwait)
- Board Member - Volkswagen (Germany)

Mr. Turki Mohammed Khalid Al Khater (Vice Chairman)

Representing General Retirement and Social Insurance Authority
Bachelors in Economics and Social Sciences

Holds the following positions:

- Vice Board Chairman - Masraf Al Rayan
- Head - General Retirement and Social Insurance Authority
- Board Chairman - United Development Company
- Board Member - Ooredoo

Sheikh Faisal Bin Saud Al-Thani

Representing Qatar Holding Company
Bachelors in Finance

Holds the following positions:

- Board Member - Masraf Al Rayan
- Board Member - Al Rayan Investment
- Head of Industrial Investments Directorate - Qatar Investment Authority
- Board Member - Qatar Electricity and Water Corporation
- Board Member - Mowasalat

Mr. Nasser Jaralla Al Marri

Representing Ministry of Defense - Qatar Armed Forces
Masters in Accounting and Finance

Holds the following positions:

- Head of Financial affairs - Ministry of Defense
- Board Member - Masraf Al Rayan
- Board Member - United Development Company
- Chairman - Al Rayan Investment
- Board Member - Vodafone
- Chairman - Qatar Armed Forces Investment Portfolio
- Board Member - Civil and Military Pension Investments Committee
- Vice Chairman - Qatar Steel
- Board Member - Qatar Mining

Dr. Menahi Khalid M. A. Al Hajri

Representing Ministry of Interior Employees Loans Fund
Ph.D. Commercial Jurisprudence
Masters in Special Law

Holds the following positions:

Board Member - Masraf Al Rayan

Sh. Ali bin Jassim Al Thani

Masters in Economics and Political science

Holds the following positions:

- Board Member - Qatar Insurance and Reinsurance Company
- Board Member - Masraf Al Rayan

Sh. Nasser bin Hamad bin Nasser Al Thani

Masters of Business Administration (MBA)

Holds the following positions:

Board Member - Masraf Al Rayan

Mr. Abdulla Ahmad Al Malki Al Juhani

Bachelors of Management and Economics

Holds the following positions:

- Board Member - Masraf Al Rayan
- Vice Chairman of Insurance Committee - Qatar Chamber
- Board Member - Qatar Business Council

Mr. Ali Mohammed Ali Al Obaidly

Represents Ttaskeen for Investment and Business

Holds the following Positions:

- Board Member - Masraf Al Rayan
- Executive Officer - Ezdan Holding Group
- Board Member - Wedam Food Company
- Board Member - Medical Care Group

Independence of Board Members

The definition of the independent member differs between the definition of the principles of governance in banks issued by Qatar Central Bank late in July 2015, and what was mentioned in "system of Governance of Companies and Legal Entities listed in the main Market "issued by QFMA and was published in the official gazette on 15th of May 2017 as regards the number of owned shares. The board includes 3 independent members. As for Executive Members, there are none in Masraf Al Rayan Board, bearing in mind that Dr. Hussain Al Abdulla, who also holds the position of Managing Director, does not carry out any day-to-day executive responsibilities. The Group CEO is the Head of the Executive Management of the Bank, while the Managing Director only acts as a link between the Board and the Executive Management. The positions of Chairman of the Board of Directors (Managing Director) and Group Chief Executive Officer (General Manager) have been distinctly separated, and the Chairman is not a Member of any of the Board Committees. The duties of the Chairman of the Board of Directors have been detailed in the Corporate Governance Policy in accordance with Article 8 of the QFMA Corporate Governance Code.

Non-Executive Board Members' Duties

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

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

Board Meetings

The Board of Masraf Al Rayan has convened 7 times throughout 2017 on the following dates:

- First Meeting: 16/01/2017
- Second Meeting: 22/03/2017
- Third Meeting: 02/04/2017
- Fourth Meeting: 24/04/2017
- Fifth Meeting: 07/08/2017
- Sixth Meeting: 16/10/2017
- Seventh Meeting: 12/12/ 2017

The Board of Masraf Al Rayan executes its duties and responsibilities according to what has been stated in the Articles of Association and Memorandum of Association of Masraf Al Rayan, in alignment with both the Qatar Central Bank Corporate Governance Instructions and the Corporate.

Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority. The Board is considered collectively responsible for supervising the Management of Masraf Al Rayan in the appropriate manner that is in compliance with the Charter of the Board. The Board also approves the strategic objectives and adopts the policies that are the controls for Masraf Al Rayan.

Secretary of the Board of Directors

The position of Secretary of the Board of Directors is held by Mr. Ghassan Al-Rihawi since the inception of the Bank in 2006. Mr. Al-Rihawi previously held the position of Secretary of the Board of the Chamber of Commerce and Industry - Qatar from 2002 -2006 and has managerial experience of over 35 years in the State of Qatar. The Secretary's duties include recording, preparing, and saving all Minutes of the Meetings of the Board under the supervision of the Chairman. He is also charged with ensuring communications and liaison between the Members and the Board as well as the Board and other stakeholders inclusive of Shareholders and Management. The Board Secretary also ensures the ability of Members to reach the Minutes of the Meetings, information, documents, and records related to Masraf Al Rayan in full and expeditiously. He is also responsible for giving Shareholders the ability to reach ownership details, records of Shareholders, records of Board Members, Articles and Memorandum of Associations and any other documents which provide any preference or privilege over the assets of Masraf Al Rayan and related parties agreements.

Other Duties and Responsibilities of the Board

Board Members are granted full and prompt access to information, documents, and records related to the Company, the Executive Management of Masraf Al Rayan is committed to provide the Board and its Committees with required all documents and information. Members of the Board are keen to attend the meetings of the Nominations and Governance Committee, the Remuneration and Compensation Committee, the Internal Audit Committee, internal auditors and representatives of the External Auditors, and of the General Assembly. The Board of Directors has adopted an induction program which has been developed to ensure that Members, when elected, have a proper understanding of the functioning of the Company, its operations, and that they are fully aware of their responsibilities. The Members of the Board are responsible for the good understanding of their roles and duties, and they are responsible to educate themselves in financial matters, commercial, industrial, and in the operations of the Company and its functions; and to this end the Board must adopt or follow appropriate and official training courses that aim to endorse the skills of Board Members and their knowledge. The Board of Directors works to keep its members informed constantly on the latest developments in the field of corporate governance and best practices in this regard, and the Board may delegate the responsibility to the Internal Audit Committee or the Nominations and Governance Committee or any other entity it deems appropriate. The Articles of Association of Masraf Al Rayan include in Article number (32) clear procedures for the dismissal of Board Members in the event of absence from Board Meetings.

Sharia Supervisory Board

The general assembly of Masraf Al Rayan approved of the appointment of Sharia supervisory Board for a three years term for 2017-2019 and it was as follows:

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

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

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

Board Committees

The established Board Committees continued to perform their duties throughout 2017 as per their terms of reference which have been updated in alignment with changes introduced to the formation of the board of directors in 2017 as per the decision of the board No.2017/3/4 issued on 24 April 2017. Accordingly, the Committees in 2016 were as follows:

Executive Committee

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

Audit and Compliance Committee

- **Mr. Abdullah Ahmed Al Malki**
  Chairman
- **Mr. Nasser Jaralla Al Marri**
  Member
- **Mr. Ali Mohamed Al Obeidli**
  Member

Remuneration and Compensation Committee

- **Mr. Nasser Jaralla Al Marri**
  Chairman
- **Sh. Nasser bin Hamad Al Thani**
  Member
- **Mr. Abdulla Ahmad Al Malki**
  Member

Nominations and Governance Committee

- **Dr. Menahi Khalid M. A. Al Hajri**
  Chairman
- **Mr. Abdulla Ahmad Al Malki**
  Member
- **Sh. Faisal bin Saud Al Thani**
  Member

Risk and Policies Committee

- **Mr. Ali Mohammed Al Obaidly**
  Chairman
- **Mr. Nasser Jaralla Al Marri**
  Member
- **Mr. Turki Mohammed Khalid Al Khater**
  Member

Group Investment Committee

- **Sh. Faisal bin Saud Al Thanii**
  Chairman
- **Sh.Nasser bin Hamad Al Thani**
  Member
- **Mr. Nasser Jaralla Al Marri**
  Member
- **Mr. Ahmed Sheikh**
  Member
- **Mr. Haithem Katerji**
  Member

Executive Committee

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

The Committee is the one to prepare the recommendations that are to be presented to the Board.

The most important duties of the Executive Committee are:

- Review of the main functions of the Board
- Discussing and passing items that fall under the purview of the Board or those that develops in between Board Meetings.
- Providing reports and recommendations to the Board as and when needed.
- Approving financial matters as per the delegation of authority matrix.
- Endorse risk policy.
- Recommendation to approve policies, rules, and any additions or amendments.
- Approving or recommending limits/ceilings for transactions with new banks and countries that the Bank deals, with and making the necessary amendments.

The Committee has held the following meetings during the year 2017:

- First Meeting: 10/01/2017
- Second Meeting: 13/03/2017
- Third Meeting: 30/07/2017
- Fourth Meeting: 05/10/2017
- Fifth Meeting: 04/12/2017

Audit and Compliance Committee

The majority of the Members of this Committee should be independent with an Independent Member chairing the Committee. The Committee has the following responsibilities:

- Appoint the External Auditors Annually and approve contract policy.
- Supervise and monitor the independence of the external auditors and their objectivity and
- discuss with them the nature and scope of the audit and effectiveness in accordance with international auditing standards and international financial reporting standards (IFRS).
- Review letter of appointment of the external auditor, his work plan and any queries he requested from Senior Management of the bank as well as the responses of the Management.
- Ensure coordination between the external and internal auditors.
- Meeting the Chief Financial Officer of the Bank or designate and arrange meetings with the internal and external auditors at least once a year.
- Study any important and unusual issues included, or which will be included, in the financial statements.
- Appointing, or dismissing, the Head of the Internal Audit and supervising the role's effectiveness.
- Supervising and monitoring the Internal Audit Department, ensuring their independence, as well as discussing and recommending the annual plan and appropriate training.
- Reviewing of internal controls systems, and endorsing both external and internal audit reports.
- Reviewing and recommending approval of the Internal Audit Charter annually.
- Supervision of the Compliance Function which monitors, determines, evaluates, provides consultancy, and raises reports regarding risks of non-compliance with laws, regulations, and applicable standards. As well as determining its position in the organizational structure in a way that ensures its necessary independence and effectiveness. Moreover, ensuring that it is provided with adequate resources, swift and clear channels for reporting to the Committee and the Executive Management, as well as ensuring that it is has sufficient authority to reach information in a clear and sufficient policy.
- Revision of the quarterly reporting by the Compliance Function.
- Developing rules to be approved by the Board of Directors allowing the staff of the bank to report confidentially their concerns regarding any issues that are likely to raise suspicion, and to ensure appropriate arrangements for an independent and fair investigation about these issues while preserving confidentiality and protecting the staff from any retaliation (Whistleblower Protection Policy).
- Overseeing the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports, review the data and reports in particular with regards to their compliance with accounting, transparency, listing in the market and disclosure standards.
- Ensure that the Internal Audit responsibilities include review of the Compliance Function.
- Review of the impact of new regulations on Masraf Al Rayan.
- Consider any other matters assigned by the Board of Directors.

The Audit Committee held the following meetings during the year 2017:

- First meeting: 23/04.2017
- Second meeting: 08/08/2017
- Third meeting: 16.10/2017
- Fourth meeting: 12/12/2017

Remuneration and Compensation Committee

The Committee has the following responsibilities:

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

The Committee had a meeting on 12/01/2017.

Risk and Policies Committee

The Committee has the following responsibilities:

A. Operational Risk

- Review of the effectiveness of Risk Management at Bank level as a whole
- Evaluating new significant risks that affect the Bank
- Identifying new Strategic Risks inclusive of institutional issues such as regulatory framework, business development, and other similar issues
- Reviewing the Key Risk Indicators and identifying issues that require the attention of the Board on a quarterly basis
- Review of significant operational losses
- Review of all Risk Policies annually

B. Credit Risk

- Review of Credit Policies annually
- Instituting and reviewing the Credit Authority as needed, and at least once annually
- Review of and ratification of maximum counterparty limits, other financial institutions and countries, when needed and at least once annually
- Review of past-dues and delinquencies to recommend suitable provisions
- Review of write-off or return to profitability vs. provisioning levels
- Review and monitoring of the raised legal cases and collection

C. Monitoring Reputational Risk and other Risks not mentioned above

D. Policies

Study, develop and update of polices that require Board approval

The committee held the following meetings in 2017:

- First Meeting : 10/01/2017
- Second Meeting: 01/08/2017
- Third Meeting 09/10/2017
- Fourth Meeting 04/12/2017

Nominations and Governance Committee

The Committee has the following responsibilities:

- Adoption and publication of its terms of reference showing its authority and role.
- Supervise the implementation steps for the call for nominations to the Board, and consider applications received to ensure matching of applicants for membership conditions.
- Determining qualifications for Board membership, including independence.
- Ensure that candidates can give sufficient time to carry out their duties as members of the Board as well as their skills, knowledge and experience and professionalism, technical, academic and personality.
- Consider any conditions or requirements relating to the nomination or election or appointment of Board members from Qatar Central Bank or any other authority.
- Evaluate candidates for Senior Executive Management positions, and submit recommendations to the Board of Directors.
- Perform an annual self-assessment of the Board's performance.
- Follow-up Board Committees' self-assessments.
- Supervise Board structure and composition of its Committees.
- Review the annual Corporate Governance report of Masraf Al Rayan, and to recommend its approval by the Board. Placing an induction program for new Members and suggesting training for them as and when required.

The Committee held two meetings in the year 2017:

- The first meeting: 12/01/2017
- The Second Meeting 02/03/2017

Group Investment Committee

Committee Responsibilities:

- To prepare, study, and develop investment policies for the Group that includes the broad lines for investment and identification of assets and prohibited investments.
- Review and approve the investment activities of the Group, place limits on single transaction investments or for cumulative annual limit as per Investment Policy.
- To supervise the management of the Group's investment portfolio to monitor compliance with Investment Policy.
- Review investment portfolio performance by comparing actual vs. expected returns, as well as comparing it to market performance indices approved by the Board, taking into account compliance with policies and directions and risk level.
- Review of periodic analysis and Management Reporting.
- To approve investment sector limits.
- To approve investment country limits.
- To review investment strategies whenever the need arises.
- Other duties and responsibilities and having authority as per Board delegation.
- Preparing reports and presenting them to the Board to disclose investment decisions which were made, policies, and investments performance.

- To carry out any other assignments whenever requested, as per the changes in the policies of the Board or Qatar Central Bank regulations, or Qatar Financial Markets Authority regulations, needed as per market developments.
- To approve investment deals according to the set limits by the Committee and to raise recommendations for deals with higher limits to be approved by the Board.
- Invite experts and / or concerned personnel to Committee meetings to provide opinions in technical areas.

The Committee held the following meetings during the year 2017:

- First Meeting: 23/04/2017
- Second Meeting: 24/07/2017
- Third Meeting: 10/10/2017
- Fourth Meeting: 05/12/2017

Board Remuneration

The Remuneration and Compensation Committee discussed the Board of Directors' bonus and that of the Senior Management and connected it to profit and achievements that the bank had realized during the fiscal year and comparing it with the results of previous years. The Committee also takes into consideration the economic and financial position during the fiscal year, the responsibilities and scope of duties of the Board Members and the Senior Executive Management must be taken into consideration and that bonuses must be within the permitted level in the Articles of Association, related regulations, and the instructions of Qatar Central Bank.

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

The list of bonuses, allowances and compensations of Board Members is reviewed and updated on an annual basis by the Nominations and Compensation Committee; where the regulatory guidance is included regarding these compensations. As for the year 2017, they will be submitted to the Committee's meeting scheduled to be held on 9/1/2018.

To recommend their approval in case there is no obstacle or objection. They will later be referred to the Board to approve them before being submitted to Masraf Al Rayan General Assembly meeting to endorse them. The list includes a review of regulations on which the list was based, the Board's relevant regulations and the bases on which remunerations of Board members and the supreme management of Masraf Al Rayan are defined. It also includes the previous guidelines of QCB's relevant regulations.

Policies

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

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

1. Internal Audit Policy
2. Compliance Policy
3. Investment Policy
4. Finance Policy
5. Corporate Governance Policy
6. Anti-Money Laundering and Combating of Financing of Terrorism Policy
7. Credit Policy
8. Personnel Policy
9. Whistleblower Protection Policy
10. Customer Acceptance Policy
11. Succession Policy
12. Sharia Policy
13. Risk Monitoring Policy
14. Stress Testing Policy
15. Liquidity Risk Management Policy
16. Internal Capital Adequacy Assessment Process Policy (ICAAP)
17. IT Policy
18. Code of Conduct
19. Foreign Support Policy

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

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

The Board is also keen to provide Qatar Exchange with financial statements and clarifications as set by the Qatar Exchange regulations, in addition, the Board publishes the financial statements once approved by the Board of Directors according to the Commercial Companies Law, Qatar Central Bank regulations, Qatar Exchange rules, and the regulations of Qatar Financial Markets Authority. Financial statements are published supported with external auditors' report who confirms in his reports that the reports and financial statements of Masraf Al Rayan are issued in conformity to the international accounting and auditing standards and that the external auditor has obtained all the data and information that are necessary to perform the audit. The financial statements and the External Auditors' reports are published on the Qatar Exchange website and on the local media and some GCC newspapers according to what is stated in the Articles of Association of Masraf Al Rayan and the Commercial Companies Law number 11 of the year 2015.

Company Compliance with Internal Control Systems for Risk Identification and Management

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

Internal Controls inclusive of Financial, Investment, and Risk Management

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

- Evaluating and granting credit - Anti-Money Laundering
- Investment - Insuring Assets
- Liquidity - Related Parties and Conflict of Interest
- Market Risks - Compliance with rules, regulations, and
- Capital Adequacy Risks supervisory instructions
- Concentrations Risks - Internal and External Audit
- Foreign Exchange Risks - Performance Evaluation
- Profit Rate Risks - Disclosures to relevant parties
- Pricing - Operational and Accounting Risks
- Profitability and Balances - Legal Risks

In addition to policies related to employees (regulating their employment, cost, incentive schemes, growth and development, enhancing code of conduct), and other policies, are all being reviewed to ensure implementing the best standards and compliance with the regulatory requirements. Then the Internal Audit reviews the functions of the Compliance Officer and Risk Officer to provide reasonable assurance to the Audit Committee of the Board of Directors that these functions are being carried out at a reasonable level of competency and to highlight issues of concern. All of which are also governed by the Policies set forth by the Board (mentioned above in Policies). The evaluation of the Board and Senior Management in how they have applied the systems of internal controls is conducted inclusive of reporting the number of times the Board has been notified about control issues, inclusive of risks, and the way the Board has addressed these issues. The internal controls work has not revealed other than ordinary issues which have been addressed routinely by each of the Risk Officer and the Compliance Officer within the set policies which did not require Board level intervention. The control departments continually attempt to uncover areas of potential failure of application of internal controls, or even weaknesses in implementation, and they are responsible for follow-up to ensure rectification of the issues raised. The internal control activities are distributed between the control departments, they continually carry out inspections, comprehensively, and raise issues to the Executive Management about findings, observations, violations, and such in order to take the necessary corrective action. There has been no emergency that influences or that may influence the financial performance of the Bank.

Risk Management Operations and Internal Control Procedures

Masraf Al Rayan Board is responsible for managing risks, and the Board has delegated the Executive Management with the authority to take decisions necessary to monitor risks on a daily basis and to manage them via comprehensive controls at a high level. The Bank has in turn placed risk management controls to ensure sound risk management throughout the Bank. The wise governance and oversight of risk management stems from the Board and is managed at the level of departments, which is done through many means inclusive of weekly and monthly management informative reports and key risk indicators and risk registers of the Bank. Departments also put in place the standards used to keep risks within acceptable limits. These limits are set either by the Board to suit risk appetite and evaluate its significance, or set by the respective concerned departments to provide quality service. The Bank has established various appropriate levels of committees from Board level all the way to Bank Managements level. The enterprise risk model followed by Masraf Al Rayan has three main defensive lines, where The appropriate responsibilities and authorities are assigned to each of the defensive lines, and the Bank's committees perform as per their delegated authority at the various levels from as high as the Board, Board Committees, Executive Management Committees, and even at staff levels. Risk Management is carried out by independent functions headed by experts such as the Chief Risk Officer, Head of Compliance, and Head of Internal Audit; and their departments identify, assess, monitor, provide consultation, and raise reports about the various risks of non-compliance with applicable laws, regulations, and standards. Internal control objectives are summed up in protecting the Bank's assets, monitoring available resources, reasonably assuring accounting information, identifying authorities and responsibilities as well as ensuring conformity, and following a clear policy in selection of suitable cadre at the various managerial levels.

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

Stress Testing

The measurement and monitoring of various risks is a vital concern in assuring the health of financial institutions and the financial system as a whole. And in this regard, stress testing has been widely used by international financial institutions and especially by regulatory entities to verify the ability of banks and other financial institutions to withstand the different risk factors. The idea behind stress testing is to assess the effects of exceptional but credible situations on the financial position of the Bank as well as other entities. Several quantitative technical methods have been utilized which can be divided into two main categories: sensitivity testing and scenario testing. The Bank has complied with the QCB regulatory requirements related to Basel recommendations; the Bank conducts tests to cover the various risks that affect the Bank as a single entity (Firm Specific Scenarios), which include credit risks, liquidity risks, market risks, and operational risks; the Bank also 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 Department aim to measure the Bank's ability to withstand future losses which it might be exposed to in light of specific scenarios about future economic factors starting with what is known as the base scenario, i.e. the scenario of the situation remaining as it is, and several other scenarios that vary in their degree of severity of the assumptions made. Specifically, these tests aim to discover whether the Bank will continue to have viable assets sufficient to face the potential losses in case the worst scenario occurs. In this way, the Bank is able to present a realistic view of its exposure sensitivity an ability to withstand potential shocks to the economy, if a situation was to develop in the worse direction as well as evaluate the Bank's ability to sustain various shocks as a result of market risk and credit risk. These tests are conducted based on the Bank's current financials and the data collected about the risks that the bank is facing by the risk management function of the Bank. Financial stress testing of the Bank allows taking the appropriate actions and to determine whether the Bank's position is solid, and that is through determining what financial assets the Bank has to be able to meet its financial obligations and to cover its potential future losses in the worse possible assumptions scenario, and whether it can continue to act as a financial agent without government support through financial assistance, or to seek support from other financial support sources in the private finance market, inclusive of options to go through merger. These are all assumptions that enable the Bank to hedge its position and provide studied options in case of any negative developments. The Bank has complied with all QCB regulations concerning stress testing and has complied with providing the reports necessary for that.

Credit Risks

Risk is an integral part of the financial industry, especially in today's world economy condition and the increasing aggressiveness of competition and the size of financial transactions as well as technological developments and the need for larger banks. That is why proper risk management assists the Bank in succeeding and ensures its continuity in the banking sector with acceptable returns and reduced risks. The Bank's Credit Policy is considered the pillar of the Credit Risk Management's function. That is why the Bank is keen to develop a comprehensive tool to evaluate credit by placing a comprehensive Credit Policy that contains the framework of standards and conditions and guidance for granting credit through following a standardized approach in the process of credit evaluation & management, which provides unified system with sufficient flexibility. The Bank extends credit facilities only after the applicants meet a set of requirements namely, a clearly identified purpose of the requested facility, adequacy of sources of repayment, customer creditworthiness and experience, acceptable risk level as per MAR approved risk level, as per MAR approved risk appetite, and sufficient collaterals to protect the Bank's rights -should the client face difficulty in repayment or stopped altogether- without any losses. Credit is given through the Four levels of the Credit Committee of the Bank which consists of the following:

- Retail Credit Committee for credit facility limits up to QR 15 Million
- Group Credit Committee for credit facility limits up to QR 150 Million
- Executive Committee for credit facility limits up to QR 300 Million
- Board Committee for credit facility limits above QR 300 Million

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

Credit Risk Management

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

Criteria of the Credit Risk Management

- Determining credit types and sectors (economic) for which the Bank may extend financing.
- Establishing a limit cap for group exposure as well as pricing modules.
- Determining types of collaterals, their mechanism of evaluation, the approved professional agents which conduct the evaluation, its financing to collateral value, and taking precautionary steps to protect the bank against any such risk by obtaining property insurance and periodical evaluation of these collaterals.
- Placing conditions for approval of credit inclusive of information that must be obtained prior to granting of credit facilities, and granting the delegation to grant credit facilities, and establishing independent review of credit and conditions for rating of credit and provisioning.
- Establishing the level of risk that the Board approves to enter into while financing.
- Preparing independent credit recommendations for Business Units.
- Disclosure of all the information related to the client to the Credit Committee with all transparency so that a well advised credit decision is made.
- Enhancing the role of monitoring and managing credit to ensure the necessary follow up is done to complete all the documentation and collateral as per the Credit Committee recommendation to activate the limits in the electronic system.
- Implementing an internal credit rating system that takes into consideration both quantitative and qualitative aspects of the client and their position in the market and the presented collaterals that would assist in taking a proper credit decision.
- Implementing stress testing on the facilities provided in order to bolster the process of
- identifying and controlling the risks and providing the tools that would complement risk management with the objective of arriving at an overall evaluation of credit risks.

Implementation of Sound Measures to Determine Credit Risks

Granting credit facilities is based on sound measures and includes the following:

- Having a client request or credit application that is duly signed by a sufficiently authorized delegate.
- Obtaining sufficient information in order to make a comprehensive evaluation of the client and types of risk underlying the requested facility, as well as to be able to rate the client as per the Bank's internal credit rating system.
- Knowledge of the customer's reputation, experience, market share (economic sector), and purpose of finance.
- Studying the nature of the current and future risks of the credit applicant, their industry, and sensitivity to the economic developments, and assess the relation between associated risks and profit.
- Evaluating the sources of repayment and customer's commitment to settle previous debts and type of the acceptable collaterals.
- Obtaining all the collaterals and completing their evaluation.
- Analysis of the client's financial position using updated audited financials.
- Supporting the application with Qatar Credit Bureau reporting on the client to understand the nature and volume of existing facilities of the client and history.
- Establishing credit limit caps for all on & off-balance sheet items, credit limit caps for industry, countries, and establishing credit limit caps based on the customer risk rating.
- Establishing credit limit caps which can be extended for equity at one obligor level, group level, and inter-related relations level, as well as those with overlapping interests.
- Observing QCB regulations regarding lending.
- Approving the modus operandi of Stress Testing which includes policy, framework, methodology, and assuring the definition and identification of the suitable factors related to credit risk and assigning the associated responsibilities and their consequences, as well as presenting them to the specialized Committees to support in taking the related decisions.

Existence of Procedures to Handle and Follow-up Credit

The procedures for handling credit include:

- Existence of a filing system to handle customers' files and update its information and documents on periodic basis.
- Follow-up the execution of the credit facilities to make sure that everything is complying with the procedures, policies, laws and compliance regulations namely, the client's current financial position, existence of sufficient securities with coverage suitable to the current status of the customer, and the client's utilization of the facilities.
- Follow up on utilization of credit limits, this task is made through a portfolio updated report submitted on periodical basis.
- Internal credit rating of the client which helps in: granting financing and follow up its quality, facility pricing, determining credit portfolio characteristics and credit concentration, determining defaulting accounts and sufficiency of its provisions.

- Periodic monitoring of any credit risk or defaulting sectors for business units to take the necessary action.
- Issuing of periodic reports and advising Business Units and Management as needed.
- Credit Risk Administration is an independent unit whose task consists of reviewing credit approval conditions, collaterals, facilities agreements, and all operational matters prior to releasing credit, inclusive of activating the approved limits and issuing required reports.

Existence of Sufficient Procedures to Monitor Credit Risks

Risk monitoring procedures include the following:

- Internal controls to make sure that any exception or deviation in the credit policy or credit procedures and credit limits and / or regulations is reported.
- A Collection Unit to detect defaulted credit at an early stage through generating a daily past dues report and advise the concerned business unit in order to avoid it in future.
- Periodic review of the delegation of authority of those authorized to sign, and the associated documentation.
- Updating the Bank's Credit Policy to develop it and improve it with the latest changes and variables to improve risk management.
- The Bank conducts a regular periodic review of all the approved credit facilities granted as per its delegation to monitor its portfolio status, exposures, credit concentrations, and sector performance. The Bank also follows up on all credit facilities, increases in limits, and follows up and monitors completion of collateralization, and takes the necessary actions at the appropriate times. Moreover, non-active facilities are reviewed, as well as risk rating based exposures inclusive of all limits granted, and recommendations are made, if any, to the Board.
- Risk Management establishes an area of common grounds with the business units in order to exchange information and create a risk aware culture that is aligned with the Bank's strategy.
- Risk Management activities are ongoing and continually enhanced in line with the Bank's strategy.
- Adopting and using systems to evaluate client risks in accordance with Basel guidelines and QCB regulations.

Market Risks

The way the Bank handles market risk essentially did not change because it still relies on using the latest banking standards, depending on Qatar Central Bank regulations, and the principles of Basel II while using the expertise of internationally experienced staff. To mitigate these risks, the bank diversifies its activities in different countries, sectors, products and client segments and takes proactive steps to manage these risks. The relevant staff monitors several risks linked to the market such as foreign exchange risks, profit rates, pricing, liquidity, general investments, clients' deposits investments commodities prices, liquidity and capital adequacy. Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the Management to assist in taking proper decisions and monitor the market risks as required. These reports include daily reports such as reports on the market reaction and daily reports on the performance of the Qatar Exchange, a weekly report on the Treasury in addition to the monthly report to the Assets and Liabilities Committee (ALCO) which shows the budget position, banking ratios, and stress tests on budget, gap analysis in assets and liabilities. ALCO members are from the Senior Management and this report is discussed in its monthly meeting where decisions are made and followed up.

Credit Limits for Banks and Countries

In compliance with Qatar Central Bank regulations, credit limits are recommended to be set for banks that Masraf Al Rayan has business relationships with as well as credit limits for countries as per their rating. The Board approves these limits and they are thereafter presented to the QCB.

Operational Risk

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

Operational Risk Mitigation

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

Best Practices Implemented to Mitigate Operational and Systems Risks

- Maintaining ISO23301 certification for business continuity by complying with best practices standards.
- Maintaining ISO27001 certification for information technology security by upgrading the Information security management system (ISMS).
- Implementing a specialized system for managing operational risks (SAS) to manage operational risk indicators inclusive of analysis and follow up of incidents and operational losses.
- Implementing a real time monitoring system of suspicious transaction (AML) and integrating it with SWIFT to intercept any transaction suspected of being related to money laundering while the transactions are taking place before their completion.

- Preemptively monitoring potential fraudulent transactions on a 24/7 basis to detect and prevent fraud on Masraf Al Rayan ATM Cards and Credit Cards.
- Protection of the Bank's valuable data in a preemptive manger to hedge against any emergency by keeping a copy of the Bank's data at Meeza disaster recovery center at Qatar Foundation's Science and Technology Park, and keeping an extra copy of the important data at a data center in the city of Nice, France.
- Using an advanced Malware Prevention System to prevent phishing.
- Conducting intrusion vulnerability tests on Masraf Al Rayan IT systems.
- Successfully participating in a Cyber Security Drill organized by the Ministry of Transport and Communications.
- Increasing the number of users of the Operational Risk Database and enabled Branch
- Management and Credit Risk Management to utilize the Issues and Action Plans portion to manage documentation in order to ensure that there are no lapses in completion or timeliness.
- Training Operational Risk Management in one of the best risk training programs (CRMCP) to increase their performance and enhance their work.
- Developing a monitoring system for information security incidents.
- Covering intolerable risks via insurance.

Credit Rating of Masraf Al Rayan

Moody's Investors Service, ("Moody's") has upgraded Masraf Al Rayan's (MAR) long term issuer ratings to A1 from A2 and Counterparty Risk (CR) Assessment to Aa3(cr) from A1(cr). The outlook on the long-term ratings has changed to stable from positive. The upgrade of Masraf Al Rayan's ratings reflects consistently strong asset quality performance, strong profitability and capital metrics and continued business diversification.

"The upgrade is a confirmation of the bank's conservative & prudent business strategy and its strong solvency and financial performance indicators made possible by a strong Qatari economy and very well regulated financial sector,"

Dr. Hussain Al Abdulla
Chairman & Managing Director

The rating upgrade by Moody's took into account Masraf Al Rayan's consistently strong asset quality performance (since it commenced operations in 2006) with a current non-performing financings (NPFs analogous to non-performing loans) of around 0.10% of total financing assets. Masraf Al Rayan has maintained a solid return on assets at around 2.5% since 2011 (2.4% for the first six months of 2016) compared to Qatari banks average return on assets of 1.68% as of June 2016.

Also, Masraf Al Rayan has always maintained strong capitalization levels with tangible common equity (TCE) to risk weighted assets at around 21% as of December 2015. Masraf Al Rayan capital levels compare both favorably to the 17% local average and the 13% median for banks with baa2 baseline credit assessments.

External Auditor

The General Assembly of Masraf Al Rayan, in their Meeting held on February 23, 2016, approved the appointment of the External Auditors KPMG for the financial year 2016. KPMG selection has been presented to the General Assembly after their presentation has been recommended by the Audit Committee and obtaining the Qatar Central Bank approval in this regard. KPMG were contracted due to their application of best practices and their maintaining independence and refraining from entering into conflict of interests relationships. The External Auditors also attend the General Assembly to present their annual report and responds to inquiries. It is noteworthy that KPMG has been selected again bearing in mind the restriction on the number of consecutive years for selecting the same external auditors, which has been set by both QCB and QFMA at 5 years; thus, 2017 was exceptional for KPMG to be selected as External Auditors in line with the regulations. And it will be mandatory to select another external auditor for the year 2018.

Duties of the External Auditor

An independent and qualified External Auditor is to be appointed based on the recommendation made by the Audit Committee to the Board of Directors, and the General Assembly Resolution for the External Auditor's firm to conduct an annual independent audit and quarterly review. The aim of the audit is to provide reasonable assurance to the Board of Directors and Shareholders that the financial statements have been prepared in accordance with the best practices, international standards, and are governed by applicable laws and relevant regulations and standards that govern the preparation of financial statements; and that they represent exactly the financial position and performance in all material respects. The External Auditor should adhere to the best professional standards, and Masraf Al Rayan is committed not to contract them to provide any advice or services that may result in a conflict of interest, and thus the External Auditors are considered to be independent completely off Masraf Al Rayan and its Board of Directors, and have no absolutely no conflict of interest in their relations with Masraf Al Rayan. The External Auditor is accountable to the Shareholders and owes Masraf Al Rayan the duty of due professional care required when an audit conducted, the External Auditor also has the duty to inform Regulatory Authorities in the event of failure of the Board to take appropriate action in regards to any suspicious matters raised or identified by the External Auditor.

Shareholders' Rights

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

Shareholder Register

Qatar Central Securities Depository company (QCSD) maintains shareholder records of listed companies, and because the Shareholder information changes in real-time as long as the market is open; the QCSD provides this information freely at the following times:

- When General Assembly Meeting (GAM) or Extraordinary General Assembly Meeting
- (EGAM) is held.
- At the time of profit distribution.
- At the time of an acquisition or merger.
- When a capital increase through subscription is carried out.
- At the time an entity changes its legal status.
- Any other situation as determined by the QFMA.

Masraf Al Rayan requests this Shareholder information from QCSD as needed and in such cases. E.g. the information is requested on the day of holding the GAM or EGAM, where this information is needed to record presence and quorum and to distribute profits to Shareholders (given that in cases other than the listed above, a period of 30 days is required between each request).

Masraf Al Rayan also assures the Shareholder the right to obtain the following information: register of Members of the Board of Directors, the Bank's Memorandum of Association and Articles of Association, any documents that give any right or preference to the assets of the Bank, and contracts with related parties, and any other documents that are required as per the guidance of QFMA and at the fees stipulated by QFMA.

Accessing Information

Masraf Al Rayan provides its Shareholder information which has been obtained from Qatar Exchange upon request as per the rules, regulations, and related Articles and Corporate Governance guidelines.

All the while the information is available on the internet on Masraf Al Rayan's electronic website www.alrayan.com for ease of access to the most important information for shareholders, investors, and other stakeholders.

Conflict of Interest and Insider Transactions

Masraf Al Rayan is committed to the adoption and the declaration of general rules and procedures governing its entry in any business transaction with a related party. In any case, Masraf Al Rayan refrains from entering into any business transaction with a related party, or to sign with them, except in compliance with the Bank's policy for Related Parties. Such policy must ensure that the principles of transparency, fairness and disclosure are applied, and requires the approval of any such transaction with a related party by a majority of Shareholders in a vote in which the said related party that does not vote. In case any question of a conflict of interest or a business deal between Masraf Al Rayan Bank and a Member of the Board or any related party to the Board Member during a meeting of the Board, that the topic is discussed in the absence of the Member concerned, who has absolutely no right to participate in the vote on the deal. And in any case such deal must be done according to market prices and on a purely commercial basis, and must not include conditions contrary to the interest of the company.

Fair Treatment of Shareholders and Voting Rights

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

Shareholders who attend the General Assembly have the right to discuss the items on the Agenda, direct questions to the External Auditors, and the Board has to respond to the questions of the Shareholders in as much detail as possible that would not expose the Bank to any risks, and if the Investor deems the answer insufficient then they may revert to the General Assembly whose decision is mandatorily executable. Furthermore, the Articles of Association of Masraf Al Rayan stipulate that each Shareholder has a number of votes that is equivalent to the number of Shares that they have.

Shareholders' Rights in Election of Board Members

Masraf Al Rayan is keen to apply the principle of giving Shareholders information about the candidates to the Membership of the Board before election, including a description of the candidates' skills, professional and technical experience, and other qualifications. The instructions of the Ministry of Commerce and Economy issued in their circular dated February 23, 2016, in line with the decision of the QFMA; voting in the elections of the boards of the listed companies in the Market shall be as stipulated in Article 96 of the Companies Law Number 11 of 2015, which states:

"For each share there shall be one vote, to be given by the shareholder to whomever they select from amongst the candidates, and the shareholder may distribute their votes amongst several candidates; however, a single share may not be used to vote for more than one candidate."

Shareholders' Profit Distribution Rights

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

Capital Structure, Shareholder Rights, and Significant Deals

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

Other Stakeholders' Rights

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

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

Masraf Al Rayan's Corporate Social Responsibility

The principles of Corporate Social Responsibility, especially towards society and the environment, have been increasingly associated with its sound corporate governance. Masraf Al Rayan believes in the importance of its Corporate Social Responsibility and is keen to support individuals and groups practice their role in building a better society. Masraf Al Rayan keen on participating in public causes that are of concern to society, that involve protecting the environment, protection of natural resources, and avoiding damaging the environment. Masraf Al Rayan also supports healthy practices and supports sports, charity, and activities that benefit society and bolster national objectives. There are numerous efforts that Masraf Al Rayan has taken part in throughout 2016 in relation to corporate social responsibility, here is a list of some of them:

- Supporting the Qatar Red Crescent charitable activities
- Supporting the sports activities of Al Jaish Club and Lakhwia Club
- Supporting the activities of the General Authority for Minors' Affairs
- Participating in conferences on information security in the financial secto
- Sponsored Qatar's Men's Open Tennis Tournament
- Participated in the Banks' Football Tournament organized by QCB as part of ensuring financial inclusion of people with disabilities.
- The Bank trained customer services employees on dealing with people with disabilities, basic unified Arabic sign language, in coordination with the Qatari Center Of Social Cultural For The Deaf
- Conducted a comprehensive training program about dealing with employees and clients with disabilities in cooperation with Shafallah Center (part of the Qatar Foundation for Social Work)
- Receiving two batches of enrollees in the Azizya Youth Center of the Ministry of Culture and Sports (the Plan Your Future Camp) as part of the Bank's effective participation in building the future of Qatari youth as part of corporate social responsibility

On a humanitarian and health awareness front, the Bank has also participated in Hamad Hospital's field blood donation drive (which has become an annual activity) as part of its support of the medical establishment's programs. Masraf Al Rayan has also participated in several conferences both local and international, educational and professional, that promote the development of youth, the future generation, and pioneers. The Bank has also, at the behest of the Qatar Central Bank, participated in a regional workshop conducted by the Gulf Monetary Council, which aims to pave the way for establishing an advanced unified Arabian Gulf monetary system and an infrastructure that would allow the creation of the unified Gulf Central Bank; a workshop which has focused on the analytical and operational abilities, as well as the recommendations that need to be made regarding legislation, that are required for the eventual unification of the GCC currencies.

Dr. Hussain Ali Al Abdullah
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 customers needs.

Mission

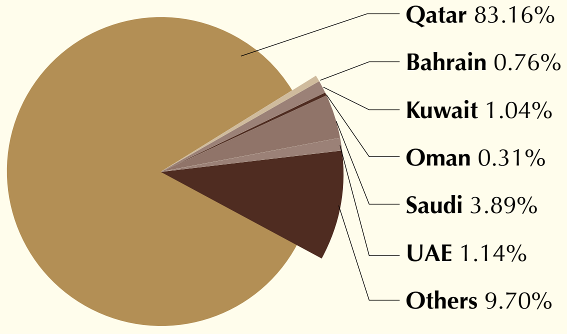
- To build a well-balanced financial institution across Retail, Wholesale, Advisory and Asset Management services.
- To provide market-leading financial services holding Shari'a principles at the heart of all activities.
- To build a solid and well recognized service delivery and brand distinction model.
- 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 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.
- To prudently and efficiently pursue an organic and acquisition based expansion strategy.
- To prudently use Masraf Al Rayan's large capital and maintain strong shareholder base to support growth.

A Summary of MAR Shareholders' Information on December 31, 2017

Nationality	Shareholders	No of Shares	Percentage
Bahrain	21,333	5,648,161	0.76%
Kuwait	22,841	7,769,424	1.04%
Oman	7,826	2,350,401	0.31%
Qatar	54,913	623,724,561	83.16%
Saudi	70,039	29,171,909	3.89%
UAE	24,548	8,549,754	1.14%
Others	3,032	72, 7555,790	9.70%
Totals	211,391	750,000,000	100.00%



Top 10 Shareholders

Shareholders	Sector	Country	No. of Shares	Percentage
Qatar Holding Company	Government	Qatar	89,300,000	11.91%
Military Investment Fund	Government	Qatar	69,857,478	9.31%
Qatar investment Authority	Government	Qatar	31,292,000	4.17%
General Authority for Retirement and Pension Fund	Government	Qatar	21,674,633	2.89%
Al-Watani Fund 3	Corporate	Qatar	15,144,407	2.02%
Taybeen Trade Company	Corporate	Qatar	14,909,255	1.99%
Ethmar for Islamic Microfinance	Corporate	Qatar	14,030,793	1.87%
Broog Trading Company	Corporate	Qatar	13,950,000	1.86%
Hamad Abdulla Al-Thani	Individual	Qatar	12,800,000	1.71%
Al-Watani Fund 4	Corporate	Qatar	11,868,580	1.58%

Masraf Al Rayan Group Companies

Entity Name	Country	Capital	Activity	Ownership %
Subsidiaries:				
Al Rayan Investment L.L.C.	Qatar	USD 100,000,000	Investment Banking	100%
Al Rayan (UK) Limited	UK	GBP 100,000,000	Islamic Banking	70%
Al Rayan Partners	Qatar	QAR 10,000,000	Real Estate Consulting	100%
Lusail Waterfront Investment	Cayman Islands	USD 50,000	Investment activities	100%
Al Rayan Financial Brokerage[1]	Qatar	QAR 50,000,000	Financial Brokerage	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%

[1] *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

A key banking player addressing all Shari'a-compliant needs

	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
Qatar University	Female Building	4425 3187 / 4425 3193
Salwa Road	Next to Hyundai Showroom	4425 3200 / 4425 3201
The Mall	Gate No. 2	4425 3218
C Ring Road	The Financial Square	4425 3243
Wathnan Mall	North Muaither	4425 3306
Al Wakra	Al Wakra Main Road	4425 3286
Qatar Olympic Committee	Majlis Al-Taawon Street, Olympic Tower	4425 3271
Al Sadd	Al Bustan Building	4425 3135
beIN Sports	Al Corniche Street, Al Dafna, Doha Tower	4425 3458
Rawdat Ekdeem	Bani Hajar	4425 3466

Retail & Private Banking

In 2017, 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.

The move was supported by the launching of a new segment under the name of Premier Banking, with a dedicated branch and team to serve the new category of consumers. It was accompanied by a remarkable expansion in the network of branches, strategically distributed within Qatar. In addition to e-channels available 24/7, it creates a positive, convenient, strong and long-term relationship between the bank and its clients.

2017 witnessed an increase in the implementation of promotional programs that offered value added products to our customers. New retail offerings including customer centric policies, new electronic banking solutions and innovative measures are rolled out to enhance the security of banking transactions within the entire branch network and alternative delivery channels.

Masraf Al Rayan launched numerous campaigns and cards products to promote and build loyalty through special offerings to grow our customers through salary transfer, personal finance and investment deposits.

The total annual increase in financing was 17% compared to 2016, with customer deposits increasing by 12%.

Through 2017, the card business development unit continued to expand its card programs to enhance customers' experience.

Several new cards were designed and launched to respond to the need of high net worth individuals and premier banking customers, namely: Signature Card, Infinity Card, Premier Debit Card and Private Debit Card. The cards are offering many advantages in terms of accessed to airport lounges and merchant discounts whereas merchant Discount Base has currently reached 120.

2017 has also been a year of improvement for many service and quality business sustainability processes in serving and enhancing our customer's experience across all communication points including building long-term relationship with them.

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 2017, the focus was on Branches Centralization and Private Banking daily operation with Back Office Operation, Introduction of PIN on IVR, in addition to Reloading Eqtisadi and Pay & GO Cards on internet and mobile banking for MAR customers.

Through Masraf Al Rayan's internal training department we provided the latest technical, professional and administrative training programs to our employees in branches, Private banking and the call center to boost their knowledge and understanding of all types of risks related to banking activities and the mitigation processes, and also to raise the level of service quality in line with our human resource development strategy. Along with the expansion of branches network and the launch of a new Premier Banking segment, the Staff count increased 11% in 2017.

Indeed, the year 2017 observed a remarkable strengthening of the branch network with the addition of 4 new branches, at Gulf Mall, Qatar Armed Forces, Royal Plaza and Doha Festival City.

Premier Banking segment launched in 2017, has a dedicated new branch at Al Hazem Mall.

Our ATM/CDM network has also been upgraded to reach 97 by end of 2017 to ensure a wide and strategic distribution of our ATMs across Qatar.

Wholesale Banking Group

Throughout 2017, the Wholesale Banking Group played a dynamic role in Masraf Al Rayan's activities of varying and growing its total assets and income, serving the entire range of clients from large corporate and government-related entities, to mid-corporates, and smaller sized enterprises. The challenging economy and tighter credit and liquidity conditions had varying impacts on these segments, hitting hardest on the smaller and medium enterprises (SME). Nevertheless each segment continues to grow and so does our business share with them.

However, the market and financial situation was perplexing during 2017, we continued to invest in our business and infrastructure, including an upgrade of our systems and a set of digital initiatives to improve our offerings and enhance the customer experience to keep Masraf Al Rayan at the forefront of the banking sector and for supplying enhanced operational improvements for our clients.

2017 witnessed yet other growth tendencies in our business in serving small to medium size enterprises (SMEs) and the Mid-Corporates in where we remain positive on business opportunity despite present pressure on some firms as a result of the regional political turmoil. These Corporates continued to be a net backer of liabilities to our balance sheet as we have built sizable market share in these segments over the years.

We also kept our position as an important growing force in serving large corporate and government-related entities in the Qatar, despite the challenging financial conditions in the past 5 years, as these segments have better equipped to face the tough market, and we managed to provide, successfully, investment and transaction banking solutions to them, all throughout 2017, in their quest to support core infrastructure projects and other initiatives in various sectors of the State of Qatar's real economy, such as Transportation, Aviation, Healthcare, Telecom, Sports, Water and Electricity, Real Estate Trade, Financial Services, Energy, Petrochemical, Media, Manufacturing and Contracting.

Masraf Al Rayan Transaction Banking and Cash Management products and services continued to prosper in 2017 by providing innovative solutions and service excellence to our corporate clients such as the launch of Swift Net SCORE.

In order to preserve our strong financial position and performance, we were conservative in evaluating new business proposals and avoided engaging in price war with our competitors during this challenging period directly and indirectly. However, we continued to support and finance various mega infrastructure projects such as the railway, highways and sport stadiums in preparation for Qatar to host the 2022 World Cup.

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.

Going forward, as always, we are planning to be highly vigilant and conscious of the risks we take with our clients to mitigate them to build sustainable value for all our stakeholders.

Quality Assurance and Service Quality 2017

To provide the highest quality of customer service standards, enhance customer experience across all touchpoints and build long term relationships with customers.

The new role of QA is to achieve objectives include:

Meeting the expected perceived needs of our customers and direct the bank towards a "Customer Focus Strategy", to ensure customer satisfaction and improve process efficiency & effectiveness across all customer touch points by ensuring high Service Standards, Standard Operating Procedures, Service Level Agreements and Automation, to standardization of customer communication in all channels to meet the expected perceived needs of our customers, to coach staff on Service Quality related standards, initiatives and improvements to meet customer expectations, and to continuously monitor, analyze, report and train on Service Quality related issues to improve customer experience across Masraf Al Rayan.

In line with Masraf Al Rayan's strategy and objectives, the Service Quality Department continued, in 2017, to implement innovative processes and improvements to the existent ones to achieve and sustain customer service excellence.

Throughout the year, the department continued to monitor customer satisfaction programs, using Voice of Customer mechanism (VOC) and to ensure that the Customer Management System (CMS) registers and follows customer's complaints, requests, disputes, leads and suggestions, through collecting data from secret shoppers, implementing customer satisfaction surveys, and collecting evaluation information through branch visits.

Improvements have also been made to the Customer Management System (CMS) to follow up on customer complaints, requests, leads and suggestions. These programs required many improvements to record customer feedback and suggestions and then to measure, analyze, improve and redesign processes in a more acceptable and easy manner according to customer expectations, to enable better interaction with relevant departments, alternative channels and others to provide more efficient and effective customer service.

In addition, the Service Quality Department extended its "Improvement Program" to other departments to improve the Voice of Business Program (VOB). The "Improvement Program" included the development of End-to-End Standard Operating Procedures (SOPs) along with Service Level Agreements (SLAs), Turnaround Time (TAT), User Manuals and Process Flow Maps in most of departments of the Bank.

The Service Quality Department will continue in 2018 and the coming years to seek better business solutions through adopting innovative plans to improve the overall customer satisfaction experience.

Human Resources

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

Throughout 2017 we have implemented many projects and schemes to expand Masraf Al Rayan's overall business strategy that covers major areas: culture, people, organization and human resource systems.

The department continued to be responsible for forecasting future staffing needs and creating plans for recruiting, hiring and retaining top talent

Training and development process continues to be at the forefront of Masraf Al Rayan's core strategy, we continued, throughout 2017, to plan and implement, under the supervision of the executive management and the direction of our Board of Directors, comprehensive arrangements and programs to develop our human capital and to ensure effective and efficient implementation of human resources policies, processes and procedures within the Bank.

The Human Resources Department also continued to create and utilize all opportunities for cooperation with the Ministry of Labor and the leading institutions of higher learning in Qatar to execute the qatarization plan.

Training and Talent Development

Management at Masraf Al Rayan has put in place a human resources plan to develop all employees across the organization and especially Qataris, through adopting long term strategies in collaboration with the Ministry of Labor and other related local players. The number of training hours exceeded 15,500 "training hours" covering all kinds of theoretical and on the job training. Many training programs were implemented in co-operation with specialized international companies such as Qatar Finance and Business Academy (QFBA), international Fitch Learning program and Thompson Reuters.

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. 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 from Qataris.

During 2017, the "Training and Talent Development Department" implemented 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.

Masraf Al Rayan has been actively involved 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 Nine Qatari employees from Masraf Al Rayan managed to join this program out of thirty-four from different financial institutions in Qatar, after a lengthy vetting process. It was intended to equip the participants with the necessary professional and leadership skills, effective communication skills and work ethics in both professional and personal levels. The program included a month of applied training in local and international financial institutions; Central Bank of Qatar, Qatar Financial Center, Qatar Investment Authority, Qatar Exchange, Tokyo Bank of Mitsubishi, HSBC Bank, KPMG Qatar and Hilton Worldwide Corporation.

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 field on the job training for 30 students from Qatar University in the different departments of the bank.
- Working with the Qatari Social and Cultural Center for the Deaf (QCSCD) to train bank's staff on sign language, and to contribute to the development of a specialized banking reference dictionary for business and commercial terminologies.
- Implementing a joint integrated training program with "Shafallah Center for Children with Special Needs" on the treatment and service of customers and employees with special needs.
- The co-operation with Qatar Independent School of Banking and Business Management resulted in Masraf Al Rayan hosting of 29 student divided into 3 groups, as part of a career guidance project, aimed at introducing them to the environment and recompenses of a banker's work. In addition, 15 managers from Masraf Al Rayan's different departments instructed the participants on the nature and tasks of their daily work to give the students a clearer sense of the various job related activities of banks.
- We participated in the third professional exhibition of Qatar Commercial School for Boys.
- We participated in the first professional exhibition at Doha Institute for Postgraduate Studies.
- Six employees from Masraf Al Rayan participated in Qatar Red Crescent's disaster management training program as part of its 7th Camp at Al Khor Region.

Subsidiary
Al Rayan Investment LLC

Vision
To become the region's leading Sharia-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 2017, we continued the momentum achieved in 2014, 2015 and 2016 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
In 2017, our investment focus remained Sharia-compliant, regional listed equities and global sukuk however we also introduced an innovative daily liquidity, money market product as well as a quantitative global REIT strategy.

2017 was a difficult year for the Gulf, with five regional equity markets among the ten worst performers in the world. The regional instability affected the regional and global investor sentiment. However despite an uncertain backdrop and rising US interest rates, regional fixed income was again impressive, returning more than 4%.

ARI manages Masraf Al Rayan's flagship 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. In 2017, the fund was the best performer of its global peer group, appreciating 4.4%, net of fees, compared to an average return of -2% for similar funds and the GCC market's +0.2%. Over five years, Al Rayan GCC Fund has returned 27%, net of fees, while the market has declined 1.5% over the same period.

Our disciplined investment approach and robust processes, combined with dynamic risk management and strong returns have resulted in further external recognition. In 2017, ARI was awarded 'Qatar Asset Manager of the year' by Wealth & Finance magazine.

Financial Advisory Group
2017 was a year of opportunities and challenges. During the first half of the year, our ongoing pursuit of originating deals landed us new mandates for providing M&A and ECM advisory services, while an existing IPO mandate gained traction.

However, regional diplomatic tensions created much uncertainty in the second half and impacted deal flow. By end of November, the Qatar stock market declined by over 20% since its peak in June. IPO activity remained muted with only one offering in 2017 raising QAR 250 million. On the debt capital market front, primary sukuk issuances were also limited raising under USD 2.0 billion. Amidst these challenging times, we successfully closed a highly complex and strategic transaction involving corporate finance advisory services.

A strong recovery in crude oil prices in the second half of the year, Govt. initiatives and fiscal spending plans, amongst others, have assuaged, but not completely vanquished the economic and financial impact of the ongoing regional diplomatic stand-off. Yet, new opportunities have emerged. We are increasingly seeing companies reassess their business strategy and seek funding diversification. Companies are also undertaking IPO readiness activities to prepare and take advantage of a favorable window for raising capital. Heading into 2018, we will focus on adapting to our client's changing needs and turning any new challenges into opportunities.

Shari'a Supervisory Board Report

for the period ended on 31 December, 2017

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 2017 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

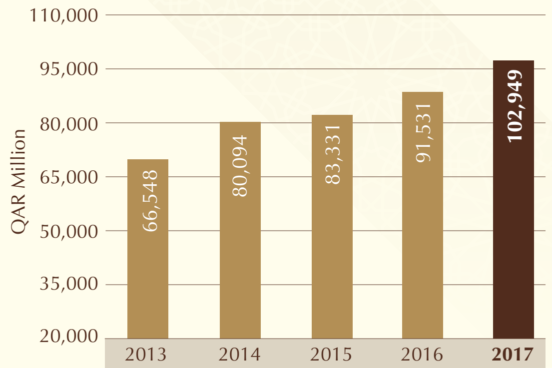
His Eminence
Sheikh Dr. Abdul Sattar Abu Ghuddah
Shari'a Supervisory Board Member

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

Summary of Financial Statements

As at 31 December 2017

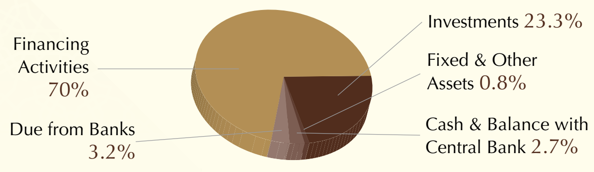
Total Assets



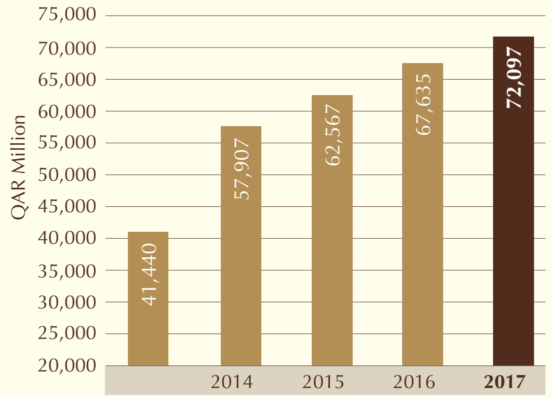
Highlights

5 Years Compound Annual Growth Rate (CAGR)	**11.5%**
Growth For The Year	**12.5%**
Capital Adequacy Ratio	**19.32%**
Return on Average Assets	**2.09%**

Weight of Asset Categories



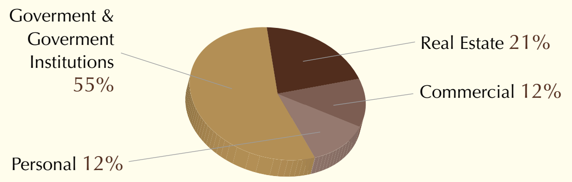
Financing Activities



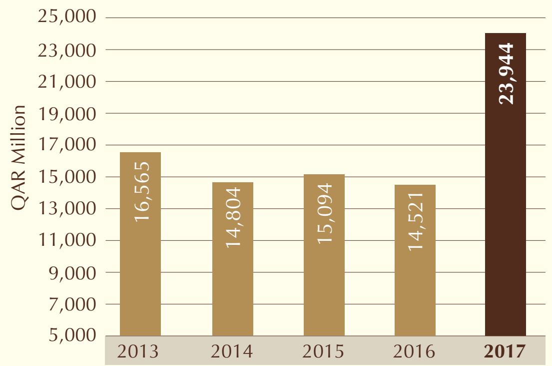
Highlights

5 Years Compound Annual Growth Rate (CAGR)	**14.8%**
Growth for the Year	**6.6%**
Non Performing Loans Ratio (NPL)	**0.50%**

Breakdown by Sectors



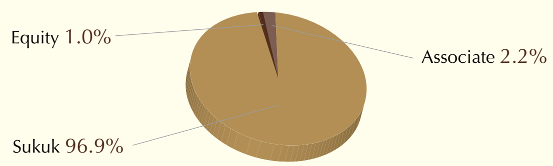
Investments



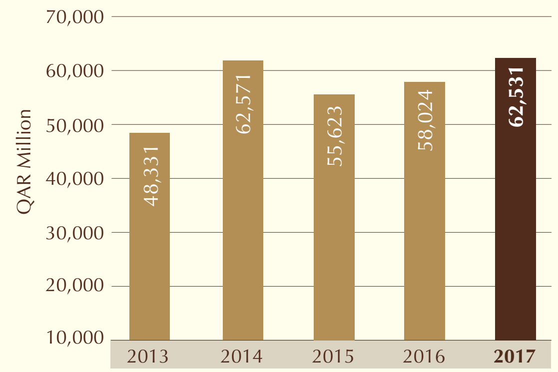
Highlights

5 Years Compound Annual Growth Rate (CAGR)	**9.6%**
Growth for the Year	**64.9%**
Sovereign Sukuk	**92.2%**

Breakdown of Investments by Type



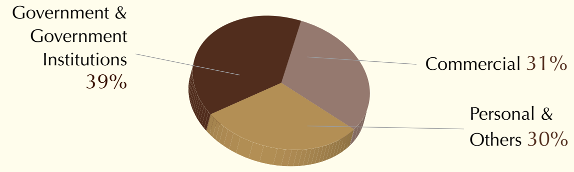
Customer's Deposits



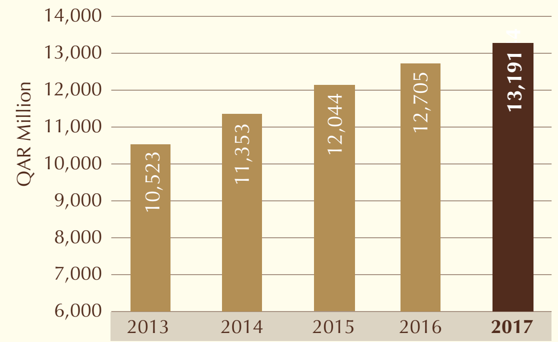
Highlights

5 Years Compound Annual Growth Rate (CAGR)	**6.7%**
Growth for the Year	**7.8%**

Breakdown of Customers' Deposits by Sector



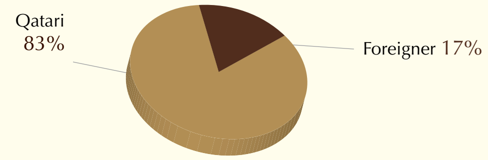
Equity Pre Appropriation



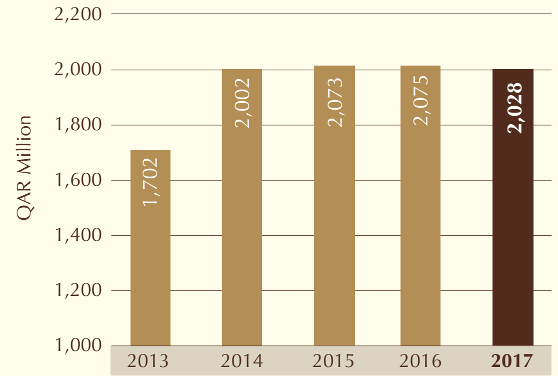
Highlights

5 Years Compound Annual Growth Rate (CAGR)	**5.8%**
Growth for the Year	**3.8%**
Book Value per Share	**QAR 17.59**
Return on Average	**15.66%**

Shareholders



Net Profit



Highlights

5 Years Compound Annual Growth Rate (CAGR)	**4.5%**
Decline For The Year	**-2.3%**
Earnings Per Share	**QAR 2.704**
Operating Income To Operating Expenses Ratios	**21.27%**

	2017	2016
Operating Income	**100.0%**	100.0%
General & Administrative expenses	**(13.4)%**	(12.2)%
Impairment losses	**(2.6)%**	(0.1)%
Minority Interest	**(0.3)%**	(0.0)%
Profit for Accounts & Equity holders	**83.7%**	87.7%
Profit Share - customers & banks	**(37.0)%**	(32.4)%
Share of profit to Equity holders of the Bank	**46.7%**	55.3%

Financial Statements

Independent Auditors' Report to the Shareholders of Masraf Al Rayan (Q.P.S.C.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying 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 2017, the consolidated statements of income, changes in equity and cash flows for the year then ended, and notes, comprising 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the applicable provisions of Qatar Central Bank regulations ('QCB regulations').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Bank's consolidated financial statements in the State of Qatar, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 year. 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.

Impairment of financing assets - refer to notes 3(f), 4.2.5, 5 and 10 in the consolidated financial statements	How the matter was addressed in our audit
We focused on this area because: • Financing assets are QAR 72,097.1 million representing 70.0 percent of the Group's total assets as at 31 December 2017, hence a material portion of the statement of financial position. The net impairment charge on financing assets during the year was QAR 107.8 million. • The Group makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures in this area included, among others: • Our team used their local knowledge to assess the trends in their local credit environment and considered the likely impact on the Group's financing portfolio to focus their testing on key risk areas. • For the corporate portfolio: – we tested the key controls over the credit grading and monitoring process; – we tested the governance controls over the impairment processes, including the continuous re-assessment by the Group that impairment policies remain appropriate for the risks within the Group's financing assets portfolio; – we performed detailed credit assessments of a sample of performing and non-performing financing assets in line with QCB regulations;

	– as part of our credit assessments for these selected financing assets, we critically challenged the reasonableness of the forecast of recoverable cash flows, realization of collateral and other possible sources of repayment. We tested the consistency of key assumptions and compared them to progress against business plans and our own understanding of the relevant industries and business environments. We also agreed them where possible to externally derived evidence. For the retail portfolio, the impairment process is based on historical payment performance of each segment within the portfolio, adjusted for current market and economic conditions. We tested the accuracy of key variables relevant for the retail financing portfolio (e.g. year-end balances, repayment history, past-due status) and we assessed the appropriateness of the impairment calculation methodology. We evaluated whether the output is consistent with historical payment performance, and we challenged the appropriateness of the Group's adjustments to reflect current market and economic conditions. We assessed the adequacy of the Group's disclosure in relation to impairment of financing assets by reference to the requirements of the relevant accounting standards and QCB regulations.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Bank's annual report ('Annual Report'), but does not include the Bank's consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we obtained the report of the Board of Directors which forms part of the Annual Report, and the remaining sections of the Annual Report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance 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 have 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

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS issued by AAOIFI and QCB regulations, and for such internal control as the 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, the 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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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 a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks 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 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 the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the 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 disclosures are 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 the Board of Directors 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 to the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes 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 have obtained all the information and explanations we considered necessary for the purposes of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We have read the report of the Board of Directors to be included in the Annual Report, and the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the applicable provisions of the Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Articles of Association and the amendments thereto having occurred during the year which might have had a material effect on the Bank's consolidated financial position or performance as at and for the year ended 31 December 2017.

Gopal Balasubramaniam
KPMG
Auditors' Registry No. 251
Licensed by QFMA: External
Auditors License No. 120153
16 January 2018
Doha, State of Qatar

Consolidated Statement of Financial Position

As at 31 December

QAR '000s

	Notes	2017	2016
ASSETS			
Cash and balances with Qatar Central Bank	8	2,799,819	3,126,085
Due from banks	9	3,311,900	5,692,239
Financing assets	10	72,097,080	67,634,561
Investment securities	11	23,423,469	14,012,110
Investment in associates	12	520,287	508,560
Fixed assets	13	159,951	148,194
Other assets	14	636,466	408,986
TOTAL ASSETS		**102,948,972**	**91,530,735**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY			
LIABILITIES			
Due to banks	15	25,123,319	19,059,705
Customer current accounts	16	6,620,840	10,533,627
Other liabilities	17	1,904,529	1,573,592
TOTAL LIABILITIES		**33,648,688**	**31,166,924**
EQUITY OF INVESTMENT ACCOUNT HOLDERS	18	**55,910,346**	**47,490,298**
EQUITY			
Share capital	19	7,500,000	7,500,000
Legal reserve	19	2,065,741	1,862,926
Risk reserve	19	1,507,567	1,345,733
Fair value reserves	19	3,074	1,983
Foreign currency translation reserve	19	(7,519)	(14,942)
Other reserves	19	113,001	107,146
Retained earnings		2,009,007	1,902,070
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**13,190,871**	**12,704,916**
Non-controlling interests	20	199,067	168,597
TOTAL EQUITY		**13,389,938**	**12,873,513**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY		**102,948,972**	**91,530,735**

These consolidated financial statements were approved by the Board of Directors on 16 January 2018 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 38 form an integral part of these consolidated financial statements

Consolidated Income Statement

For the year ended 31 December

QAR '000s

	Notes	2017	2016
Income from financing activities	21	3,100,667	2,620,627
Income from investing activities	22	792,002	533,918
Total income from financing and investing activities		**3,892,669**	**3,154,545**
Fee and commission income		278,647	314,288
Fee and commission expense		(4,913)	(1,765)
Net fee and commission income	23	**273,734**	**312,523**
Foreign exchange gain	24	142,527	133,926
Share of results of associates	12	28,203	52,377
Gain on sale of investment in an associate		–	93,071
Other income	25	9,164	8,599
TOTAL INCOME		**4,346,297**	**3,755,041**
Staff costs	26	(327,698)	(284,914)
Depreciation	13	(16,865)	(16,318)
Other expenses	27	(232,621)	(161,465)
Finance expense		(494,812)	(356,390)
TOTAL EXPENSES		**(1,071,996)**	**(819,087)**
Net impairment losses on financing assets	10(b)	(107,818)	(1,551)
Net impairment losses on investment securities	11	(5,621)	(1,127)
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		3,160,862	2,933,276
Less: Return to investment account holders	18(c)	(1,115,406)	(860,916)
PROFIT BEFORE TAX FOR THE YEAR		**2,045,456**	**2,072,360**
Tax (expense) / credit		(4,719)	3,695
NET PROFIT FOR THE YEAR		**2,040,737**	**2,076,055**
Net profit for the year attributable to:			
Equity holders of the Bank		2,028,145	2,075,286
Non-controlling interests		12,592	769
		2,040,737	2,076,055
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	31	**2.704**	**2.767**

The attached notes 1 to 38 form an integral part of 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 1 January 2017	7,500,000	1,862,926	1,345,733	1,983	(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 37)	–	–	–	–	–	–	(50,704)	(50,704)	–	(50,704)
Net movement in non-controlling interests	–	–	–	–	–	–	–	–	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**
Balance at 1 January 2016	7,500,000	1,447,869	1,136,540	12,590	(1,479)	80,468	1,867,805	12,043,793	314,430	12,358,223
Change in foreign currency translation reserve	–	–	–	–	(173,353)	–	–	(173,353)	–	(173,353)
Net gain on hedging of net investment in a foreign subsidiary	–	–	–	–	159,890	–	–	159,890	–	159,890
Fair value reserve movement (Note 11)	–	–	–	(10,607)	–	–	–	(10,607)	–	(10,607)
Profit for the year	–	–	–	–	–	–	2,075,286	2,075,286	769	2,076,055
Dividend declared and approved for 2015	–	–	–	–	–	–	(1,312,500)	(1,312,500)	–	(1,312,500)
Transfer to legal reserve	–	415,057	–	–	–	–	(415,057)	–	–	–
Transfer to risk reserve	–	–	209,193	–	–	–	(209,193)	–	–	–
Net movement in other reserves	–	–	–	–	–	26,678	(26,678)	–	–	–
Social and sports fund appropriation (Note 37)	–	–	–	–	–	–	(51,882)	(51,882)	–	(51,882)
Partial disposal of a subsidiary (Note 1)	–	–	–	–	–	–	(25,711)	(25,711)	25,711	–
Net movement in non-controlling interests	–	–	–	–	–	–	–	–	(172,313)	(172,313)
Balance at 31 December 2016	**7,500,000**	**1,862,926**	**1,345,733**	**1,983**	**(14,942)**	**107,146**	**1,902,070**	**12,704,916**	**168,597**	**12,873,513**

The attached notes 1 to 38 form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December

QAR '000s

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		2,045,456	2,072,360
Adjustments for:			
Net impairment losses on financing assets		107,818	1,551
Net impairment losses on investment securities		5,621	1,127
Fair value gain on investment securities carried as fair value through income statement		(3)	(513)
Unrealized (gain) / loss on revaluation of Shari'a compliant risk management instruments		(2,970)	6,678
Depreciation	13	16,865	16,318
Net gain on sale of investment securities	22	(10,818)	(11,817)
Dividend income	22	(8,125)	(4,891)
Share of results of associates	12	(28,203)	(52,377)
Gain on sale of investment in an associate		–	(93,071)
Amortisation of premium and discount on investment securities		(1,809)	(1,502)
Employees' end of service benefit provisions	17(a)	2,889	5,894
Profit before changes in operating assets and liabilities		2,126,721	1,939,757
Change in reserve account with Qatar Central Bank		47,856	(32,301)
Change in due from banks		(669,050)	–
Change in financing assets		(4,572,266)	(5,066,997)
Change in other assets		(232,505)	4,091
Change in due to banks		6,063,614	5,715,114
Change in customer current accounts		(3,912,787)	4,349,865
Change in other liabilities		148,925	(609,640)
		(999,492)	6,299,889
Dividend received		8,125	4,891
Employees' end of service benefits paid	17(a)	(1,406)	(2,210)
Tax paid		(3,041)	(1,193)
Net cash (used in) / from operating activities		**(995,814)**	**6,301,377**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(13,461,883)	(805,991)
Proceeds from sale / redemption of investment securities		4,133,261	1,170,625
Acquisition of fixed assets	13	(25,832)	(22,366)
Dividend received from an associate	12	17,479	13,458
Net cash (used in) / from investing activities		**(9,336,975)**	**355,726**
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in equity of investment account holders		8,420,002	(1,948,773)
Dividends paid		(1,363,858)	(1,194,779)
Net movement in non-controlling interest		17,878	(146,602)
Net cash from / (used in) financing activities		**7,074,022**	**(3,290,154)**
Net (decrease) / increase in cash and cash equivalents		(3,258,767)	3,366,949
Cash and cash equivalents at 1 January		6,451,850	2,779,011
NON-CASH ITEMS			
Investment in subsidiaries reclassified to investment securities		–	230,093
Partial disposal of a subsidiary	1	–	(25,711)
Effects of exchange rate changes on cash and cash equivalents held		(69,032)	101,508
Cash and cash equivalents at 31 December	32	**3,124,051**	**6,451,850**

The attached notes 1 to 38 form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

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 Steet, Doha, Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2017 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 16 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan.

The principal subsidiaries of the Group are as follows:

Entity's name	Country of incorporation	Entity's capital	Entity's activities	Effective percentage of ownership	
				2017	2016
Al Rayan Investment L.L.C.	Qatar	USD 100,000,000	Investment banking	100.0%	100.0%
Al Rayan Financial Brokerage[1]	Qatar	QAR 50,000,000	Financial brokerage	100.0%	100.0%
Al Rayan (UK) Limited[2]	UK	GBP 100,000,000	Investment activities	70.0%	70.0%[3]
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%

1 On 28 December 2016, the Qatar Financial Markets Authority ("QFMA") approved to freeze Al Rayan Financial Brokerage's ("ARFB") license for two years. The operations of ARFB has ceased from 12 January 2017 onwards.

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.

3 The Bank sold 30% of its ownership in Al Rayan (UK) Limited on 29 December 2016 resulting to a change in effective ownership in Al Rayan Bank PLC from 98.34% to 68.84%. Accordingly, the Bank adjusted the carrying amounts of the total equity attributable to equity holders of the Bank and non-controlling interests to reflect the changes in the ownership.

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. The potential merger is subject to the approval of the Qatar Central Bank ("QCB"), the QFMA, the Ministry of Economy and Commerce and other relevant official bodies in the State of Qatar, and the approval of the shareholders in each of the three banks after completion of a detailed legal and financial due diligence. If the merger is approved, the new merged entity will maintain all its dealings in compliance with Shari'a principles.

A committee composed of the management of the three banks has been established in order to oversee the merger according to an initial timeline which has been approved by the Boards of Directors of the three banks. Legal and financial due diligence performed by the individual banks are currently under review by the regulator.

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

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 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, and have been applied consistently by Group entities.

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Group has power, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Notes to the Consolidated Financial Statements

At 31 December 2017

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of consolidation (continued)

ii) Loss of control

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

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

iii) Non-controlling interests

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

The Group treats transactions with non-controlling interests as transactions with equity 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.

iv) 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.

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of consolidation (continued)

v) Associates and joint arrangements (equity-accounted investees)

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

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint venture are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The financial statements include the Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Bank's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

vi) Fund management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors.

b) Foreign currency

i) Foreign currency transactions and balances

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

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

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

Notes to the Consolidated Financial Statements
At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Foreign currency (continued)

ii) Foreign operations

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

– assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised in equity.

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

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

c) Investment securities

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

i) Classification

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

Debt-type instruments

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

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

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

Notes to the Consolidated Financial Statements
At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) 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).

QAR '000s

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

c) **Investment securities (continued)**

iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

d) **Financing assets**

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

Murabaha and Musawama

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

Based on QCB instructions, 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).

Notes to the Consolidated Financial Statements
At 31 December 2017

QAR '000s

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

d) **Financing assets (continued)**

Istisna'a

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

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

Wakala

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

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

e) **Other financial assets and liabilities**

i) Recognition and initial measurement

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

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

ii) De-recognition of financial assets and financial liabilities

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

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

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Other financial assets and liabilities (continued)

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

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.

f) Impairment of financial assets

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

Equity-type investments classified as fair value through equity

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

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Impairment of financial assets (continued)

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

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

g) Cash and cash equivalents

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

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

h) 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.

i) 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.

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

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

i) Fixed assets (continued)

Recognition and initial measurement (continued)

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.

j) 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.

k) 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.

l) Equity of investment account holders

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

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

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

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

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

Notes to the Consolidated Financial Statements
At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) 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.

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.

Notes to the Consolidated Financial Statements
At 31 December 2017

QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) 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.

t) 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.

u) 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.

v) 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.

w) 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.

x) 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.

Notes to the Consolidated Financial Statements

At 31 December 2017

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

y) 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.

z) 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.

aa) Comparatives

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

bb) New standards and interpretations

New standards, amendments and interpretations effective from 1 January 2017

There were no new standards, amendments and interpretations effective from 1 January 2017.

New standards, amendments and interpretations issued but not yet effective

FAS 30: Impairment, Credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments 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 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 will replace 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 will apply 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. The Group is currently awaiting guidance from Qatar Central Bank ("QCB") in this regard.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

bb) New standards and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective (continued)

However, the Group has assessed the estimated impact of applying the ECL regulations issued by the QCB during the year, with effective date of 1 January 2018, on its consolidated financial statements as below:

	Retained earnings	Non-controlling interest
Closing balance as at 31 December 2017	**2,009,007**	**199,067**
Impact on recognition of Expected Credit Losses		
Expected credit losses for due from banks	800	4
Expected credit losses for debt type securities at amortized cost	3,056	18
Expected credit losses for financing assets	428,979	2,163
Expected credit losses for off balance sheet exposures subject to credit risk	63,106	–
	495,941	**2,185**
Estimated adjusted opening balance on date of initial application of 1 January 2018	**1,513,066**	**196,882**

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting the QCB's ECL regulations on 1 January 2018 and on adoption of FAS 30 may change because:

- the QCB's ECL regulations and FAS 30 will require the Group to revise its accounting process and internal controls and these changes are yet to complete;
- although parallel runs were carried out in second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalizing its models for ECL calculations in line with FAS 30; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank receives final implementation guidelines from QCB and presents its first consolidated financial statements that include the date of initial application as of and for the period ending March 2018.

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4. FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

Risk management and structure

Introduction

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

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

Board of Directors

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

Risk management function

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

Assets and liabilities

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

Internal audit

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

Information compiled from all business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, risk unit, and the head of each business division.

On a monthly basis, detailed reporting of industry, customer and geographic risks take place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

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

4.2 Credit risk

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

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

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4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

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 29.

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.

Notes to the Consolidated Financial Statements

At 31 December 2017

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4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

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

	2017	2016
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)	2,426,373	2,766,466
Due from banks	3,311,900	5,692,239
Financing assets	72,097,080	67,634,561
Investment securities - debt	23,227,167	13,893,492
Other assets	414,451	269,312
	101,476,971	**90,256,070**
Other credit risk exposures are as follows:		
Guarantees	12,069,394	16,278,696
Letters of credit	1,784,111	3,604,802
	13,853,505	**19,883,498**

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.

4.2.4 Concentration of risks of financial assets with credit risk exposure

a) By Geographical Sector

	Qatar	Other GCC	Other Middle East	Others	Total
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
2016					
Assets recorded on the consolidated statement of financial position:					
Cash and balances with QCB (excluding cash on hand)	2,766,466	–	–	–	2,766,466
Due from banks	1,601,443	1,963,853	1,699	2,125,244	5,692,239
Financing assets	56,982,743	188,910	3,378,307	7,084,601	67,634,561
Investment securities - debt	12,738,723	669,090	45,777	439,902	13,893,492
Other assets	258,216	–	–	11,096	269,312
	74,347,591	**2,821,853**	**3,425,783**	**9,660,843**	**90,256,070**

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

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

	Qatar	Other GCC	Other Middle East	Others	Total
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**

	Qatar	Other GCC	Other Middle East	Others	Total
2016					
Guarantees	10,535,064	12,691	652,330	5,078,611	16,278,696
Letters of credit	3,348,171	7,360	3,435	245,836	3,604,802
	13,883,235	**20,051**	**655,765**	**5,324,447**	**19,883,498**

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 2017	Gross exposure 2016
Funded and unfunded		
Government	30,792,504	20,883,966
Government agencies	33,135,371	26,575,127
Industry	1,382,315	2,277,711
Commercial	4,894,025	3,605,003
Services	4,724,805	12,451,379
Contracting	1,184,007	976,200
Real estate	16,348,087	16,244,455
Personal	8,574,407	6,898,508
Others	441,450	343,721
Contingent liabilities	13,853,505	19,883,498
Total	**115,330,476**	**110,139,568**

Credit risk exposure

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

	2017	2016
Equivalent grades		
AAA to AA-	64,639,793	49,085,421
A+ to A-	5,651,647	6,951,079
BBB to BBB-	477,444	2,297,609
BB+ to B-	365,094	207,957
Unrated	44,196,498	51,597,502
	115,330,476	**110,139,568**

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality

	Financing assets		Due from banks		Investment in debt-type securities		Other receivables	
	2017	2016	2017	2016	2017	2016	2017	2016
Neither past due nor impaired (low risk):								
Investment grade	38,829,436	31,979,941	–	–	22,064,559	12,483,786	–	–
Standard monitoring	31,495,094	34,392,531	3,311,900	5,692,239	1,137,125	1,384,223	414,451	269,312
Special monitoring	–	11,276	–	–	–	–	–	–
Carrying amount	**70,324,530**	**66,383,748**	**3,311,900**	**5,692,239**	**23,201,684**	**13,868,009**	**414,451**	**269,312**
Past due but not impaired (special mentioned):								
Investment grade	–	–	–	–	–	–	–	–
Standard monitoring	1,311,865	1,094,985	–	–	–	–	–	–
Special monitoring	286,413	93,543	–	–	–	–	–	–
Carrying amount	**1,598,278**	**1,188,528**	**–**	**–**	**–**	**–**	**–**	**–**
Impaired								
Substandard (overdue > 3 months)	232,207	58,428	–	–	–	–	–	–
Doubtful (overdue > 6 months)	55,424	29,989	–	–	–	–	–	–
Loss (overdue > 9 months)	52,321	24,328	–	–	50,967	50,967	3,126	3,126
	339,95	**112,745**	**–**	**–**	**50,967**	**50,967**	**3,126**	**3,126**
Less: impairment allowance-specific	(158,736)	(50,460)	–	–	(25,484)	(25,484)	(3,126)	(3,126)
Less: impairment allowance-collective	(6,944)	–	–	–	–	–	–	–
Net carrying amount (impaired assets)	174,272	62,285	–	–	25,483	25,483	–	–
Carrying amount – net	**72,097,080**	**67,634,561**	**3,311,900**	**5,692,239**	**23,227,167**	**13,893,492**	**414,451**	**269,312**

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality (continued)

Impaired financing assets and investment in debt-type securities

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

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

Financing assets past due but not impaired

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

	2017	2016
Up to 30 days	475,293	719,175
31 to 60 days	209,258	317,243
Over 60 days	913,727	152,110
Gross	**1,598,278**	**1,188,528**

Renegotiated financing assets

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

	2017	2016
Continuing to be impaired after restructuring	5,833	39,723
Non–impaired after restructuring		
– would otherwise have been impaired	536,755	18,254
	542,588	**57,977**

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	
	2017	2016
Past due category:		
Up to 30 days	656,805	1,067,500
31 to 60 days	270,486	869,525
61 – 90 days	999,498	27,646
91 days and above	97,095	59,986
	2,023,884	**2,024,657**

Notes to the Consolidated Financial Statements

At 31 December 2017

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4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.7 Write-off policy

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

This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QAR 1,358 thousand (2016: QAR 1,656 thousand).

4.3 Market risk

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

4.3.1 Management of market risk

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

4.3.2 Exposure to profit rate risk – non-trading portfolios

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

Notes to the Consolidated Financial Statements

At 31 December 2017

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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 to12 months**	**1 to 5 years**	**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)**	**-**	**-**	2.12%
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)**	

Notes to the Consolidated Financial Statements

At 31 December 2017

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4. FINANCIAL RISK MANAGEMENT(continued)

4.3 Market risk (continued)

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

	Carrying amount	Re-pricing in: Less than 3 months	3 to12 months	1 to 5 years	Over 5 years	Non-profit sensitive	Effective profit rate
2016							
Cash and balances with QCB	3,126,085	–	–	–	–	3,126,085	
Due from banks	5,692,239	3,136,115	–	364,050	–	2,192,074	1.91%
Financing assets	67,634,561	16,605,698	19,331,729	13,720,801	17,976,333	–	4.20%
Investment securities	13,889,021	41,866	–	–	–	13,847,155	3.26%
	90,341,906	**19,783,679**	**19,331,729**	**14,084,851**	**17,976,333**	**19,165,314**	
Due to banks	(19,059,705)	(13,436,772)	(5,596,433)	–	–	(26,500)	1.83%
Customer current accounts	(10,533,627)	–	–	–	–	(10,533,627)	
	(29,593,332)	**(13,436,772)**	**(5,596,433)**	**–**	**–**	**(10,560,127)**	
Equity of investment account holders	**(47,490,298)**	**(35,042,971)**	**(10,363,532)**	**(1,847,812)**	**(235,983)**	**–**	1.96%
Consolidated statement of financial position items	13,258,276	(28,696,064)	3,371,764	12,237,039	17,740,350	8,605,187	
Off consolidated statement of financial position items	(25,201,088)	–	(3,718,314)	–	–	(21,482,774)	
Profit Rate Sensitivity Gap	**(11,942,812)**	**(28,696,064)**	**(346,550)**	**12,237,039**	**17,740,350**	**(12,877,587)**	
Cumulative Profit Rate Sensitivity Gap	**(11,942,812)**	**(28,696,064)**	**(29,042,614)**	**(16,805,575)**	**934,775**	**(11,942,812)**	

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

4. FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

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

Sensitivity analysis

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 10 basis point (bp) parallel fall or rise in all yield curves worldwide and a 5 bp rise or fall in the greater than 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:

Sensitivity of net profit	10 bp parallel increase	10 bp parallel decrease
2017		
At 31 December	1,779	(1,779)
2016		
At 31 December	1,673	(1,673)

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).

	2017	2016
Net foreign currency exposure:		
EUR	(985)	305
GBP	(322)	(2,150)
Others	15,771	3,742

Notes to the Consolidated Financial Statements

At 31 December 2017

QAR '000s

4. FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

4.3.3 Exposure to other market risks – non-trading portfolios (continued)

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	
	2017	**2016**
5% increase / (decrease) in currency exchange rate		
EUR	(50)	15
GBP	(16)	(108)
Others	789	187

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:

	2017	**2016**
5% increase / (decrease) in QE 30 index/other indices		
Increase / (decrease) in profit and loss	–	–
Increase / (decrease) in equity	5,035	1,322

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**
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**

	Level 1	**Level 2**	**Level 3**	**Total**
2016				
Shari'a-compliant				
risk management instruments	–	18,649	–	18,649
Investment securities	62,962	87,486	–	150,448
	62,96	**106,135**	**–**	**169,097**
Shari'a-compliant				
risk management instruments	–	17,264	–	17,264
	–	**17,264**	**–**	**17,264**

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 2,567 million (2016: QAR 2,693 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 4,456 thousand are carried at cost (2016: QAR 4,694 thousand).

During the reporting periods 31 December 2017 and 2016, there were no transfers among Levels 1, 2 and 3 fair value measurements.

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4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of e.g. customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for 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:

	2017	2016
At 31 December	78%	86%
Average for the year	88%	80%
Maximum for the year	101%	89%
Minimum for the year	76%	73%

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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
2017						
Cash and balances with QCB	2,799,819	481,20	–	–	–	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**

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4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

4.4.2 Maturity analysis (continued)

	Carrying amount	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2016						
Cash and balances with QCB	3,126,085	759,611	–	–	–	2,366,474
Due from banks	5,692,239	5,328,189	–	–	364,050	–
Financing assets	67,634,561	7,787,125	8,818,573	19,331,729	13,720,801	17,976,333
Investment securities	14,012,110	3,029,954	141,194	650,963	6,294,371	3,895,628
Other assets	269,312	269,312	–	–	–	–
Total financial assets	**90,734,307**	**17,174,191**	**8,959,767**	**19,982,692**	**20,379,222**	**24,238,435**
Due to banks	19,059,705	10,550,226	2,913,046	5,596,433	–	–
Customer current accounts	10,533,627	10,533,627	–	–	–	–
Total financial liabilities	29,593,332	21,083,853	2,913,046	5,596,433	–	–
Equity of investment account holders	47,490,298	21,518,337	15,889,009	8,743,328	1,339,624	–
Total financial liabilities and equity of investment account holders	**77,083,630**	**42,602,190**	**18,802,055**	**14,339,761**	**1,339,624**	**–**
Difference	**13,650,677**	**(25,427,999)**	**(9,842,288)**	**5,642,931**	**19,039,598**	**24,238,435**

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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	Gross undiscounted cash flows	Less than one month	One to 3 months	3 to 12 months	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	1,905,742	1,905,742	1,905,742	–	–	–	–
Total liabilities	**33,649,901**	**33,671,142**	**31,540,516**	**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	–
	89,564,593	**89,930,211**	**47,892,194**	**25,019,743**	**14,727,678**	**2,241,367**	**49,229**

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4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

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

	Carrying amount	Gross undiscounted cash flows	Less than one month	One to 3 months	3 to 12 months	1 to 5 Years	Over 5 years
2016							
Non-derivative liabilities							
Due to banks	19,059,705	19,104,275	12,313,638	2,070,314	4,720,323	–	–
Customer current accounts	10,533,627	10,533,627	10,533,627	–	–	–	–
Other liabilities	1,573,592	1,573,592	1,573,592	–	–	–	–
Total liabilities	**31,166,924**	**31,211,494**	**24,420,857**	**2,070,314**	**4,720,32**	**–**	**–**
Equity of investment account holders	47,490,298	47,733,522	23,115,547	15,023,827	8,207,406	1,386,742	–
Shari'a-compliant risk management instruments							
Risk management:	1,385						
Outflow		(20,010)	(5,970)	(1,682)	(12,358)	–	–
Inflow		21,395	6,572	1,530	13,293	–	–
	78,658,607	**78,946,401**	**47,537,006**	**17,093,989**	**12,928,664**	**1,386,742**	**–**

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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 period.

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

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

4.6 Capital management (continued)

Regulatory capital (continued)

The following table summarises the capital adequacy of the Group under Basel III requirements:

	2017	2016
Common Equity Tier (CET) 1 capital/Tier 1	11,854,806	11,317,730
Additional Tier 1 capital	38,573	26,394
Additional Tier 2 capital	38,573	26,394
Total eligible capital	11,931,952	11,370,518
Total risk weighted assets	61,764,273	60,315,362
CET1/Tier 1 Ratio	**19.19%**	**18.76%**
Total Capital Ratio	**19.32%**	**18.85%**

The expected loss calculation disclosed in note 3(bb) is not expected to have a significant impact on the total capital ratio of the Group.

The minimum accepted CAR under Basel III as per QCB requirements are as follows:
- Minimum limit without Capital Conservation Buffer is 10%;
- Minimum limit including Capital Conservation Buffer is 12.5%; and
- Minimum Total Capital plus Conservation Buffer plus Domestic Systematic Important Bank buffer is 13.25%.

Risk weighted assets and carrying amounts

	Basel III Risk weighted amount		Carrying amount	
	2017	2016	2017	2016
Cash and balances with QCB	–	–	2,799,819	3,126,085
Due from banks	686,992	1,180,653	3,311,900	5,692,239
Financing assets	41,779,613	37,026,536	72,097,080	67,634,561
Investment securities	2,077,357	2,050,456	23,423,469	14,012,110
Fixed assets and other assets	785,688	538,058	796,417	557,180
Off balance sheet assets	8,319,575	11,695,361	47,838,931	47,467,804
Total risk weighted assets for credit risk	**53,649,225**	**52,491,064**	**150,267,616**	**138,489,979**
Risk weighted assets for market risk	3,755,450	3,365,831		
Risk weighted assets for operational risk	4,359,598	4,458,467		
	8,115,048	**7,824,298**		

	2017	2016
Risk weighted assets	61,764,273	60,315,362
Regulatory capital	11,931,952	11,370,518
Risk weighted assets as a percentage of regulatory capital (capital ratio)	19.32%	18.85%

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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 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 loans, 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.

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6. OPERATING SEGMENTS (continued)

Information about operating segments

2017	Corporate Banking	Retail Banking	Asset Management	International operations	Unallocated	Total
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**

2016	Corporate Banking	Retail Banking	Asset Management	International operations	Unallocated	Total
External revenue:						
Total income from financing and investing activities	2,288,928	648,599	22,973	194,045	–	3,154,545
Net fee and commission income	265,585	–	31,669	15,269	–	312,523
Foreign exchange gain / (loss)	132,001	–	–	1,925	–	133,926
Share of results of associates	–	–	–	–	52,377	52,377
Gain on sale of an associate	–	–	–	–	93,071	93,071
Other income	–	–	–	–	8,599	8,599
Total segment revenue	**2,686,514**	**648,599**	**54,642**	**211,239**	**154,047**	**3,755,041**
Other material non-cash items:						
Net recoveries and reversals / (impairment losses) on financing assets	7,248	(6,394)	–	(2,405)	–	(1,551)
Net impairment loss on investment securities	(1,127)	–	–	–	–	(1,127)
Reportable segment profit before tax	**1,699,038**	**495,264**	**37,114**	**40,020**	**(199,076)**	**2,072,360**
Reportable segment assets	**69,260,325**	**14,316,859**	**483,051**	**6,400,459**	**1,070,041**	**91,530,735**
Reportable segment liabilities	**26,491,447**	**2,037,608**	**9,406**	**1,385,952**	**1,242,511**	**31,166,924**
Reportable segment equity of investment account holders	**31,233,427**	**11,783,987**	**–**	**4,472,884**	**–**	**47,490,298**

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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
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**

	Fair value through income statement	Fair value through equity	Amortised cost	Total carrying amount	Fair value
2016					
Cash and balances with QCB	–	–	3,126,085	3,126,085	3,126,085
Due from banks	–	–	5,692,239	5,692,239	5,692,239
Financing assets	–	–	67,634,561	67,634,561	67,634,561
Investment securities:					
– Measured at fair value	4,471	150,671	–	155,142	155,142
– Measured at amortised cost	–	–	13,856,968	13,856,968	13,917,718
Other assets	–	–	269,312	269,312	269,312
Shari'a-compliant risk management instruments	18,649	–	–	18,649	18,649
	23,120	**150,671**	**90,579,165**	**90,752,956**	**90,813,706**
Due to banks	–	–	19,059,705	19,059,705	19,059,705
Customer current accounts	–	–	10,533,627	10,533,627	10,533,627
Other liabilities	–	–	849,809	849,809	849,809
Equity of investment account holders	–	–	47,490,298	47,490,298	47,490,298
Shari'a-compliant risk management instruments	17,264	–	–	17,264	17,264
	17,264	**–**	**77,933,439**	**77,950,703**	**77,950,703**

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8. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2017	2016
Cash on hand	373,446	359,619
Cash reserve with QCB*	2,318,618	2,366,474
Current account with QCB	107,755	399,992
	2,799,819	**3,126,085**

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

9. DUE FROM BANKS

	2017	2016
Current accounts	1,030,595	2,192,074
Wakala placements with banks	687,960	1,850,022
Commodity murabaha receivable	1,593,345	1,650,143
	3,311,900	**5,692,239**

10. FINANCING ASSETS

	2017	2016
a) By type		
Receivables and balances from financing activities:		
Murabaha	56,148,558	55,519,712
Ijarah	13,502,681	8,875,993
Istisna'a	1,391,659	1,856,997
Musharaka	5,817,142	4,661,716
Others	562,755	317,071
Total receivables and balances from financing activities	**77,422,795**	**71,231,489**
Deferred profit	(5,160,035)	(3,546,468)
Allowance for impairment and profit in suspense (note b)	(165,680)	(50,460)
Net receivables and balances from financing activities	**72,097,080**	**67,634,561**

The total non-performing financing assets at 31 December 2017 amounted to QAR 386,062 thousand representing 0.50% of the gross financing assets (2016: QAR 112,745 thousand, representing 0.16% of the gross financing assets).

Specific impairment of financing assets includes QAR 10,020 thousand of profit in suspense (2016: QAR 1,918 thousand).

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10. FINANCING ASSETS (continued)

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

	Specific and collective impairment	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**

	Specific and collective impairment	Profit in suspense	Total 2016
Balance as at 1 January	49,918	3,532	53,450
Charge for the year	29,648	597	30,245
Recoveries / reversals during the year	(28,097)	(2,211)	(30,308)
Write off during the year	(1,656)	–	(1,656)
Effect of foreign currency movement	(1,271)	–	(1,271)
Balance at 31 December	**48,542**	**1,918**	**50,460**

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

	Corporate and SME	Retail	Total 2017
Balance as at 1 January	31,639	18,821	50,460
Charge for the year	95,860	26,273	122,133
Recoveries / reversals during the year	(5,180)	(1,033)	(6,213)
Write off during the year	–	(1,358)	(1,358)
Effect of foreign currency movement	–	658	658
Balance at 31 December	**122,319**	**43,361**	**165,680**

	Corporate and SME	Retail	Total 2016
Balance as at 1 January	41,098	12,352	53,450
Charge for the year	20,268	9,977	30,245
Recoveries / reversals during the year	(29,727)	(581)	(30,308)
Write off during the year	–	(1,656)	(1,656)
Effect of foreign currency movement	–	(1,271)	(1,271)
Balance at 31 December	**31,639**	**18,821**	**50,460**

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10. FINANCING ASSETS (continued)

d) By sector

	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 on financing assets						(165,680)
						72,097,080

	Murabaha	Ijarah	Istisna'a	Musharaka	Others	Total 2016
Government and related agencies	33,318,988	692,247	314,938	–	1,266	34,327,439
Non-banking financial institutions	3,434,596	–	–	–	474	3,435,070
Industry	393,503	–	711,499	–	8,755	1,113,757
Commercial	1,788,035	18,049	–	115,706	201,153	2,122,943
Services	3,290,343	640,497	–	–	12,753	3,943,593
Contracting	984,006	3,845	–	8,149	9,888	1,005,888
Real estate	6,797,490	7,207,976	830,560	1,434,740	122	16,270,888
Personal	4,265,637	313,379	–	2,825,669	82,660	7,487,345
Other	1,247,114	–	–	277,452	–	1,524,566
	55,519,712	**8,875,993**	**1,856,997**	**4,661,716**	**317,071**	**71,231,489**
Less: Deferred profit						(3,546,468)
Allowance for impairment on financing assets						(50,460)
						67,634,561

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11. INVESTMENT SECURITIES

	2017			2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Investments classified as fair value through income statement						
Investments classified as held for trading						
• Equity type investments	–	–	–	–	–	–
• Debt type investments						
– Fixed profit rate	4,474	–	4,474	4,471	–	4,471
	4,474	**–**	**4,474**	**4,471**	**–**	**4,471**
Debt-type investments classified at amortised cost						
Fixed profit rate	1,131,080	–	1,131,080	1,356,800	–	1,356,800
Floating profit rate	20,933	–	20,933	41,866	–	41,866
Government of Qatar Sukuk	1,349,599	20,714,960	22,064,559	1,258,786	11,225,000	12,483,786
Less: Allowance for impairment	(25,484)	–	(25,484)	(25,484)	–	(25,484)
	2,476,128	**20,714,960**	**23,191,088**	**2,631,968**	**11,225,000**	**13,856,968**
Investments classified as fair value through equity						
• Equity type investments	100,700	95,602	196,302	26,438	92,180	118,618
• Equity type investments						
– Fixed profit rate	31,605	–	31,605	32,053	–	32,053
	132,305	**95,602**	**227,907**	**58,491**	**92,180**	**150,671**
	2,612,907	**20,810,562**	**23,423,469**	**2,694,930**	**11,317,180**	**14,012,110**

The Group has recognized impairment loss for certain equity-type investments classified as fair value through equity during the year totalling QAR 5,621 thousand (2016: QAR 1,127 thousand), due to significant and/or prolonged reduction in fair values.

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11. INVESTMENT SECURITIES (continued)

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

	2017			2016		
	Positive fair value	Negative fair value	Total	Positive fair value	Negative fair value	Total
Balance at 1 January	6,538	(4,555)	1,983	12,738	(148)	12,590
Net change in fair value	(193)	(7,598)	(7,791)	2,275	(5,755)	(3,480)
Transferred to consolidated income statement on sale	(1,823)	4,081	2,258	(4,603)	221	(4,382)
Transferred to consolidated income statement due to impairment	–	5,621	5,621	–	1,127	1,127
Share of other comprehensive income of associates	1,003	–	1,003	(3,872)	–	(3,872)
Net fair value movement	(1,013)	2,104	1,091	(6,200)	(4,407)	(10,607)
Balance at 31 December	**5,525**	**(2451)**	**3,074**	**6,538**	**(4,555)**	**1,983**

12. INVESTMENT IN ASSOCIATES

Associates' movement during the year is as follows:

	2017	2016
Balance at 1 January	508,560	469,052
Share of results	28,203	52,377
Cash dividend received	(17,479)	(13,458)
Investment acquired during the year	–	4,401
Share of other comprehensive income	1,003	(3,872)
Other movements	–	60
Balance at 31 December	**520,287**	**508,560**

Name of the Company	Country	Company's activities	Ownership %	
			2017	2016
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.

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12. INVESTMENT IN ASSOCIATES (continued)

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

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
2016	**NMH**	**Ci San**	**Kirnaf**	**Daman**	**Linc**
Total assets	159,702	115,821	1,111,403	899,175	100,838
Total liabilities	2,701	60,474	338,047	601,495	12,971
Total revenue	24,584	74,454	74,406	75,169	128,031
Net profit	3,209	7,036	25,208	46,522	60,540
Share of profit recognised	637	3,518	18,637	9,304	20,281

13. FIXED ASSETS

	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**

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13. FIXED ASSETS (continued)

	Land and building	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Work in progress	Total
Cost:						
Balance at 1 January 2016	98,170	81,640	38,510	92,660	2,274	313,254
Additions	307	3,247	3,761	9,455	5,596	22,366
Transfers during the year	–	300	–	–	(300)	–
Effect of foreign currency movement	(3,423)	(4,170)	(663)	(2,666)	–	(10,922)
Balance at 31 December 2016	**95,054**	**81,017**	**41,608**	**99,449**	**7,570**	**324,698**
Accumulated depreciation:						
Balance at 1 January 2016	2,850	55,073	23,295	84,554	–	165,772
Depreciation for the year	541	6,756	3,846	5,175	–	16,318
Effect of foreign currency movement	(27)	(2,759)	(423)	(2,377)	–	(5,586)
Balance at 31 December 2016	**3,364**	**59,070**	**26,718**	**87,352**	**–**	**176,504**
Net book value:						
At 31 December 2016	**91,690**	**21,947**	**14,890**	**12,097**	**7,570**	**148,194**

14. OTHER ASSETS

	2017	2016
Accrued profit	417,577	272,438
Prepayments and other receivables	146,229	101,852
Advances to suppliers	75,786	37,822
	639,592	412,112
Less: Allowance for impairment losses	(3,126)	(3,126)
	636,466	**408,986**

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 13,624 thousand (2016: QAR 18,649 thousand).

15. DUE TO BANKS

	2017	2016
Current accounts	39,292	26,500
Commodity murabaha payable	933,155	1,768,713
Short-term Murabaha facilities from banks	309,807	364,050
Wakala payable	15,473,958	15,626,367
Repurchase agreements	8,367,107	1,274,075
	25,123,319	**19,059,705**

Wakala payable includes various facilities with maturities up to 6 months and carries a profit rate of 0.05% to 2.60% (2016: maturities up to 10 months and carries a profit rate of 0.40% to 2.25%).

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16. CUSTOMER CURRENT ACCOUNTS

	2017	2016
By sector:		
Government	820,284	5,000,689
Non-banking financial institutions	15,858	17,842
Corporate	2,682,326	2,848,812
Individuals	3,102,372	2,666,284
	6,620,840	**10,533,627**

17. OTHER LIABILITIES

	2017	2016
Unearned commission	149,725	149,242
Dividend payable	702,207	566,073
Acceptances	453,813	231,854
Manager's cheque and prepaid cards	117,314	146,501
Funds received against dividend payment on behalf of customers	106,901	120,015
Other staff provisions	82,936	81,934
Profit payable to banks	60,027	62,939
Accrued expenses	44,423	25,405
Social and sports fund (Note 37)	50,704	51,882
Provision for employees' end of service benefits (a)	37,476	35,993
Others	99,003	101,754
	1,904,529	**1,573,592**

Others include negative fair value of Shari'a-compliant risk management instruments amounting to QAR 9,269 thousand (2016: QAR 17,264 thousand).

a) Provision for employees' end of service benefits

	2017	2016
Balance at 1 January	35,993	32,309
Provisions made during the year	2,889	5,894
Paid during the year	(1,406)	(2,210)
Balance at 31 December	**37,476**	**35,993**

18. EQUITY OF INVESTMENT ACCOUNT HOLDERS

	2017	2016
a) By type		
Saving accounts	3,915,695	5,145,444
Term accounts	47,037,216	37,874,166
Short-term investment accounts	4,612,683	4,234,725
Profit payable to equity of investment account holders	344,627	235,884
Share in the fair value reserve	125	79
	55,910,346	**47,490,298**

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18. EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

	2017	2016
b) By sector		
Government	23,319,595	17,004,341
Non-banking financial institutions	61,033	96,650
Retail	15,721,211	12,586,623
Corporate	16,463,755	17,566,721
Profit payable to equity of investment account holders	344,627	235,884
Share in the fair value reserve	125	79
	55,910,346	**47,490,298**

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

	2017	2016
Return on equity of investment account holders in the profit before Masraf's Mudaraba income	2,319,450	2,137,533
Masraf's Mudaraba income	(2,196,372)	(2,025,259)
Return on investment account holders	123,078	112,274
Support provided by Masraf	992,328	748,642
Return on investment account holders after Masraf's support	**1,115,406**	**860,916**

	2017 %	2016 %
Rates of profit allotment:		
More than one year deposits	2.43	1.79
One year deposits	2.35	1.58
Six months deposits	1.59	1.45
Three months deposits	1.47	1.33
Short-term investment accounts	1.01	1.01
Saving accounts	1.41	1.33
Saving accounts-millionaire	1.60	1.49

19. EQUITY

a) Share capital

	2017	2016
Authorised, issued and paid up		
750,000,000 shares at QAR 10 each	7,500,000	7,500,000

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19. EQUITY (continued)

b) Legal reserve

	2017	2016
Balance at 1 January	1,862,926	1,447,869
Transfer from retained earnings (i)	202,815	415,057
Balance at 31 December	**2,065,741**	**1,862,926**

(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 2017, the Group transferred to legal reserve 10% of the net profit for the year (2016: 20% 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 2017, an amount of QAR 162 million has been transferred to the risk reserve (2016: QAR 209 million).

d) Fair value reserve

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

	2017	2016
Balance at the 1 January	1,983	12,590
Net unrealised losses	(7,666)	(3,401)
Transferred to consolidated income statement	2,258	(4,382)
Transferred to consolidated income statement due to impairment	5,621	1,127
Share of other comprehensive income of associates	1,003	(3,872)
Share of equity of investment account holders in the fair value reserve	(125)	(79)
Net fair value movement	1,091	(10,607)
Balance at 31 December (shareholders' share)	**3,074**	**1,983**

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.

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19. EQUITY (continued)

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.

	2017	2016
Balance at 1 January	107,146	80,468
Share of results of associates	28,203	52,377
Dividend from associates transferred to retained earnings	(5,418)	(5,418)
Other movement	(16,930)	(20,281)
Balance at 31 December	**113,001**	**107,146**

g) Proposed dividend

The Board of Directors in its meeting held on 16 January 2018 proposed a cash dividend of 20% (2016: 20%) of the share capital amounting to QAR 1,500 million (2016: 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.

20. NON-CONTROLLING INTERESTS

This represents the Group's non-controlling interest in Al Rayan (UK) Limited (30%) and Al Rayan Bank PLC (31.16%) (31 December 2016: Al Rayan (UK) Limited - 30% and Al Rayan Bank PLC - 31.16%).

21. INCOME FROM FINANCING ACTIVITIES

	2017	2016
Income from Murabaha	2,287,250	1,996,551
Income from Istisna'a	57,082	50,981
Income from Ijarah	542,108	374,692
Income from Musharaka	214,227	198,403
	3,100,667	**2,620,627**

22. INCOME FROM INVESTING ACTIVITIES

	2017	2016
Income from investment in debt-type instruments	701,346	460,125
Dividend income	8,125	4,891
Income from inter-bank placements with Islamic banks	71,710	56,572
Net (loss) / gain on sale of equity-type investments	(1,876)	7,175
Net gain on sale of debt-type investments	12,694	4,642
Fair value gain on investment securities carried as fair value through income statement	3	513
	792,002	**533,918**

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23. NET FEE AND COMMISSION INCOME

	2017	2016
Commission on financing activities	155,113	198,288
Commission on trade finance activities	85,599	77,105
Commission on banking services	37,935	38,895
	278,647	314,288
Fee and commission expenses	(4,913)	(1,765)
	273,734	**312,523**

24. FOREIGN EXCHANGE GAIN

	2017	2016
Dealing in foreign currencies	142,811	134,502
Revaluation of assets and liabilities	(284)	(576)
	142,527	**133,926**

25. OTHER INCOME

	2017	2016
Rental income	2,786	2,152
Miscellaneous	6,378	6,447
	9,164	**8,599**

26. STAFF COSTS

	2017	2016
Salaries, allowances and other staff costs	318,418	273,222
Staff indemnity costs	2,889	5,894
Staff pension fund costs	6,391	5,798
	327,698	**284,914**

27. OTHER EXPENSES

	2017	2016
Rent and maintenance	61,828	58,585
Advertising expenses	37,399	15,544
Board of Directors' remuneration (Note 33c)	19,168	15,622
Legal, professional and consulting fees	25,659	6,424
Information technology	20,827	9,381
Shari'a Board compensation	844	428
Other operating expenses	66,896	55,481
	232,621	**161,465**

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28. 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:

	2017	2016
Payable not later than 1 year	26,206	23,709
Payable later than 1 year and not later than 5 years	74,331	87,124
	100,537	**110,833**

b) Contingent liabilities

	2017	2016
Unutilised credit facilities	2,532,721	2,383,218
Guarantees	12,069,394	16,278,696
Letters of credit	1,784,111	3,604,802
	16,386,226	**22,266,716**

c) Other undertakings and commitments

	2017	2016
Profit rate swap	4,052,993	3,718,314
Unilateral promise to buy/sell currencies	27,399,712	21,482,774
	31,452,705	**25,201,088**

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

Geographical sector

	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**

	Qatar	Other GCC	Europe	North America	Others	Total
2016						
Cash and balances with QCB	3,115,207	–	10,878	–	–	3,126,085
Due from banks	1,601,443	1,963,853	2,064,960	59,985	1,998	5,692,239
Financing assets	56,982,743	188,910	7,084,600	–	3,378,308	67,634,561
Investment securities	12,824,606	697,081	294,332	–	196,091	14,012,110
Investment in associates	101,490	407,070	–	–	–	508,560
Fixed assets	119,487	–	28,707	–	–	148,194
Other assets	351,872	–	57,114	–	–	408,986
TOTAL ASSETS	**75,096,848**	**3,256,914**	**9,540,591**	**59,985**	**3,576,397**	**91,530,735**
Due to banks	13,106,484	4,564,768	437,344	–	951,109	19,059,705
Customer current accounts	9,797,364	85,422	638,081	302	12,458	10,533,627
Other liabilities	1,573,592	–	–	–	–	1,573,592
Total liabilities	24,477,440	4,650,190	1,075,425	302	963,567	31,166,924
Equity of investment account holders	41,241,420	2,142,161	3,936,416	–	170,301	47,490,298
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**65,718,860**	**6,792,351**	**5,011,841**	**302**	**1,133,868**	**78,657,222**

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

Industrial sector

	Real estate	Construction, engineering and manufacturing	Oil and gas	Financial services	Individuals	Others	Total
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**

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29. 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
2016							
Cash and balances with QCB	–	–	–	3,126,085	–	–	3,126,085
Due from banks	–	–	–	5,692,239	–	–	5,692,239
Financing assets	15,957,075	1,334,353	4,157	3,280,167	6,898,506	40,160,303	67,634,561
Investment securities	287,378	14,063	8,552	569,026	–	13,133,091	14,012,110
Investment in associates	29,982	–	–	429,499	–	49,079	508,560
Fixed assets	–	–	–	–	–	148,194	148,194
Other assets	–	–	–	–	–	408,986	408,986
TOTAL ASSETS	**16,274,435**	**1,348,416**	**12,709**	**13,097,016**	**6,898,506**	**53,899,653**	**91,530,735**
Due to banks	–	–	–	19,059,705	–	–	19,059,705
Customer current accounts	72,955	249,576	1,019	17,842	2,666,284	7,525,951	10,533,627
Other liabilities	–	–	–	–	–	1,573,592	1,573,592
Total liabilities	72,955	249,576	1,019	19,077,547	2,666,284	9,099,543	31,166,924
Equity of investment account holders	88,472	204,670	762	96,650	8,842,520	38,257,224	47,490,298
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**161,427**	**454,246**	**1,781**	**19,174,197**	**11,508,804**	**47,356,767**	**78,657,222**

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30. MATURITY PROFILE

	Up to 3 months	3-6 months	6 months -1 year	1-5 years	Over 5 years	Total
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**

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30. MATURITY PROFILE (continued)

	Up to 3 months	3-6 months	6 months -1 year	1-5 years	Over 5 years	Total
2016						
Cash and balances with QCB	759,611	–	–	–	2,366,474	3,126,085
Due from banks	5,328,189	–	–	364,050	–	5,692,239
Financing assets	16,605,698	16,775,523	2,556,206	13,720,801	17,976,333	67,634,561
Investment securities	3,171,148	600,000	50,963	6,294,371	3,895,628	14,012,110
Investment in associates	–	–	–	–	508,560	508,560
Fixed assets	–	–	–	–	148,194	148,194
Other assets	408,986	–	–	–	–	408,986
TOTAL ASSETS	**26,273,632**	**17,375,523**	**2,607,169**	**20,379,222**	**24,895,189**	**91,530,735**
Due to banks	13,463,272	4,961,216	635,217	–	–	19,059,705
Customer current accounts	10,533,627	–	–	–	–	10,533,627
Other liabilities	1,537,446	36,146	–	–	–	1,573,592
Total liabilities	25,534,345	4,997,362	635,217	–	–	31,166,924
Equity of investment account holders	37,407,346	3,097,785	5,645,543	1,339,624	–	47,490,298
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**62,941,691**	**8,095,147**	**6,280,760**	**1,339,624**	**–**	**78,657,222**
MATURITY GAP	**(36,668,059)**	**9,280,376**	**(3,673,591)**	**19,039,598**	**24,895,189**	**12,873,513**

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31. 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.

	2017	2016
Profit for the year attributable to equity holders of the Bank	2,028,145	2,075,286
Weighted average number of shares outstanding during the year (thousand)	750,000	750,000
Basic earnings per share (QAR)	2.704	2.767

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.

32. 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:

	2017	2016
Cash on hand and balances with QCB excluding cash reserve	481,201	759,611
Due from bank	2,642,850	5,692,239
	3,124,051	**6,451,850**

33. 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

	2017	2016
Liabilities		
Equity of investment account holders – customer	3,301,475	998,308

b) Consolidated income statement items

	2017	2016
Return on equity of investment account holders – customer	25,177	18,866

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33. RELATED PARTIES (continued)

c) Transactions with key management personnel

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

	2017	2016
Financing	837	1,039

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

	2017	2016
Remuneration to Board of Directors including meeting allowances (Note 27)	19,168	15,622
Salaries and other benefits to key management	14,799	20,628

34. 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.

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.

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34. SHARI'A-COMPLIANT RISK MANAGEMENT INSTRUMENTS (continued)

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

	Positive fair value	Negative fair value	Notional amount	Within 3 months	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**

	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years
2016							
Shari'a-compliant risk management instruments							
Profit rate swaps	344	344	3,718,314	314,962	–	3,124,660	278,692
Unilateral promise to buy/sell currencies	18,305	16,920	21,482,774	17,978,935	3,503,839	–	–
	18,649	**17,264**	**25,201,088**	**18,293,897**	**3,503,839**	**3,124,660**	**278,692**

35. ZAKAT

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

36. 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.

37. 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 50.7 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2017 (2016: QAR 51.9 million) for the support of sports, cultural and charitable activities.

38. COMPARATIVE FIGURES

The comparative figures presented for 2016 have been reclassified where necessary to preserve consistency with the 2017 figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

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FINANCIAL STATEMENTS OF THE PARENT BANK

A) STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

	2017	2016
ASSETS		
Cash and balances with QCB	2,795,830	3,114,622
Due from banks	2,508,356	4,789,324
Financing assets	65,315,407	63,147,362
Investment securities	22,408,838	13,145,653
Investment in subsidiaries and associates	1,126,905	1,095,428*
Fixed assets	129,130	118,918
Other assets	572,134	348,771
TOTAL ASSETS	**94,856,600**	**85,760,078**
LIABILITIES		
Due to banks	25,372,481	19,125,245
Customer current accounts	5,043,815	9,569,607
Other liabilities	1,981,935	1,645,812
TOTAL LIABILITIES	**32,398,231**	**30,340,664**
EQUITY OF INVESTMENT ACCOUNT HOLDERS	**49,671,438**	**43,039,953**
EQUITY		
Share capital	7,500,000	7,500,000
Legal reserve	2,065,741	1,862,926
Risk reserve	1,507,567	1,345,733
Fair value reserves	5,965	7,485
Retained earnings	1,707,658	1,663,317
TOTAL EQUITY	**12,786,931**	**12,379,461**
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY	**94,856,600**	**85,760,078**

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 pages 11 to 25 except for investment in subsidiaries and associates which are carried at cost, less impairment if any.

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FINANCIAL STATEMENTS OF THE PARENT BANK (continued)

B) INCOME STATEMENT OF THE PARENT BANK

	2017	2016
Net income from financing activities	2,891,598	2,449,178
Net income from investing activities	767,569	499,954
Total net income from financing and investing activities	**3,659,167**	**2,949,132**
Fee and commission income	239,392	266,112
Fee and commission expense	(1,270)	(1,197)
Net fee and commission income	**238,122**	**264,915**
Foreign exchange gain	142,596	132,001
Gain on sale of investment in an associate	–	93,071
Other income	7,670	8,580
TOTAL INCOME	**4,047,555**	**3,447,699**
Staff costs	(250,761)	(222,375)
Depreciation	(12,648)	(12,855)
Other expenses	(185,142)	(117,011)
Finance expense	(489,352)	(364,260)
TOTAL EXPENSES	**(937,903)**	**(716,501)**
Net recoveries / reversals on financing assets	(105,705)	854
Net impairment losses on investments	(660)*	(3,410)*
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS	**3,003,287**	**2,728,642**
Less: Return to investment account holders	(1,043,593)	(784,425)
NET PROFIT FOR THE YEAR	**1,959,694**	**1,944,217**

* This includes impairment loss recognized against investment in a subsidiary amounting to QAR 660 thousand representing losses for the year ended 31 December 2017 (31 December 2016: QAR 3.4 million representing losses for the year ended 31 December 2016).