# ANNUAL REPORT
# 2013

مصرف الريان
MASRAF AL RAYAN

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

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**His Highness**
**Sheikh Hamad Bin Khalifa Al-Thani**
**Father Emir**

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

# MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR

**Dr. Hussain Ali Al-Abdulla**

**Respectable Shareholders**

On behalf of Masraf Al Rayan's Board of Directors, I am pleased to present you the report for the year ended on 31st December, 2013.

Another year has passed by during which the Board of Directors continued to exert earnest efforts supported by the cooperation of the executive management and staff to deliver the best possible results in accordance with the responsibility bestowed upon us and our commitment to the shareholders and customers alike.

**The financial year 2013 was not different from the previous few years as it was also impacted by the financial crisis which had affected the global markets, however we managed again as we did during the last few years to overcome these challenges through deeper devotion, attentiveness, perseverance and mitigated as much as we could all potential risks.**

Masraf Al Rayan declared a net profit of QAR 1.7 billion for the financial year 2013, a growth of 13.2% compared to 2012, evidencing an impressive performance that shall also pave the way towards achieving greater goals.

The Bank achieved a growth of 7.98% in total assets reaching QAR 66,548 million compared to QAR 61,628 million as of December 31, 2012; while return on assets achieved was 2.56%. Investments grew by 13.8% to reach QAR 16,565 million from QAR 14,552 million as of 31 December 2012. Total customers' deposits rose by 7.4% to reach QAR 48,331 million compared to QAR 45,010 million as of 31 December 2012. Total shareholders' equity before proposed distributions reached QAR 10,523 million compared to QAR 9,596 million, up by 9.7% from the previous year. The book value per share reached QAR 14.03 and earnings per share was QAR 2.27.

**These final results encouraged the Board of Directors at its meeting held on January 27, 2014 to recommend a distribution of a cash dividend of QAR 1.50 per share (15% of the fully paid-up capital) and to transfer to the legal reserves 20% of the 2013 net profit instead of 10% as specified in the Masraf Al Rayan's Articles of Associations.**

Simultaneously, Masraf Al Rayan has shown a strong interest in continuing on its diversification course with the successful acquisition of the Islamic Bank of Britain Plc and its solid resolve to meet all the requirements necessary to acquire a major stake in a commercial bank in Libya. Efforts will be made to convert the commercial bank in Libya into an Islamic bank very smoothly taking into account the current delicate state of affairs within the region while continuing in the Bank's quest to find more investment opportunities.

Internally, Masraf Al Rayan continued its defined policy to focus on developing its workforce to meet set standards by giving special attention in attracting young Qataris through well planned initiatives, an example being the open career day held in collaboration with the Ministry of Labour and Social Affairs at the end of December 2013. The Bank has managed to increase its Qatarisation to 30% while working hard to achieve its mission of developing and maintaining national talents to be tomorrow's business leaders of Qatar.

The growth in net profit and assets are matched with the growth in the Bank's services to its customers through new products and services in accordance with the international best practices relying fully on modern technologies, such as Al Rayan online banking, Alrayan mobile and Alrayan phone. In addition, the Bank enhanced its customer experience and convenience through provision of full banking services at our 11 branches and a network of 55 ATMs distributed throughout Qatar. We also continued our pursuit to strengthen relationships with our clients in order to grow the Bank's market share using top notch customer services as an advantage that clearly sets us apart from our competitors.

During 2013 and similar to previous years, Masraf Al Rayan continued its corporate social responsibility programs by remaining true to its interaction with its adjacent communities through real active partnerships and sponsorships including sports, charitable and cultural initiatives, which contribute to creating an environment that is conducive to improving individuals and groups that make up the society.

Finally, I take immense pleasure on behalf of the Board of Directors in extending our most profound gratitude and appreciation to His Highness Sheikh Tamim Bin Hamad Al Thani, The Emir of the State of Qatar, for his far-sighted vision and directives to guide the success of the economy of the State of Qatar. I also would 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 support of the banking sector and for their role in maintaining and safeguarding the financial stability of the State of Qatar.

I also extend our sincere gratitude to the executive management and employees of Masraf Al Rayan for their loyalty and contribution towards the on-going success of Masraf Al Rayan during 2013 and the past years which have reinforced the standing of Masraf Al Rayan as one of the leading banks at the local and regional levels.

In conclusion, I assure our valued shareholders and customers that we will always continue to work hard to preserve the success achieved by Masraf Al Rayan.

**Thank you**

**Masraf Al Rayan declared a net profit of QAR 1.7 billion for the financial year 2013, a growth of 13.2% compared to 2012, evidencing an impressive performance that shall also pave the way towards achieving greater goals.**

# MESSAGE FROM THE GROUP CHIEF EXECUTIVE OFFICER

**Adel Mustafawi**

Banking on its strong performance over the past years, once more Masraf Al Rayan demonstrated its leadership standing in promoting Islamic Finance in Qatar which is home to one of the World's fastest growing Islamic Financial sector. The results for the year 2013 came as a live testament of the bank's ability to realize what was already planned, achieving a net profit of QAR 1.7 billion with an increase of 13.2% compared to the previous year. Masraf Al Rayan has benefited from the strong growth of the economy of the State of Qatar, whereas the World's financial sector attempts to recover.

**The growth was not only limited to the realized profits, Masraf Al Rayan also achieved an increase in total assets which reached QAR 66.548 billion compared to QAR 61.628 billion for the year 2012, with a growth rate of 7.98%, while return on assets achieved was 2.56%. Investments grew by 13.8% to reach QAR 16,565 million from QAR 14,552 million as of 31 December 2012. Total customers' deposits rose by 7.4% to reach QAR 48,331 million compared to QAR 45,010 million as of 31 December 2012. Total shareholders' equity before proposed distributions reached QAR 10,523 million compared to QAR 9,596 million, up by 9.7% from the previous year. The book value per share reached QAR 14.03 and earnings per share was QAR 2.27.**

The achieved results reflect clearly how keen Masraf Al Rayan is at all levels to enhance standards of its services to maintain its distinguished position within the financial market.

The international financial crisis in 2013, during which major market economies of major countries were impacted by recession and contraction, did not halt Masraf Al Rayan from achieving its set goals, and that came as a direct result of our resolve and due diligence, along with the positive indicators of Qatar's economy (expected to grow by an annual growth rate of 6%) have all guided us to overcome many of the obstacles.

Likewise, the Qatari Government and Qatar Central Bank contributed to our success and the success of all Qatari Islamic banks' expansion strategies through the decision to allot major shares of Islamic funding to finance key infrastructure projects. Also, the expectation of spectators and experts that the collective balance sheets of the Islamic banks in Qatar would reach $100 billion by the year 2017 (with an annual growth rate of 15%) stands as another testament to these prudent policies which would assist in achieving Masraf Al Rayan's mission.

The recommendation of the Board of Directors to distribute a cash dividend of 15% of the fully paid capital (QAR 1.5 per share) was well received by the shareholders and strongly boosted Masraf Al Rayan's share to lead many trading sessions at Qatar Exchange during 2013.

Meantime we remained committed to protecting and growing share holders' equity by increasing the legal reserve of Masraf Al Rayan, as we allocated 20% of our achieved profits to the legal reserves, instead of 10% mandated by Masraf Al Rayan's Articles of Associations, and retained profits (earnings) of more than QAR 300 million.

Masraf Al Rayan strives to provide the best services to our customers by enhancing quality, easing accessibility, and providing state-of-the-art applications for the delivery of those services. Masraf Al Rayan currently runs 11 branches backed by a wide network of ATMs scattered strategically throughout Qatar, as well as a range of sophisticated banking services to facilitate customer

**Masraf Al Rayan achieved an increase in total assets, which reached QAR 66.548 billion with a growth rate of 7.98%, while return on assets achieved was 2.56%.**

**Investments grew by 13.8% to reach QAR 16,565 million, total customers' deposits rose by 7.4% to reach QAR 48,331 million, total shareholders' equity before proposed distributions reached QAR 10,523 million, up by 9.7% from the previous year. The book value per share reached QAR 14.03 and earnings per share was QAR 2.27.**

service, such as Al Rayan online banking, Alrayan mobile, Alrayan phone and Al Rayan SMS, which add greater convenience and security to our customers and to the ATMs network, with rigorous security measures to guarantee safe electronic financial transactions using the Internet.

As in regard to the expansion strategy, Masraf Al Rayan managed to successfully complete the acquisition of the Islamic Bank of Britain Plc. providing more solutions to Al Rayan customers, offered to them by the IBB in the UK and Europe as well.

As we always do, we continue to give our full attention to the human capital aspect of our business cycle, securing resources to develop our employees. After completing our training program of future leaders, we moved on to the next level, where we offered a wide range of training and specific-career programs to our employees across all levels, simultaneously, we continued our cooperation with the Ministry of Labour to attract more young Qatari talents, by organizing our dedicated special career fair to retain a 30% Qatarization rate.

We actively continued to be part of the country's National Sports Day, as we participated with other local financial institutions in the event organized by Qatar Central Bank. We also organized our own competition for our employees and their families, in harmony with the policies and programs developed and implemented by our Human Resources department.

As a good corporate citizen, Masraf Al Rayan continued on its commitment to support and strengthening all initiatives aiming at developing the community in which we live in and interact with at both individual and institutional levels, through sponsoring sporting, social, and humanitarian initiatives, which reflect on our fundamental pledge towards our social responsibility.

Last but not least, I'd like to confirm that what was achieved and will continue to be achieved at Masraf Al Rayan is based and guided by the pillars of Qatar's 2030 Vision which reflects the clear vision of our wise leadership towards a more prosperous future.

I'd like to take this opportunity to thank His Highness, Sheikh Tamim Bin Hamad Al Thani, the Emir of the State of Qatar, for his generous support, I also would like to thank His Excellency Sheikh Abdulla Bin Saud Al Thani, the Governor of Qatar Central Bank, and His Excellency Sheikh Fahd Bin Faisal Al Thani, Deputy Governor, for the care and close follow-up we receive from them and for their relentless work to remove any obstacles that may face the financial institutions Qatar.

I'd like also to thank each and every employee at Masraf Al Rayan who contributed in achieving these results.

# CORPORATE GOVERNANCE

The serious and committed implementation of sound corporate governance by listed companies has developed to become a more solid cornerstone of their practices year after year, and in 2013 most challenges in implementation have been overcome through the experience gained by companies as they continue to adopt a broader understanding of governance and its objectives.

Masraf Al Rayan has continued to comply with the governance guidelines, as per the 2nd and 3rd articles of the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority, as well as complying 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 & Managing Director

**Mr. Jassem Saif Ahmed Al Sulaiti**
Representing The Qatar Armed Forces Fund
Vice Chairman

**Sheikh Saleh Ali Abdulrahman Al Rashed**
Board Member

**Sheikh Nasser Bin Hamad Bin Nasser Al Thani**
Board Member

**Mr. Faisal Abdulwahid Ali Al Hamadi**
Representing Qatari Diar Real Estate Investment Co.
Board Member

**Mr. Turki Mohamed Al Khater**
Representing The General Retirement and
Social Insurance Authority - Qatar
Board Member

**Mr. Abdulla Ahmed Al Malki Al Jahni**
Board Member

**Mr. Khalaf Sultan Al Dhaheri**
Board Member

**Mr. Abdulla Ahmed M. Taher**
Board Member

## SENIOR MANAGEMENT

**Adel Mustafawi**
Group Chief Executive Officer

**Ahmed Sheikh**
Chief Operating Officer

**Feizal Ali**
CEO - Al Rayan Ventures

**Mohammed Mursal**
GM - Financial Controls

**Syed Hasan**
GM - Wholesale Banking Group

**Mohamed Jama**
GM - Chief Risk Officer

**Pichu Chidambaram**
AGM - IT Head

**Hasan Al Hammadi**
AGM - Treasury

**Abdelmonem Mohamed El Hasan**
General Legal Counsel

**Majdi Awouda**
Chief Internal Auditor

**Khalid Fakhroo**
AGM - Engineering

**Zakaria Glaoui**
AGM - Private Banking & Branches

**Howaida Al Mohannadi**
AGM - Operations

**Fawzi Siam**
Senior Manager, Shari'a Audit

**Dareer Mohammed**
Compliance Manager

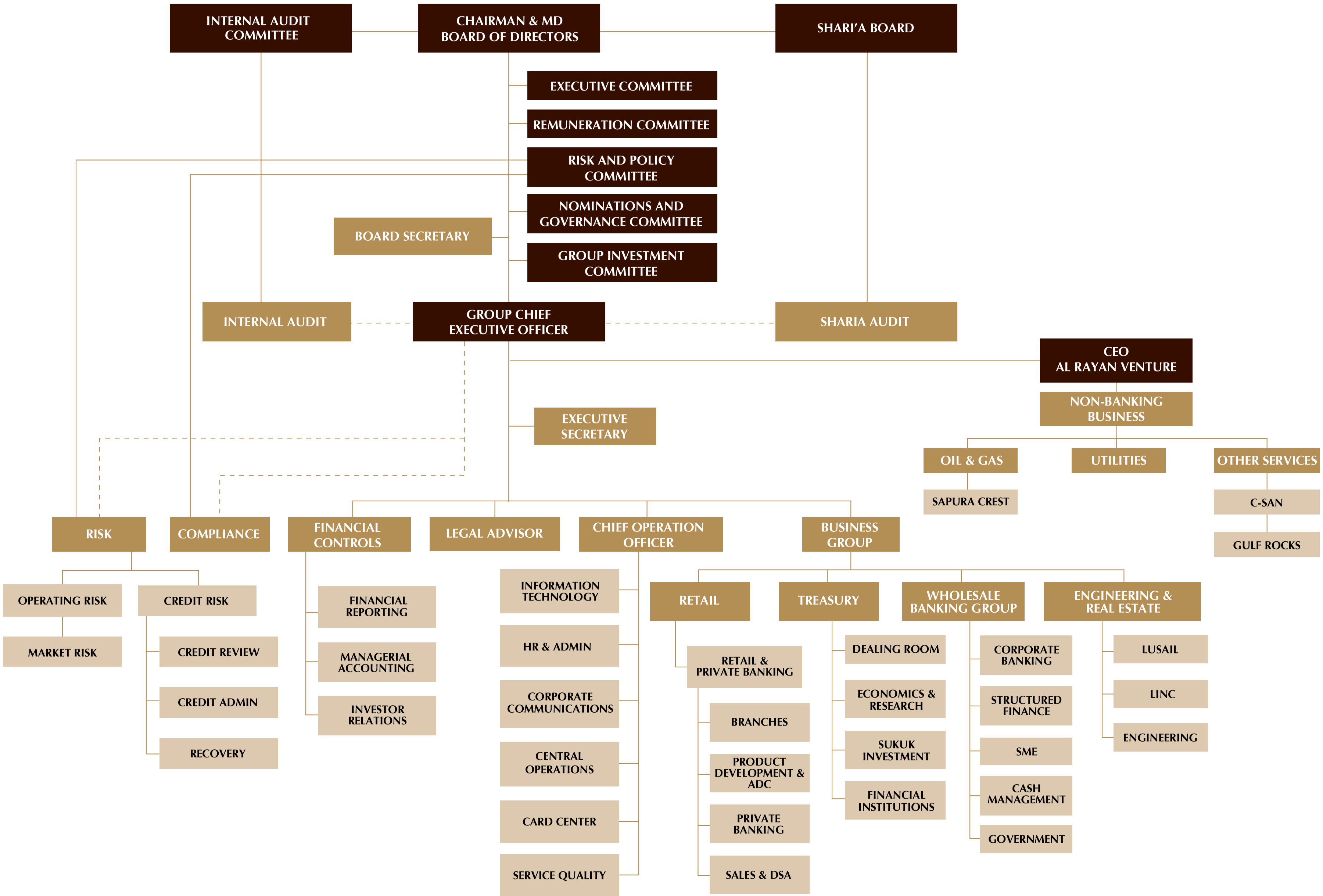
## SHARI'A SUPERVISORY BOARD

**Sheikh Dr. Waleed Bin Hadi**
Chairman

**Sheikh Dr. Abdull Sattar Abu Ghuddah**
Member

**Sheikh Dr. Mohamed Ahmeen**
Member

# ORGANIZATIONAL CHART



# BOARD OF DIRECTORS' REPORT ON CORPORATE GOVERNANCE IN MASRAF AL RAYAN 2013

## Introduction

The serious and committed implementation of sound corporate governance by listed companies has developed to become a more solid cornerstone of their practices year after year, and in 2013 most challenges in implementation have been overcome through the experience gained by companies as they continue to adopt a broader understanding of governance and its objectives.

Masraf Al Rayan has continued to comply with the governance guidelines, as per the 2nd and 3rd articles of the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority, as well as complying 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.

## Masraf Al Rayan Ownership

The largest 10 Shareholders of Masraf Al Rayan as of 31/12/2013

| | Name | Type | Nationality | Shares | Percent |
|---|---|---|---|---|---|
| 1. | Qatar Holding Company | Government | Qatar | 89,200,000 | 11.9% |
| 2. | Qatar Armed Forces Portfolio | Government | Qatar | 75,000,000 | 10% |
| 3. | Al Mirqab Capital | Commercial | Qatar | 17,004,136 | 2.3% |
| 4. | Pensions Fund - General Retirement and Social Insurance Authority | Government | Qatar | 16,615,075 | 2.2% |
| 5. | Burooq Commercial | Commercial | Qatar | 13,950,000 | 1.9% |
| 6. | QFF | Government | Qatar | 13,400,000 | 1.8% |
| 7. | Education and Health Fund | Government | Qatar | 13,400,000 | 1.8% |
| 8. | Manazil Commercial | Commercial | Qatar | 12,373,334 | 1.65% |
| 9. | Qatar National Fund 8 | Commercial | Qatar | 10,750,000 | 1.4% |
| 10. | Hamad Abdulla Al Thani | Individual | Qatar | 9,800,000 | 1.3% |

## Board Charter

Masraf Al Rayan's Board has continued to operate under the same approved Charter which included detailed descriptions of the Board and its responsibilities and the duties of its Members based on the Corporate Governance Guidelines for Companies Listed in Markets Regulated by Qatar Financial Markets Authority. This Board Charter has been published on the electronic website of Masraf Al Rayan to be available for Shareholders and the public.

## Board Duties and Responsibilities

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

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

- Approving the strategic goals of the company and appointing Management, replacing it, setting its bonus, reviewing Management performance, ensuring succession planning for Management.
- Assuring the compliance of Masraf Al Rayan with relevant rules and regulations, the Articles of Association of Masraf Al Rayan, as well taking on the responsibility of protecting Masraf Al Rayan from illegal operations and practices, or that are arbitrary or inappropriate.

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

- The Board is entitled to delegate some of its authority and to form specialized committees to perform specific roles and functions. In such case, the Board provides detailed instructions about the duty or delegation, subject to preceding Board approval in specific matters. Nevertheless, even if the Board has delegated one or more of its functions, the Board remains responsible for all duties and responsibilities that it has delegated.

### Board Members' Entrusted Responsibilities

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

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

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

### Chairman of the Board of Directors' Duties

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

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

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

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

## The Board

The Board has continued to operate from 1/1/2013 to 29/7/2013 as per its previous year's formation, whereby it included 9 members as per article 23 of the Articles of Association. Accordingly, the General Assembly elected 7 Members and the remaining 2 were appointed by the Founding Members to represent them (for the period 2011-2012); namely Qatari Diar Real Estate Company and the General Retirement and Social Insurance Authority, as follows.

## Board Members

As of 28 March 2011

| | Name | Title | Nationality |
|---|---|---|---|
| 1. | Dr. Hussain Ali Al Abdulla | Chairman and Managing Director | Qatari |
| 2. | Sheikh Al Hussein bin Ali bin Ahmed Al Thani | Vice Chairman | Qatari |
| 3. | Sheikh Saleh Ali Abdul Rahman Al Rashed | Board Member | Saudi |
| 4. | Mr. Jassim Saif Ahmed Al Sulaiti<br>*Representing Qatar Armed Forces Fund* | Board Member | Qatari |
| 5. | Sheikh Nasser bin Hamad bin Nasser Al Thani | Board Member | Qatari |
| 6. | Mr. Faisal AbdulWahid AlHammadi<br>*Representing Qatari Diar Real Estate Investment Company* | Board Member | Qatari |
| 7. | Mr. Turki Mohammad Al Khater<br>*Representing the General Retirement and Social Insurance Authority (Qatar)* | Board Member | Qatari |
| 8. | Mr. Abdullah Ahmad Al Maleki | Board Member | Qatari |
| 9. | Mr. Khalaf Sultan Al Dhaheri | Board Member | UAE |

## Changes in Board Formation

Upon the decision of His Excellency the Governor of the Central Bank, by virtue of the Qatar Central Bank letter dated 19/6/2013, and the communications regarding the same, the Board Membership of His Excellency Sheikh Al Hussein bin Ali bin Ahmed Al Thani was suspended. His Excellency the Governor's instructions as per his letter dated 23/07/2013 were to initiate the procedures required to fill any vacant positions as per articles 100 and 101 of the Commercial Companies Law in coordination with the Ministry of Economy and Commerce. Consequently the first Reserve Member, Mr. Abdulla Taher, has been contacted as per Masraf Al Rayan's letter dated 28/07/2013 to confirm his Membership on the Board, and on 29/07/2013 Mr. Abdulla Taher responded positively. The Directorate of Companies Supervision at the Ministry of Economy and Commerce has been advised of the change, and His Excellency the Governor was notified accordingly.

As per QCB instructions the new Member, Mr. Abdulla Taher, had 100'000 shares (Board Shares) frozen via Qatar Exchange on 22/9/2013 until the conclusion of the second term of the Board; accordingly Qatar Exchange has been notified of the new Board formation, and a copy of the communication has been forwarded to Qatar Financial Markets Authority as per their issued instructions.

**Mr. Jassim Saif Ahmed Al Sulaiti was elected as Vice Chairman during the Fifth Ordinary Meeting of the Board of Directors, held on 28/10/2013, through Board Decision 5/5/2013.**

## Members of the Board of Directors of Masraf Al Rayan

Second Period 2011-2013
As of 28/10/2013

| | Name | Title | Nationality |
|---|---|---|---|
| 1. | Dr. Hussain Ali Al Abdulla | Chairman and Managing Director | Qatari |
| 2. | Mr. Jassim Saif Ahmed Al Sulaiti<br>*Representing Qatar Armed Forces Fund* | Board Member | Qatari |
| 3. | Sheikh Saleh Ali Abdul Rahman Al Rashed | Board Member | Saudi |
| 4. | Sheikh Nasser bin Hamad bin Nasser Al Thani | Board Member | Qatari |
| 5. | Mr. Faisal AbdulWahid AlHammadi<br>*Representing Qatari Diar Real Estate Investment Company* | Board Member | Qatari |
| 6. | Mr. Turki Mohammad Al Khater<br>*Representing the General Retirement and Social Insurance Authority (Qatar)* | Board Member | Qatari |
| 7. | Mr. Abdullah Ahmad Al Maleki | Board Member | Qatari |
| 8. | Mr. Khalaf Sultan Al Dhaheri | Board Member | UAE |
| 9. | Mr. Abdulla Ahmed Mohamed Taher | Board Member | Qatari |


## Board Member Ownership of Masraf Al Rayan Shares

| Name | Title | Nationality | Status | Frozen Shares as of 31/12/2013 | Available Shares as of 31/12/2013 | Mortgaged Shares as of 31/12/2013 |
|---|---|---|---|---|---|---|
| 1. Dr. Hussain Ali Al Abdulla | Chairman and Managing Director | Qatari | Not Independent Non-Executive | 100,000 | 1,900,000 | – |
| 2. Mr. Jassim Saif Ahmed Al Sulaiti *Representing Qatar Armed Forces Fund* | Vice Chairman | Qatari | Independent Non-Executive | – | 100,000 | – |
| 3 Sheikh Saleh Ali Abdul Rahman Al Rashed | Board Member | Saudi | Independent Non-Executive | 100,000 | – | 7,400,000 |
| 4. Sheikh Nasser Bin Hamad Bin Nasser Al Thani | Board Member | Qatari | Independent Non-Executive | 100,000 | – | – |
| 5. Mr. Faisal AbdulWahid AlHammadi *Representing Qatari Diar Real Estate Investment Company* | Board Member | Qatari | Independent Non-Executive | – | 50,000 | – |
| 6. Mr. Turki Mohammad Al Khater *Representing the General Retirement and Social Insurance Authority (Qatar)* | Board Member | Qatari | Independent Non-Executive | – | 38,676 | – |
| 7. Mr. Abdullah Ahmad Al Maleki | Board Member | Qatari | Independent Non-Executive | 100,000 | 201,00 | – |
| 8. Mr. Khalaf Sultan Al Dhaheri | Board Member | UAE | Independent Non-Executive | 100,000 | – | – |
| 9. Mr. Abdulla Ahmed Mohamed Taher | Board Member | Qatari | Not Independent Non-Executive | 100,000 | 400,000 | – |

## About the Board of Directors

### Dr. Hussain Ali Abdulrahman Al Abdulla
Chairman and Managing Director
of Masraf Al Rayan
Ph.D . Economics

**Holds the following positions:**
- Board Member - Qatar Investment Authority
- Board Member - Qatar Holding
- Acting Chairman - Qatar Exchange
- Board Member - Qatar Airways
- Board Member - Gulf Investment Corporation (Kuwait)
- Board Member - Volkswagen (Germany)
- Chairman - Al Rayan Investment
- Chairman - Kirnaf Investment and Instalment Company (Kingdom of Saudi Arabia)

### Mr. Jassim Saif Ahmad Al Sulaiti
Vice Chairman of Masraf Al Rayan
representing Qatar Armed Forces
Bachelors of Mechanical
Engineering - Business Administration

**Holds the following positions:**
- Minister of Transportation
- Chairman - Mowasalat
- Board Member - Al Rayan Investment

### Sh. Saleh Ali Abdulrahman Al-Rashid
Board Member of Masraf Al Rayan
Diploma of Commerce - Business Management

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

### Sh. Nasser bin Hamad bin Nasser Al Thani
Masters of Business Administration (MBA)
Board Member of Masraf Al Rayan

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

### Mr. Faisal Abdulwahid Al Hammadi
Masters of Finance
Chartered Financial Analyst (CFA)
Board Member of Masraf Al Rayan

**Holds the following positions:**
- Head of Asset Investments Management at Qatar Investment Authority
- Board Member - Al Rayan Investment
- Board Member - Song Bird Real Estate (UK)
- Board Member - Qatari Algerian Investment Company (owned by governments of Qatar and Algeria)

### Mr. Turki Mohammed Khalid Al Khater
Board Member of Masraf Al Rayan representing
General Retirement and Social Insurance
Authority
Bachelors of Economics and Social Sciences

**Holds the following positions:**
- Head of the General Retirement and Social Insurance Authority
- Chairman - United Development Company
- Board Member - Ooredoo
- Board Member - Ahli United Bank (Kingdom of Bahrain)

### Mr. Abdulla Ahmad Al Malki Al Juhani
Board Member of Masraf Al Rayan
Bachelors of Management and Economics

### Mr. Khalaf Sultan Al Dhaheri
Board Member of Masraf Al Rayan
Master's of Business Administration - Certified
Accountant

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

### Mr. Abdulla Ahmed Mohamed Taher
Board Member of Masraf Al Rayan
License to Practice Law from the University of
Cairo 2006
Bachelors of Business Administration from Beirut
Arab University 1994

**Holds the following positions:**
- Lawyer before the Court of Appeals, and practices law as well as Legal Counsel.

**The elected Board of Masraf Al Rayan contains 7 independent Members while all its Members are Non-Executive. The Group Chief Executive Officer is the one who performs his duties as chief of the Executive Management and the Managing Director acts as a link between the Board and the Executive Management**

## Independence of Board Members

The elected Board of Masraf Al Rayan contains 7 independent Members while all its Members are Non-Executive. It is important to note that His Excellency Dr. Husain Al Abdulla, who holds the position of Managing Director, does not carry out daily executive duties at Masraf Al Rayan. The Group Chief Executive Officer is the one who performs his duties as chief of the Executive Management and the Managing Director acts as a link between the Board and the Executive Management. A clear segregation has been put between the positions of Chairman of the Board (Managing Director) and the Chief Executive Officer (General Manager); furthermore, the Chairman is not a member of any of the Board Committees. The Board Charter segregates the duties of the Chairman in accordance with article 8 of Corporate Governance Guidelines issued by the Qatar Financial Markets Authority.

## Non-Executive Board Members' Duties

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

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

## Board Meetings

The Board of Masraf Al Rayan has convened 6 times throughout 2013 on the following dates:

- First Meeting: January 27, 2013
- Second Meeting: February 25, 2013
- Third Meeting: April 22, 2013
- Fourth Meeting: July 22, 2013
- Fifth Meeting: October 28,2013
- Sixth Meeting: December 16, 2013

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 33 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 Association and any other documents which provide any preference or privilege over the assets of Masraf Al Rayan and related parties agreements.

## Conflict of Interest and Insider Transactions

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

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

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

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

## Other Duties and Responsibilities of the Board

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

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

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

The Members of the Board are responsible for the good understanding of their roles and duties, and

**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**

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 Sharia Supervisory Board maintained its formation throughout 2013 as follows:

- Sheikh Dr. Waleed Bin Hadi
  Chairman
- Sheikh Dr. Abdull Sattar Abu Ghuddah
  Member
- 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 2013 as per their terms of reference and in alignment with corporate governance guidelines. The Committees have had a slight change in their memberships in congruence with the changes to Board of Directors, and they were carried out as follows:

## Executive Committee

**Committee Composition**

- Mr. Jassim Saif Al Sulaiti - Chairman
- Sh. Nasser bin Hamad Al Thani - Member
- Mr. Faisal AbdulWahid Al Hammadi - Member
- Mr. Abdullah Ahmad Al Maleki - Member

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

**The most important duties of the Executive Committee are:**

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


**The Committee has held the following meetings:**

- First Meeting:10 April 2013
- Second Meeting: 21 Octobe 2013
- Third Meeting: 10 December 2013

The Committee has studied 12 requests submitted to it, and has taken decisions on each of them by way of circulation.

The Executive Committee headed by Sheikh Al Hussein bin Ali bin Ahmed Al Thani experienced a recess in the performance of its duties, thus reducing number of meetings in 2013. The Committee successfully resumed its duties under the Chairmanship of Mr. Jassim Saif Ahmed Al Sulaiti.

## Internal Audit Committee

**Committee Composition**

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

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

The Internal Audit Committee has the following responsibilities:

- Appoint the internal audit staff and adopt a policy for contracting the external auditors.
- Supervise and monitor the independence of the external auditors and their objectivity and discuss with them the nature and scope of the audit and effectiveness in accordance with international auditing standards and international financial reporting standards.
- Overseeing the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports, review the data and reports in particular with regards to their compliance with accounting, transparency, listing in the market and disclosure standards.
- Coordination with the Board and senior executive management and Chief Financial Officer of the Bank or designate and arrange meetings with the external auditors at least once a year.
- Study any important and unusual issues that are included or will be included in the financial statements.
- Revision of financial and internal control systems and risk management.
- Discuss the internal controls system with the management and ensure the performance of the management of its duties towards the development of an effective internal controls system.
- Considering the results of the investigations in internal control issues entrusted to it by the Board of Directors.
- Ensure coordination between the external and internal auditors and verify and supervise the effectiveness of the internal audit.
- Review the accounting and financial policies and procedures of the Bank.

- Review letter of appointment of the external auditor, his work plan and any queries he requested from Senior Management of the Bank as well as the responses of the management.
- Ensure prompt response to Board of Directors queries and matters raised by external auditors.
- Developing rules to be approved by the Board of Directors allowing the staff of the Bank to report confidentially their concerns regarding any issues that are likely to raise suspicion, and to ensure appropriate arrangements for an independent and fair investigation about these issues while preserving confidentiality and protecting the staff from any retaliation.
- Oversee compliance with the rules of professional conduct.
- Reporting to the Board of Directors on matters provided for in this article.
- Consider any other matters determined by the Board of Directors.

**The Audit Committee held the following meetings:**

- First meeting: 27/1/2013
- Second meeting: 22/4/2013
- Third meeting: 28/10/2013

## Remuneration and Compensation Committee

**Committee Composition**

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

**The committee has the following responsibilities:**

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

**The committee had a meeting on 21 January 2013.**

## Policies and Development Committee (Risk and Policies Committee)

**Board Decision Number 9/3/2013**

1. The Board reviewed the Minutes of the Meeting of the Policies and Development Committee held on 16/4/2013.
2. The Board ratified the new Terms of Reference of the Committee as the 'Risk and Policies Committee'

**The Executive Committee has studied 12 requests submitted to it, and has taken decisions on each of them by way of circulation.**

Accordingly, as of 22/4/2013 the Board ratified the new name of the Committee as the 'Risk and Policies Committee'

**As of 16/12/2013 the Board ratified the new formation of the Committee, as follows:**

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

**Committee Objectives**

**Risk Management**

**A. Operational Risk**

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

**B. Credit Risk**

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

**C. Compliance**

1. Assess the impact of new and anticipated regulations on Masraf Al Rayan
2. Review and ratification of Compliance policies annually
3. Review of the performance of compliance monitoring program and identified high risk issues
4. Review of the reports prepared by the Compliance Department

**Monitoring Reputational Risk and other Risks not mentioned above**

**Policies**

Review, development, and update of policies that require Board approval

**The Committee held the following meetings:**

- 16 April 2013
- 22 July 2013
- 21 October 2013

## Nominations and Governance Committee

**Committee Composition**

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

**Committee responsibilities**

- Adoption and publication of its terms of reference showing its authority and role.
- Proposing appointment of Board Members and the re-nomination for election by the General Assembly.
- Supervise the implementation steps for the call for nominations to the Board, and consider applications received to ensure matching of applicants for Membership conditions.
- Determining qualifications for Board Membership, including independence.
- Make sure that candidates can give sufficient time to carry out their duties as Members of the Board as well as their skills, knowledge and experience and professionalism, technical, academic and personality.
- Consider any conditions or requirements relating to the nomination or election or appointment of Board Members from Qatar Central Bank or any other authority.
- Evaluate candidates for Senior Executive Management positions, and submit recommendations to the Board of Directors.

- Perform an annual self-assessment of the Board's performance.
- Follow-up Board Committees' self-assessments.
- Supervise Board structure and composition of its Committees.
- Review the Annual Corporate Governance Report of Masraf Al Rayan, and to recommend its approval by the Board.
- The induction program for new Members and suggesting training for them as and when required.

**The Committee held the following meetings:**

- First Meeting 22/1/2013
- Second Meeting 10/12/2013

## Group Investment Committee

### Committee Composition

The Committee continued performing its duties with the same composition as the previous year.

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

### 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, or as needed as per market developments.
- To approve investment deals according to the set limits by the Committee and to raise recommendations for deals with higher limits to be approved by the Board.
- Invite experts and / or concerned personnel to Committee meetings to provide opinions in technical areas.

**The Committee held the following meetings:**

- First Meeting: 22/1/2013
- Second Meeting: 21/4/2013
- Third Meeting: 21/10/2013

## Board Charter

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

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

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

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

Masraf Al Rayan Board of Directors reviewed an update to the Charter on their December 19, 2011. Meeting but the matter was postponed to be presented again on the January 29, 2012 Meeting. In addition, the Board had also signed a Confidentiality Charter.

This Charter was last updated and ratified by the Board of Directors pursuant to their resolution number 7/1/2012 dated 29/1/2012.

## Board Remuneration

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

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

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

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

For the year 2013, the updated list by the Board pursuant to its Resolution 8/1/2013 dated 27/1/2013 and has been subsequently approved by the General Assembly of Masraf Al Rayan.

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

## Policies

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

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

- Internal Audit Policy
- Compliance Policy
- Investment Policy
- Finance Policy
- Corporate Governance Policy
- Anti-Money Laundering and Combating of Financing of Terrorism Policy
- Credit Policy
- Personnel Policy
- Whistleblower Protection Policy
- Customer Acceptance Policy
- Succession Policy
- Sharia Policy
- Risk Monitoring Policy
- Stress Testing Policy

## Credit Rating of Masraf Al Rayan

Moody's Investor Services maintained the rating of issuance in local and foreign currencies of Masraf Al Rayan which was lifted previously from A3/Prime2 up to A2/Prime1, and the future outlook is stable for all its long term ratings. Which reflects Masraf Al Rayan's low risk self-sustaining profile of excellent quality of assets, robust capital & liquidity buffers and a strong partnership with the public sector.

## Internal Controls inclusive of Financial, Investment, and Risk Management

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

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

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

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

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

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

## External Auditor

The General Assembly of Masraf Al Rayan approved the appointment of the External Auditors KPMG for the financial year 2013. This has been presented to the General Assembly after 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.

## 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 of 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 is 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.

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

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

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

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

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

## Company Compliance with Internal Control Systems for Risk Identification and Management

The Board of Directors gives special attention to setting internal control systems by clearly determining its responsibilities including its position in the organization chart and its relationship with other departments in a way that would ensure its independence and effectiveness. The Board provides adequate resources and fast and clear reporting lines to

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the Board of Directors and Senior Management and provide it with necessary authority to have access to information within the frame of clear and adequate policy and procedures and making annual revisions to these policies.

The Board ensures that the duties of the Internal Audit include the audit of activities of the Compliance Manager. In addition to the above, the Executive Management in collaboration and coordination with the Compliance Manager takes the necessary corrective and disciplinary action if any violations are discovered and submit periodical reports to the Board on matters related to the policies and procedures related to compliance to help in improving them.

## Risk Management Operations and Internal Control Procedures

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

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

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

### Stress Testing

In the post-financial-crisis-of-2008 era, there have been numerous regulatory initiatives to further the soundness of the financial markets in general and Banks in particular. One of the tools that has gained prominence in this sphere is Stress Testing. Stress testing is defined as the evaluation of a Bank's financial and capital position under severe, but plausible scenarios to assist in decision-making at all levels within the Bank, risk appetite setting, as well as capital and liquidity planning among others. The term Stress Testing is also used to refer not only to the mechanics of applying the individual tests, but also the wider environment within which the tests are developed, evaluated and used within the decision making process.

Governance of the Stress Testing policy is driven by the importance of Stress Testing in the organization as well as the principles as set out by the Qatar Central Bank and Islamic Financial Services Board. The quote below is from the Guiding Principles on Stress Testing of Islamic Banks as published by the Islamic Financial Services Board (IFSB) published on the 12th of October 2011: "Principle 3.1: Stress testing should form an integral part of the overall governance of the Institution offering Islamic Financial Services (IIFS). The ultimate responsibility for the overall stress testing programme of the IIFS should be with the Board of Directors (BOD). BOD and senior management involvement of the stress testing programmes should be acted upon and should influence decision making at all appropriate levels of management in an IIFS".

### 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 Masraf Al Rayan

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approved risk level, as per Masraf Al Rayan approved risk appetite, and sufficient collaterals to protect the Bank's rights should the client face difficulty in repayment or stopped altogether without any losses.

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

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

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

## Credit Risk Division

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

### Criteria of the Credit Risk Division

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

### Implementation of Sound Measures to Determine Credit Risks

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

1. Assuring that the client request or credit application is signed by a sufficiently authorized delegate.
2. Knowledge of the customer's reputation, experience, market share (economic sector), and purpose of finance.
3. Obtaining sufficient information in order to make a comprehensive evaluation of the client and types of risk underlying the requested facility, as well as to be able to rate the client as per the Bank's internal credit rating system.
4. The nature of the current and future risks of the credit applicant, their industry, and sensitivity to the economic developments, and assess the relation between associated risks and profit.
5. Source of repayment and customer's commitment to settle previous debts and type of the acceptable collaterals.

6. Obtaining all the collaterals and their evaluation.

7. Evaluation of the client's financial position using updated Audited financials for the past 3 years.

8. Supporting the application with Credit Bureau reporting on the client to understand the nature and volume of existing facilities of the client.

9. Establishing credit limit caps for all on & off-balance sheet items, credit limit caps for industry, countries, and establishing credit limit caps based on the customer risk rating.

10. Establishing credit limit caps which can be extended for equity at one obligor level, group level, and inter-related relations level, as well as those with overlapping interests.

11. 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:

1. Existence of a filing system to handle customers' files and update its information and documents on periodic basis.

2. Follow-up the execution of the credit facilities to make sure that everything is complying with the procedures, policies, laws and regulations namely, the client's current financial position, existence of sufficient securities with coverage suitable to the current status of the customer, and the client's utilization of the facilities.

3. Follow up on utilization of credit limits, this task is made through a portfolio updated report submitted on periodical basis.

4. Internal credit rating of the client which helps in: granting financing and follow up its quality, facility pricing, determining credit portfolio characteristics and credit concentration, determining defaulting accounts and sufficiency of its provisions.

5. Periodic monitoring of any credit risk or defaulting sectors for business units to take the necessary action.

6. Issuing of periodic reports and advising Business Units and Management as needed.

7. Credit Risk Administration is an independent unit whose task consists of reviewing credit approval conditions, collaterals, facilities agreements, and all operational matters prior to releasing credit, inclusive of activating the approved limits and issuing periodic reports.

**Existence of Sufficient Procedures to Monitor Credit Risks**

Risk monitoring procedures include the following:

1. Internal controls to make sure that any exception or deviation in the credit policy or credit procedures and credit limits and / or regulations is reported.

2. A Collection Unit to detect defaulted credit at an early stage through generating a daily past dues report and advice to the concerned business unit in order to avoid it in future.

3. Periodic review of the delegation of authority of those authorized to sign, and the associated documentation.

4. Updating the Bank's Credit Policy to develop it and improve it with the latest changes and variables to improve risk management.

5. The Bank conducts a regular periodic review of all the approved credit facilities granted as per its delegation to monitor its portfolio status, exposures, credit concentrations, and sector performance. The Bank also follows up on all credit facilities, increases in limits, and follows up and monitors completion of collateralization, and takes the necessary actions at the appropriate times. Moreover, non-active facilities are reviewed, as well as risk rating based exposures inclusive of all limits granted, and recommendations are made, if any, to the Board.

6. Risk Management establishes an area of common grounds with the business units in order to exchange information and create a risk aware culture that is aligned with the Bank's strategy.

7. Risk Management activities are ongoing and continually enhanced in line with the Bank's strategy.

## Market Risks

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

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

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

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

## Credit Limits for Banks and Countries

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

## Operational Risk

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

### Summary of Operational Risk Methodology

The ORM strategy framework is a comprehensive program that identifies and mitigates risks. It starts with identifying risks,

evaluation of them, determining their likelihood, consequences, monitoring, management, communication, and control of the risk. As well as reporting the different risks related to Bank's activities inclusive of investments, corporate finance, capital markets, and Treasury. This also includes internal controls, controls and internal systems, regulatory and compliance, as well as outsourced services and supporting operations such as IT and HR.

In addition, the following steps are also taken:

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

**Operational Risk Mitigation**

In an effort to encourage better risk management practices, Masraf Al Rayan is keenly interested in efforts to better mitigate and manage operational risk. Masraf Al Rayan has controls and programs in place to reduce the exposure, frequency, or severity of an event and hence, manage risk exposures. Masraf Al Rayan 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.

**Operational Risk Department's Best Practices**

- Maintaining BS-25999 certification for business continuity management.
- Maintaining ISO27001 certification for information technology security with successful periodic tests.
- Implementing an advanced firewall to guard against any phishing or hacking attempts.
- Compartmentalization of the network, whereby the production servers have been disconnected from the testing servers in order to secure information. Also separated the cards network from the IT central network as recommended by Payment Card Industry Data Security Standards (PCI-DSS).
- Implementation of a live monitoring system on the SWIFT network to intercept any transactions suspected of being related to Money Laundering or Financing of Terrorism.
- Upgrade of the CCTV network and the camera quality to increase image clarity as well as to increase storage as per QCB and Ministry of Interior instructions.
- Implementation of the advanced SAS Operational risk management system to manage all risk indicators including database and data loss risks.
- Setup of fraud monitoring unit to deal on a 24/7 basis with detection and prevention of fraud on ATM Cards and Credit Cards. The unit utilizes a preemptive approach to stop suspect transactions.
- Successfully participating in a Cyber Security Drill organized by the Supreme Council for Communications and Information Technology of Qatar (ictQatar).
- Protection of the Bank's valuable data in a operational risk to continue to hedge against any emergency by keeping an extra copy of the important data at NavLink's Data Center in Nice, France.

## Shareholder Rights

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

## Shareholder Register

The Information Technology Department of the Qatar Exchange maintains records of the Shareholders of its listed companies because

Shareholder information changes constantly with each transaction. Masraf Al Rayan requests the information when needed and on specific dates, especially on the days of the Ordinary and Extraordinary General Assembly Meetings where this information is used to confirm attendance, voting, and distribution of profits.

## Accessing Information

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

## Fair Treatment of Shareholders and Voting Rights

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

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

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

## Shareholders' Rights - Election of Board Members

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

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

## Shareholders' Profit Distribution Rights

The distribution of profits is completely based on the financial results achieved by Masraf Al Rayan at the end of each year, in addition to compliance with the rules, regulations, and related guidance especially from Qatar Central Bank with respect to all forms of reserves (legal reserve, risk reserve, fair value reserve) the Board annually assesses different scenarios of which the best is 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

**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.**

Bank issues regulations on maximum credit limits whether for one deal or for cumulative volume of deals for each one client or one sector.

Masraf Al Rayan is committed to disclose its capital structure: Masraf Al Rayan has also addressed the Qatar Central Bank for approval to add an article to the Articles of Association that contains provisions for the protection of minority Shareholders in the event of the approval of the big deals where minority Shareholders have voted against.

Masraf Al Rayan also approached the Qatar Central Bank seeking approval to add a new article to the Articles of Association to include a mechanism to ensure that the launch of a sale to the public or the exercise of rights equality in the sale of shares, in the event of a material change in the ownership of the Bank that exceeds a specified percentage.

## Other Stakeholders' Rights

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

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

## Masraf Al Rayan's Corporate Social Responsibility

Masraf Al Rayan Believes in the importance of its Corporate Social Responsibility and is keen to support individuals and groups to practice their role in building a better society. Masraf Al Rayan is also 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.

The most significant of Masraf Al Rayan's contributions throughout 2013 was its support for sports, in particular supporting the Qatari Basketball Federation and ElJaish sports club. As for health, Masraf Al Rayan participated in fighting cancer by supporting the Qatar Cancer Society which is one of the leading humanitarian organizations in Qatar which pledges to work towards increasing public awareness about cancer and cancer prevention at local, regional as well as international levels. Masraf Al Rayan has also effectuated its humanitarian programs in cooperation with Hamad Medical Corporation in organizing a blood donation field drive.

In its effort to support and develop Qatari cadres, Masraf Al Rayan held an open day to attract Qatari cadres and participated in the open career day held by the Directorate of Labor Force Management at the Ministry of Labor and Social Affairs. Masraf Al Rayan has also launched in recent years a National Talent Management Program after a study of the Bank's current as well as future needs with the objective of increasing the educational and professional level of Qatari employees by empowering them to be able to reach promotions as they achieve higher educational levels, and equipping them with the necessary tools academically and professionally in order to hold leadership positions in the different managerial departments of the Bank.

Masraf Al Rayan has also participated in supporting the economic ambitions of youth by supporting Qatari entrepreneurs in cooperation with the Social Development Center (SDC) which is a non-profit, social and development organization, that is a member of Qatar Foundation for Education, Science, and Community Development. (SDC is also a member of the Arab NGO Network, the World Family Organization, and the United Nations Economic and Social Council).

# BUSINESS OVERVIEW

## Vision

To become the leading Islamic bank within Qatar and the World, by offering a broad spectrum of Islamic banking products and services, through efficient and reliable channels, to all sectors of the market in which it operates; and to maintain its twin objectives of furnishing a high return on shareholder investment and satisfying its individual customers.

## Mission

To create added value for both shareholders and customers by providing Islamic oriented corporate, retail and investment banking products and services, to:

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

## Strategy

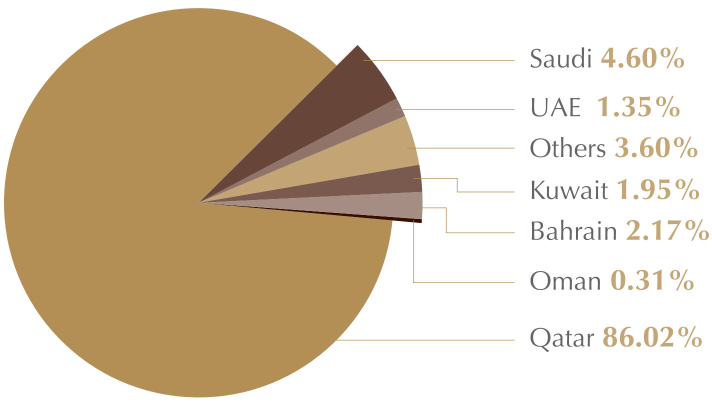
- Develop new Islamic Shari'a-compliant products and add innovative features to prevailing market products
- Become the market leader both inside and outside Qatar through financing, international offerings and expert advisory services
- Build service-delivery and brand-distinction expertise

## Values

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

## A Summary of Masraf Al Rayan Shareholders' Information on December 31, 2013

| Nationality | Shareholders | No of Shares | Percentage |
|---|---|---|---|
| Bahrain | 25,884 | 16,271,867 | 2.17% |
| Kuwait | 28,963 | 14,651,542 | 1.95% |
| Oman | 9,035 | 2,289,884 | 0.31% |
| Qatar | 62,074 | 645,174,459 | 86.02% |
| Saudi | 79,894 | 34,524,603 | 4.60% |
| UAE | 26,460 | 10,129,300 | 1.35% |
| Others | 3,152 | 26,958,345 | 3.60% |
| **Totals** | **235,462** | **750,000,000** | **100.00%** |




## Top 10 Shareholders

| No. | Name | Type | Nationality | Shares |
|---|---|---|---|---|
| 1. | Qatar Holding Company | Government | Qatar | 89,200,000 |
| 2. | Qatar Armed Forces Portfolio | Government | Qatar | 75,000,000 |
| 3. | Al Mirqab Capital | Commercial | Qatar | 17,004,136 |
| 4. | Pensions Fund – General Retirement and Social Insurance Authority | Government | Qatar | 16,615,075 |
| 5. | Burooq Commercial | Commercial | Qatar | 13,950,000 |
| 6. | Qatar Foundation Fund (QFF) | Government | Qatar | 13,400,000 |
| 7. | Education and Health Fund | Government | Qatar | 13,400,000 |
| 8. | Manazil Trading Company | Commercial | Qatar | 12,373,334 |
| 9. | Qatar National Fund 8 | Commercial | Qatar | 10,750,000 |
| 10. | Hamad Abdulla Al Thani | Individual | Qatar | 9,800,000 |

## Masraf Al Rayan Branch Network


- **Al Sadd Branch** - Al Sadd Street, Near Q-Tel Building, Barwa Building, Tel: 4425 3135
- **Grand Hamad Branch** - Grand Hamad Street, Tel: 4425 3333
- **Al Salam Branch** - Al-Shafi Street, Next to Q-Tel , Al Rayyan area, Tel: 4425 3162
- **City Center Branch** - City Center – Doha, 1st Floor, Tel: 4425 3171 / 4425 3177
- **Qatar University Branch** - Qatar University, Female Building, Food Court Area, Tel: 4425 3187 / 4425 3193
- **Salwa Branch** - Salwa Road, Next to Hyundai Showroom, Tel: 4425 3200 / 4425 3201
- **The Mall Branch** - The Mall Complex, Gate Number 2, Tel: 4425 3218
- **C Ring Road Branch** - C Ring Road at the Financial Square, Tel: 4425 3243
- **Wathnan Mall Branch** - Wathnan Mall, North Muaither, Tel: 4425 3300
- **Al Wakra Branch** - Al Wakra Main Road, Tel: 4425 3286, Fax: 4425 3280
- **Qatar Olympic Committee (QOC) Branch** - West Bay Area, Majlis Al-Taawon Street, Olympic Tower, Tel: 4425 3271, Fax: 4425 3274

## Retail Banking

Quality personalized service, qualified personnel and focus on value-based packages were the key drivers of our retail banking setup. During the year 2013 we continued to build on the momentum we achieved in 2012 and steadily moved towards our objective of being the ‘bank for everyone’ by making ourselves more and more accessible to our existing and prospective customers. In this regard, we have adopted ‘continual improvement’ as the main guiding force of our operations.

Branches, Alternative Channels, Segmented product/packages line-up and Private banking being the main pillars of our retail banking landscape. Hence pronounced emphasis is placed on achieving inclusive progress and growth across all these vital components.

We continued to invest in our key infrastructure as well as in our human capabilities with a view towards ensuring that our customers are served with state-of-art products and services and continue to enjoy absolute convenience across all our service delivery channels. During the year, we added Masraf Al Rayan new branch at Al Wakra and expanded our ATM network to 55 ATM’s thereby further widening the reach. 2013 saw us taking a large step towards strengthening our customer choices by introduction of automated, real-time deposit facilities on most of our ATM’s thereby growing from just 2 to 7 CDM (deposit) enabled ATM’s.

Masraf Al Rayan customers and stakeholders also witnessed the successful launch of IBAN for funds transfer related compliance, security and efficiency. “IBAN Generator” on Masraf Al Rayan Website was developed and introduced to ensure the tool generates the correct IBAN for MAR customers. Three strategic promotions and packages were designed and launched during 2013 for Retail & Private banking customers which created a significant customer impact, financial impact and front-end motivational impact resulting in setting-up good momentum for 2014. National Day Package & Summer promotion along with Qatar University packages generated higher satisfaction levels. 2013 saw us move further closer to our target of ensuring that our customers enjoy the convenience of ‘24x7 total banking’ with us. In this regard, we expanded the scope of our e-banking services, upgraded our Call Centre offerings and undertook phenomenal improvements in our SMS and telephone banking services. Our Call Centre service levels were the highest in the last 3 years with close to 360 degree reach by Customer Care team establishment, abandoned call evaluation, callback and IB support services.

For the first time, Masraf Al Rayan brand visibility reached a new height of global visibility through Qatar Airways(QA) website presence of Masraf Al Rayan’s ‘5in1’ campaign which was promoted by QA website for more than a quarter of a year thereby leveraging the QA-MAR alliance franchise value. Launch of Masraf Al Rayan Reward Points was among some key loyalty initiatives. Masraf Al Rayan Reward Points are convertible to Qatar Airways Qmiles which were announced through co-branding campaigns where retail and private banking customers were rewarded on credit card use in addition to vehicle and personal finances Qmile rewards. We continued to enhance our Takaful (Islamic Insurance) package for life enhancements that were witnessed in 2013. We also launched the iPhone 5 Raffles program to attract and strengthen awareness, usage and penetration of Internet banking & mobile users thereby providing our customers with the convenience of banking from wherever they want while getting rewarded for their increased usage and loyalty. “Mobile Web”: A new channel for retail Internet Banking customers & an excellent alternative to Mobile applications was introduced where the browser of mobile is used to open MAR retail Internet Banking in a small sized screen compatible to any mobile device. Anyone who doesn’t have a MAR app can use Mobile Web to browse on the handset.

**2013 saw us taking a large step towards strengthening our customer choices by introduction of automated, real-time deposit facilities on most of our ATM’s thereby growing from just 2 to 7 CDM (deposit) enabled ATM’s.**

iOS: Due to significant changes in Apple's new iOS (Operating system) compared to all the previous versions, MAR had to do a complete round of re-testing of its retail banking application on Apple store (iPad and iPhone) which was done successfully.

IPO application via MAR retail Internet Banking was introduced

- Retail Internet Banking and Mobile Web
- Mobile Banking (iPhone, iPad and Android platform)

As a start, the Qatar Petroleum IPO has been successfully tested and signed off on all the above mentioned platforms of MAR retail Internet Banking by December, 2013. The testing included more than 50 test case scenarios (for all platforms)

During 2013 the prime focus of our Private Banking Division was to build sustainable and trustworthy relationships with our high net worth clients by offering them key advisory and consultancy services for all their investment and wealth management aspirations.

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

We constantly endeavor to travel the extra mile for the comfort and convenience of our private banking customers. In addition, every client is exclusively served by a Private Relationship Manager who is accessible 24 hours a day, 7 days a week. Our experience, expertise and most important the dedication that our team of Private Relationship Managers bring to the table is second to none in this market.

The fact that we are able to record a phenomenal growth in our private banking portfolio speaks volumes about the personalized services and superior advisory services that we continue to offer to our clients.

**During 2013 the prime focus of our Private Banking Division was to build sustainable and trustworthy relationships with our high net worth clients by offering them key advisory and consultancy services for all their investment and wealth management aspirations.**

## Wholesale Banking Group

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

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

Masraf Al Rayan Transaction Banking and Cash Management products worked in 2013 to deliver to its customers ways to improve their day to day management of funds and visibility of information flows, consistency in terms of processing, and efficiency in terms of cost and automation. Our customers have become increasingly receptive to cash management models to enhance finance functions, increase transactional efficiency and improve profitability. They looked to Masraf Al Rayan for compelling value propositions and be their one stop financial institution to provide broader array of services & products.

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

Supported by strong capital base, and commitment from our shareholders, we remained well positioned to finance major infrastructure projects in railway, road infrastructures, stadiums, supporting systems and other infrastructure projects for the FIFA World Cup 2022. In 2013 we have already won couple of mandates to finance mega infrastructure projects, and we worked with many of our top tier clients to finance the major upcoming projects.

We continued to diversify our revenue base into various economic sectors working together with our treasury, investment, asset management, retail, private banking, and wealth management teams. It was by investing with 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, capital markets, Sukuk and structured finance, securitization, corporate finance & Equity advisory, placement and acquisition financing solutions.

As always, we remained highly vigilant, and conscious of the risks we took with our clients, and worked closely with them to carefully assess, analyze and mitigate them, so together we continued to build sustainable value for all our stakeholders.

## Human Resources

In the year 2013 we continued our focus on our human assets and implemented a wide range of learning development and rewards schemes.

We continued our path to ensure that the bank's human capital requirements were fully identified and plans were in place to satisfy those requirements.

With the objective to recruit and retain the most talented and qualified candidates, we established a dynamic process under the Recruitment Committee.

We have also recognized our long serving employees and held an honorary dinner to celebrate their achievements and long standing relationship with the bank. The annual award ceremony recognized 57 employees whom by 2013 have served over 5 years with Masraf Al Rayan, in acknowledgment of their loyalty to Masraf Al Rayan.

Masraf Al Rayan took a great interest in the development of its growing work force, through a variety of training and development projects. We have also unleashed the power of our experienced and qualified employees through our "Train the trainers" by building a team of skilled internal individuals who were prepared to be able to transfer their knowledge and expertise to their peers. And because of this big enhancement we have increased our internal training hours to reach 303% in 2013 in comparison with 2012.

The total number of trained employees has arisen by 64% in 2013, compared to the same period in 2012, as a result of introducing these learning & development tools and programs which contributed remarkably towards increasing our employee's knowledge & skills.

In line with Masraf Al Rayan's strategy on Qatarization, the bank set the necessary programs for Qatari employees development.

Our solid partnership with the Ministry of Labor and the leading Universities in Qatar contributed in all of our Qatarization initiatives. In 2013 Masraf Al Rayan was strongly presented through its Human Resources department in many Career Fairs held especially to attract Qatari employees, especially those held in the Ministry of Labor, the College of North Atlantic at Qatar Foundation and Qatar University Career Days.

Responding to its role in the service of humanitarian causes through its well-established social responsibility policy towards all aspects of life in Qatar and its regional surroundings, Masraf Al Rayan in coordination with the Red Crescent conducted a Blood Donation Campaign where all MAR staff were invited to participate in this good initiative. Also Masraf Al Rayan celebrated the Qatar National Sports Day by the bank's employees and their families.

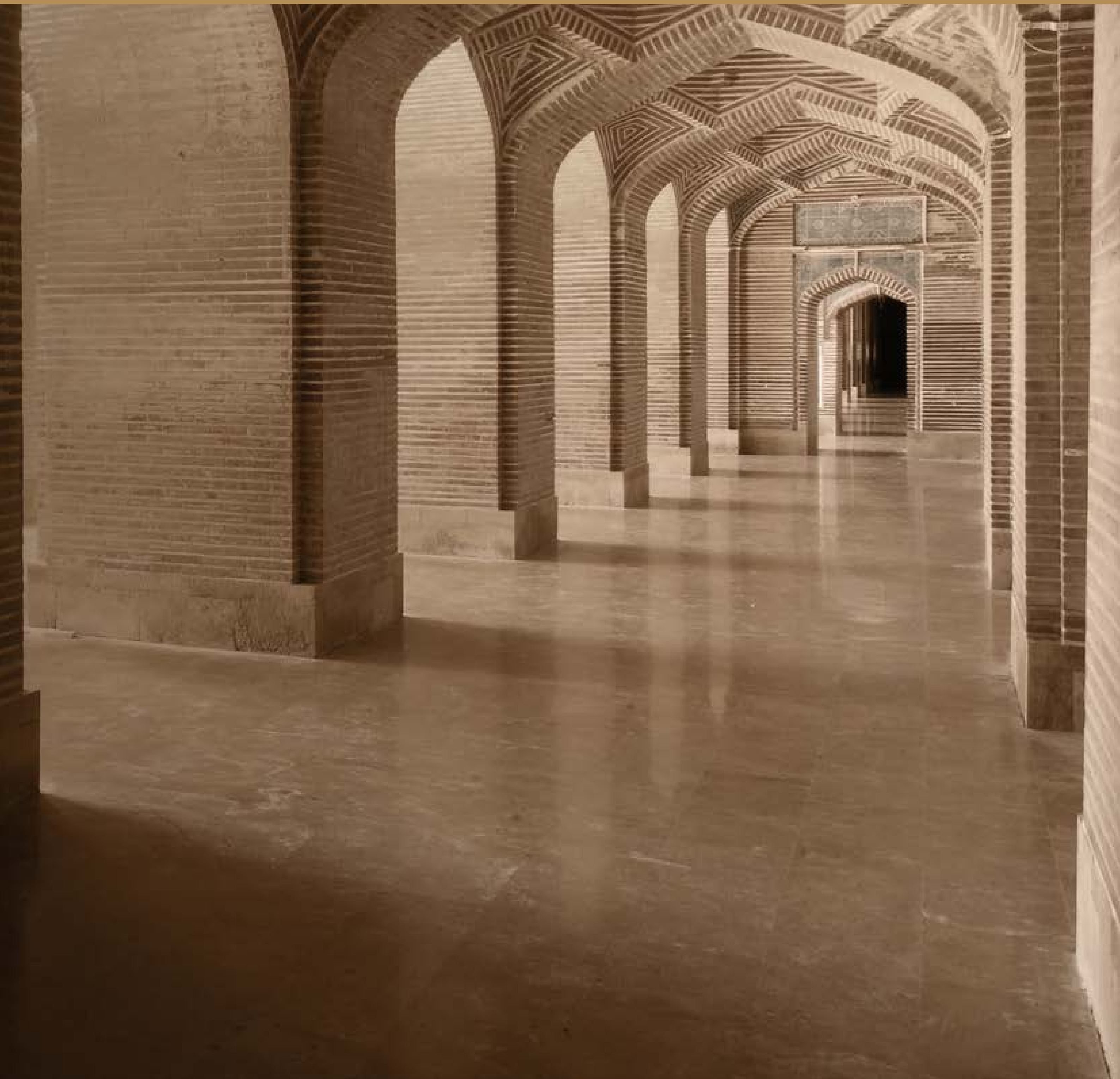
## Ratings

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

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

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

## SUBSIDIARY
### Al Rayan Investment



## 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

Invest in people to nurture an environment fostering teamwork to achieve excellence

## Ethos

Adhering to Islamic ethico-legal principles in all aspects of our business

## Divisions

- Asset Management Group
- Financial Advisory Group
- Proprietary Investments

During 2013, we continued the momentum achieved in 2010, 2011 & 2012 and made further progress towards establishing ourselves as a trustworthy and reliable investment partner of the Qatari economy.

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

## Asset Management Group

2013 was another year of strong growth for Asset Management. Assets under management increased to QAR 1.8 billion by year-end dominated by institutional investors (such as pension funds, sovereign wealth funds, insurance companies and corporates). The robust and consistent performance across GCC equity and sukuk portfolios helped secure new mandates from institutional investors as well as high net worth individuals through our bespoke discretionary investment product and our flagship managed mutual fund, Al Rayan GCC Fund; the largest mutual fund based in Qatar.

Following the 'Shariah Fund Manager of the Year' title in 2012, in 2013 ARI was awarded 'Sukuk Manager of the Year – 2013' by Euromoney's Global Investor/ISF magazine. This award was determined by a panel of independent industry experts based in Europe.

## Financial Advisory Group

2013 was another successful year for the Financial Advisory Group, where we continued to build on our achievements from the years before. We kept clear focus on our key lines of the advisory business including Corporate Mergers and Acquisitions, Equity and Debt Capital Markets and Corporate Finance. Our success in M&A Advisory continued where we have advised Masraf Al Rayan on the successful acquisition of the Islamic Bank of Britain. This was a landmark transaction as it was Masraf Al Rayan's first cross border acquisition. In 2013 also, we won a major Corporate Finance Advisory mandate to assist a renowned Qatari corporate in evaluating and structuring the financing on a key development project.
In addition, we continued to work on large government privatization mandates via an Initial Public Offering, which we have won earlier. Our Financial Advisory Group aims to be the trusted advisor of our local clients.

## Al Rayan Partners

Al Rayan Partners, established in 2011 in view of supporting the real estate market in Qatar, became an active player in development management business in Qatar and secured a strong pipeline of major real estate projects. It currently manages the development of projects valued at over US$ 9 Billion. Al Rayan Partners also provides project management services and currently has contracts for over $ 6 Million under project management. This is in addition to the Real Estate Advisory practice with highly skilled professionals that worked with several major institutions in Qatar.

**SHARI'A SUPERVISORY BOARD REPORT**
for the year ended December 2013

**Blessings be upon His prophet, his family, his companions and those who followed him,**

Masraf Al Rayan Sharia'a Supervisory Board has reviewed the Products and operational activities presented to it as well as 2013 Masraf Al Rayan financial and income statements and are of the opinion that the latter do not contravene with Sharia rulings.

The Board also supervised Masraf Al Rayan operations through its Sharia Audit function which provided reasonable assurance of the proper implementations of its pronouncements, and is of the opinion that they are in compliance with the Board's regulations.

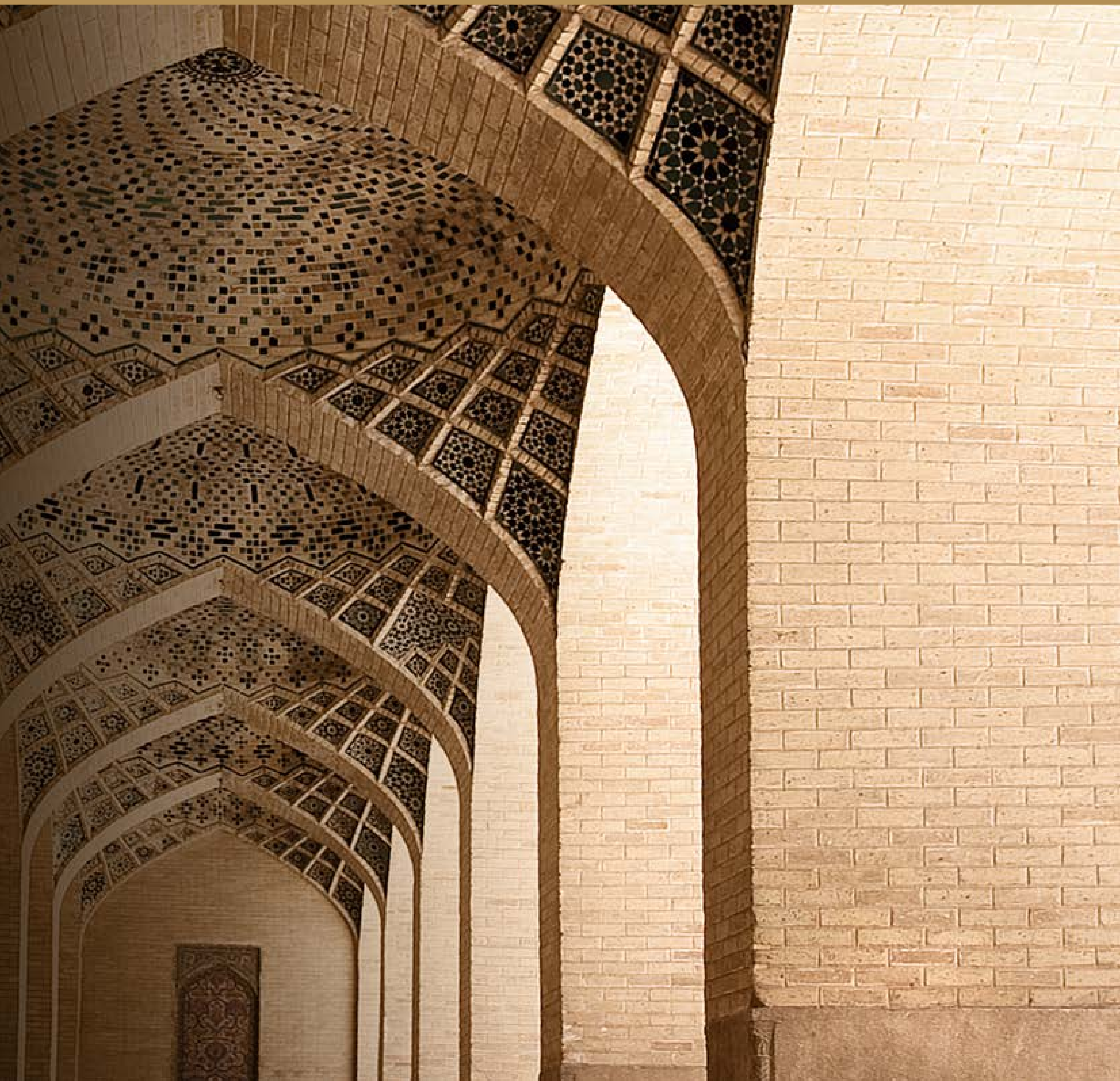
**May Allah grant success and accomplishment to all towards whatever he likes and pleases Him.**

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

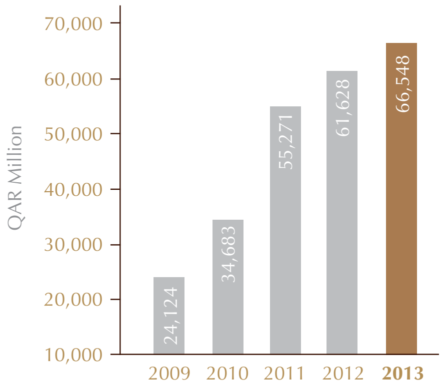
**His Eminence**
**Sheikh Dr. Abdull Sattar Abu Ghuddah**
**Member of Shari'a Supervisory Board**

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

# SUMMARY OF FINANCIAL STATEMENTS
As at 31 December 2013



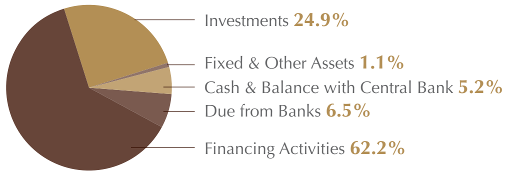
## Total Assets



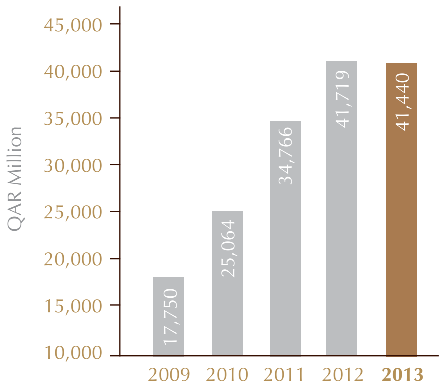

### Highlights

| | |
|---|---|
| 5 YEARS COMPOUND ANNUAL GROWTH RATE (CAGR) | **28.88%** |
| GROWTH FOR THE YEAR | **7.98%** |
| CAPITAL ADEQUACY RATIO | **20.55%** |
| RETURN ON ASSETS | **2.56%** |

WEIGHT OF ASSET CATEGORIES



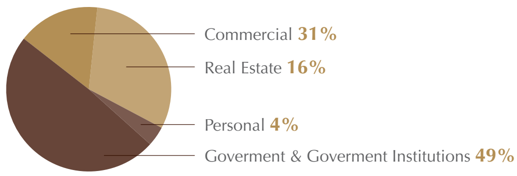

## Financing Activities



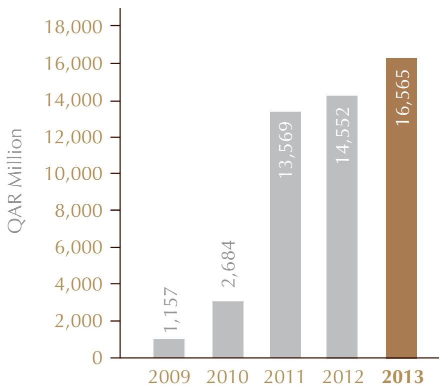

### Highlights

| | |
|---|---|
| 5 YEARS COMPOUND ANNUAL GROWTH RATE (CAGR) | **23.61%** |
| GROWTH FOR THE YEAR | **-0.67%** |
| NON PERFORMING LOANS RATIO (NPL) | **0.10%** |

BREAKDOWN BY SECTORS



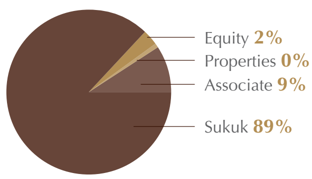

## Investments



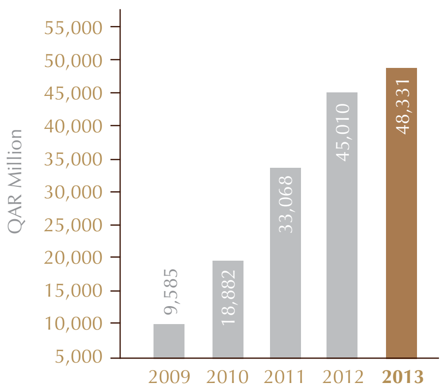

### Highlights

| | |
|---|---|
| 5 YEARS COMPOUND ANNUAL GROWTH RATE (CAGR) | **94.5%** |
| GROWTH FOR THE YEAR | **13.8%** |
| SOVEREIGN SUKUK | **95.7%** |

BREAKDOWN OF INVESTMENTS BY TYPE



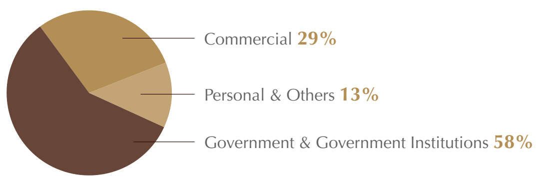

## Customer's Deposits



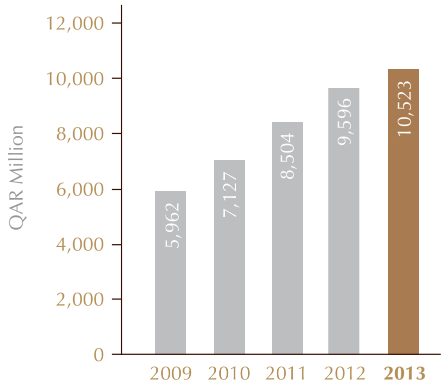

### Highlights

| | |
|---|---|
| 5 YEARS COMPOUND ANNUAL GROWTH RATE (CAGR) | **49.9%** |
| GROWTH FOR THE YEAR | **7.4%** |

BREAKDOWN OF CUSTOMERS' DEPOSITS BY SECTOR



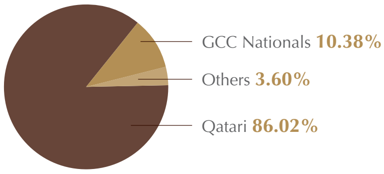
## Equity Pre Appropriation



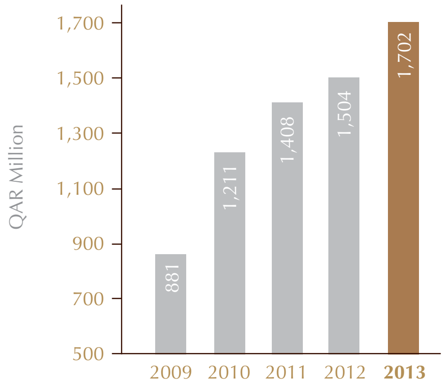

### Highlights

| | |
|---|---|
| 5 YEARS COMPOUND ANNUAL GROWTH RATE (CAGR) | **15.3%** |
| GROWTH FOR THE YEAR | **9.7%** |
| BOOK VALUE PER SHARE | **QAR 14.03** |
| RETURN ON EQUITY | **17.7%** |

OWNERSHIP BY NATIONALITY




## Net Profit



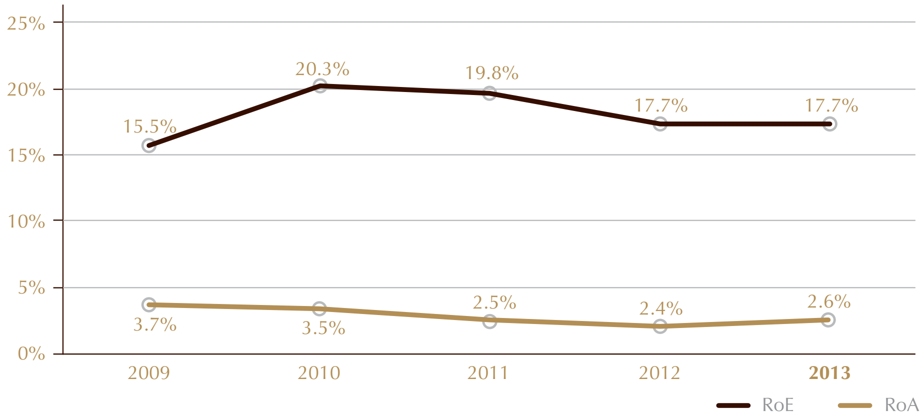

### Highlights

| | |
|---|---|
| 5 YEARS COMPOUND ANNUAL GROWTH RATE (CAGR) | **17.9%** |
| GROWTH FOR THE YEAR | **13.2%** |
| EARNINGS PER SHARE | **QAR 2.27** |

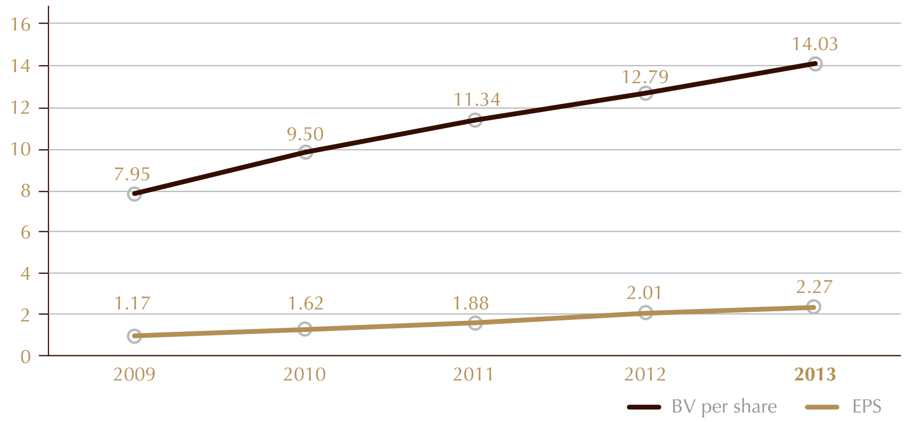
INCOME TO EXPENSES RATIOS

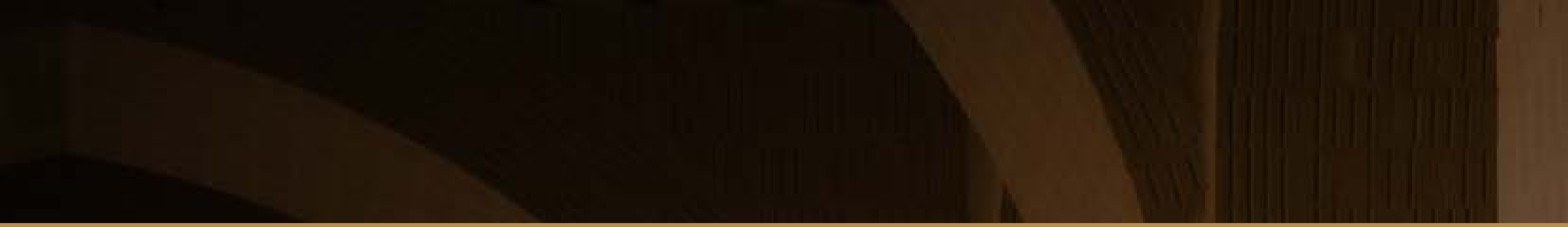
| | 2013 | 2012 |
|---|---|---|
| **Consolidated Operating Income** | **100%** | **100%** |
| General & Administrative Expenses | (14.9%) | (14.0%) |
| Finance Expenses | (2.9%) | (4.2%) |
| Impairment losses | 0.4% | 1.4% |
| Minority Interest | (1.4%) | (0.6%) |
| **Profit for Accounts & Equity holders** | **81.2%** | **82.6%** |
| Share - Account holders (Customers) | (21.8%) | (27.2%) |
| **Share - Equity holders of the Bank** | **59.4%** | **55.4%** |

## Profitability Ratios




## Book Value and EPS





# FINANCIAL STATEMENTS

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

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Masraf Al Rayan Q.S.C (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement and consolidated statements of changes in owners' equity, cash flows and restricted investment account for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

### Respective responsibilities of the Board of Directors and Auditors

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

### Basis of opinion

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2013, and the results of its operations, changes in owners' equity, cash flows and changes in restricted investment account for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank and the applicable provisions of Qatar Central Bank regulations.

## Report on other legal and regulatory matters

We have obtained all the information and explanations which we consider necessary for the purpose of our audit. The Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Board of Directors and confirm that the consolidated 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 Qatar Central Bank Law No. 13 of 2012, Qatar Commercial Law No. 5 of 2002 or the terms of Articles of Association and the amendments thereto having occurred during the year which might have had a material adverse effect on the business of the Bank or its consolidated financial position as at 31 December 2013.

27 January 2014
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Qatar Auditor's Registry No. 251

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

QAR '000s

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Qatar Central Bank | 8 | 3,510,514 | 2,267,508 |
| Due from banks | 9 | 4,334,667 | 2,627,154 |
| Financing assets | 10 | 41,440,198 | 41,719,216 |
| Investment securities | 11 | 15,016,627 | 13,011,322 |
| Investment in associates and joint arrangements | 12 | 1,457,278 | 1,449,521 |
| Investment property | 13 | 91,250 | 91,250 |
| Fixed assets | 14 | 55,283 | 62,218 |
| Other assets | 15 | 641,820 | 400,196 |
| **TOTAL ASSETS** | | **66,547,637** | **61,628,385** |
| **LIABILITIES** | | | |
| Due to banks | 16 | 6,765,067 | 6,383,877 |
| Customer current accounts | 17 | 3,514,402 | 2,502,739 |
| Other liabilities | 18 | 746,906 | 500,828 |
| TOTAL LIABILITIES | | 11,026,375 | 9,387,444 |
| EQUITY OF INVESTMENT ACCOUNT HOLDERS | 19 | 44,816,865 | 42,506,876 |
| OWNERS' EQUITY | | | |
| Share capital | 20 | 7,500,000 | 7,500,000 |
| Legal reserve | 20 | 632,746 | 292,292 |
| Risk reserve | 20 | 875,414 | 787,141 |
| Fair value reserves | 20 | 26,888 | 9,244 |
| Other reserves | 20 | 26,809 | 18,866 |
| Retained earnings | | 1,461,491 | 988,448 |
| TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK | | 10,523,348 | 9,595,991 |
| Non-controlling interests | 21 | 181,049 | 138,074 |
| TOTAL OWNERS' EQUITY | | 10,704,397 | 9,734,065 |
| **TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY** | | **66,547,637** | **61,628,385** |

These consolidated financial statements were approved by the Board of Directors on 27 January 2014 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 40 form an integral part of these consolidated financial statements

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

QAR '000s

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Net income from financing activities | 22 | 1,743,004 | 1,601,745 |
| Net income from investing activities | 23 | 709,468 | 697,856 |
| Total net income from financing and investing activities | | 2,452,472 | 2,299,601 |
| Fee and commission income | | 148,263 | 114,176 |
| Fee and commission expense | | (1,244) | (1,618) |
| Net fee and commission income | 24 | 147,019 | 112,558 |
| Foreign exchange gain | 25 | 60,408 | 46,783 |
| Share of results of associates | 12 | 7,943 | 6,876 |
| Other income | 26 | 13,865 | 36,232 |
| TOTAL INCOME | | 2,681,707 | 2,502,050 |
| Staff costs | 27 | (228,672) | (210,199) |
| Depreciation | 14 | (16,049) | (19,129) |
| Other expenses | 28 | (154,956) | (119,021) |
| Finance expense | | (77,774) | (104,689) |
| TOTAL EXPENSES | | (477,451) | (453,038) |
| Net recoveries / reversals on financing assets | | 11,332 | 34,457 |
| Net impairment losses on investment securities | | (1,157) | – |
| PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS | | 2,214,431 | 2,083,469 |
| Less: Return to investment account holders | 19 | (475,366) | (561,957) |
| PROFIT FOR THE YEAR BEFORE TAX | | 1,739,065 | 1,521,512 |
| Tax expense | | – | (1,623) |
| NET PROFIT FOR THE YEAR | | 1,739,065 | 1,519,889 |
| Net profit for the year attributable to: | | | |
| Equity holders of the Bank | | 1,702,270 | 1,504,213 |
| Non-controlling interests | | 36,795 | 15,676 |
| | | **1,739,065** | **1,519,889** |
| **BASIC AND DILUTED EARNINGS PER SHARE (QAR)** | 32 | **2.270** | **2.006** |

The attached notes 1 to 40 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER

QAR '000s

| | Share capital | Legal reserve | Risk reserve | Fair value reserves | Other Reserves | Retained earnings | Total equity attributable to equity holders of the Bank | Non-controlling interests | Total owners' equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 7,500,000 | 292,292 | 787,141 | 9,244 | 18,866 | 988,448 | 9,595,991 | 138,074 | 9,734,065 |
| Fair value reserve movement | – | – | – | 17,644 | – | – | 17,644 | – | 17,644 |
| Profit for the year | – | – | – | – | – | 1,702,270 | 1,702,270 | 36,795 | 1,739,065 |
| Dividends paid | – | – | – | – | – | (750,000) | (750,000) | – | (750,000) |
| Transfer to legal reserve | – | 340,454 | – | – | – | (340,454) | – | – | – |
| Transfer to risk reserve | – | – | 88,273 | – | – | (88,273) | – | – | – |
| Transfer to other reserves | – | – | – | – | 7,943 | (7,943) | – | – | – |
| Social and sports fund appropriation | – | – | – | – | – | (42,557) | (42,557) | – | (42,557) |
| Net movement in non-controlling interests | – | – | – | – | – | – | – | 6,180 | 6,180 |
| **Balance at 31 December 2013** | **7,500,000** | **632,746** | **875,414** | **26,888** | **26,809** | **1,461,491** | **10,523,348** | **181,049** | **10,704,397** |
| Balance at 1 January 2012 | 7,500,000 | 141,871 | 450,000 | 8,795 | 11,990 | 391,278 | 8,503,934 | 343 | 8,504,277 |
| Fair value reserve movement | – | – | – | 449 | – | – | 449 | – | 449 |
| Profit for the year | – | – | – | – | – | 1,504,213 | 1,504,213 | 15,676 | 1,519,889 |
| Dividends paid | – | – | – | – | – | (375,000) | (375,000) | – | (375,000) |
| Transfer to legal reserve | – | 150,421 | – | – | – | (150,421) | – | – | – |
| Transfer to risk reserve | – | – | 337,141 | – | – | (337,141) | – | – | – |
| Transfer to other reserves | – | – | – | – | 6,876 | (6,876) | – | – | – |
| Social and sports fund appropriation | – | – | – | – | – | (37,605) | (37,605) | – | (37,605) |
| Net movement in non-controlling interests | – | – | – | – | – | – | – | 122,055 | 122,055 |
| **Balance at 31 December 2012** | **7,500,000** | **292,292** | **787,141** | **9,244** | **18,866** | **988,448** | **9,595,991** | **138,074** | **9,734,065** |

The attached notes 1 to 40 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

QAR '000s

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit for the year before tax | | 1,739,065 | 1,521,512 |
| Adjustments for: | | | |
| Net recoveries on financing assets | 10(b) | (11,332) | (34,457) |
| Impairment loss on investment securities | 11 | 1,157 | – |
| Fair value gain on investment securities carried as fair value through income statement | 23 | (22,597) | (15,616) |
| Depreciation | 14 | 16,049 | 19,129 |
| Net gain on sale of investment securities | 23 | (21,728) | (14,966) |
| Dividend income | 23 | (8,387) | (7,985) |
| Share of results of associates and joint arrangements | 12 | (7,943) | (6,876) |
| Amortisation of premium and discount on investment securities | | (404) | (3,623) |
| Profit before changes in operating assets and liabilities | | 1,683,880 | 1,457,118 |
| Change in reserve account with Qatar Central Bank | | (297,203) | (468,615) |
| Change in financing assets | | 290,350 | (8,393,932) |
| Change in other assets | | (241,624) | (61,402) |
| Change in due to banks | | 381,190 | (6,811,384) |
| Change in customer current accounts | | 1,011,663 | (1,668,619) |
| Change in other liabilities | | 117,260 | (68,016) |
| | | 2,945,516 | (16,014,850) |
| Dividend received | | 8,387 | 7,985 |
| Tax paid | | (1,559) | (1,009) |
| Net cash from (used in) operating activities | | 2,952,344 | (16,007,874) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of investment securities | | (3,486,569) | (684,177) |
| Proceed from sale/redemption of investment securities | | 1,542,410 | 1,162,641 |
| Acquisition of fixed assets | 14 | (10,313) | (10,841) |
| Investment in associates | 12 | 1,000 | (11,359) |
| Investment securities reclassified to subsidiaries | | – | 66,138 |
| Net cash (used in) from investing activities | | (1,953,472) | 522,402 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Change in equity of investment account holders | | 2,309,245 | 13,609,880 |
| Dividends paid | | (660,981) | (347,842) |
| Net movement in non-controlling interest | | 6,180 | 122,055 |
| Net cash from financing activities | | 1,654,444 | 13,384,093 |
| Net increase (decrease) in cash and cash equivalents | | 2,653,316 | (2,101,379) |
| Cash and cash equivalents at 1 January | | 2,918,547 | 5,019,926 |
| **Cash and cash equivalents at 31 December** | 33 | **5,571,863** | **2,918,547** |

The attached notes 1 to 40 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER

QAR '000s

| | At 1 January 2013 | | | Movements during the year | | | At 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | No. of Units | Value per unit in QAR | Total Value | Gross income | Profit Paid | Bank's fee as an agent | No. of Units | Value per unit in QAR | Total Value |
| **Wakil and Muakil** | **1** | **2,518,381** | **2,518,381** | **229,173** | **(213,894)** | **15,279** | **1** | **2,518,381** | **2,518,381** |

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

The attached notes 1 to 40 form an integral part of these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

## 1. REPORTING ENTITY

Masraf Al Rayan (Q.S.C.) ("Masraf" or "the Bank") is an entity domiciled in the State of Qatar and was incorporated on 4 January 2006 as a Qatari Public Shareholding Company under Article 68 of Qatar Commercial Companies' Law No. 5 of 2002, under decision No. 11 of 2006. The commercial registration number of the Bank is 32010. The address of the Bank's registered office is at P.O. Box 28888, Grand Hamad Steet, Doha, Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to as "the Group" and individually as "Group entities"). The Bank is primarily involved in banking, financing, investing and brokerage activities, and has 12 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan.

The principal subsidiaries of the Group are as follows:

| Entity's name | Country of incorporation | Entity's capital | Entity's activities | Effective percentage of ownership | |
|---|---|---|---|---|---|
| | | | | 2013 | 2012 |
| Al Rayan Investment LLC | Qatar | USD 100,000,000 | Investment banking | 100.0% | 100.0% |
| Al Rayan Financial Brokerage | Qatar | QAR 50,000,000 | Financial brokerage | 100.0% | 100.0% |
| Al Rayan GCC Fund (F) | Qatar | Not applicable** | Investment activities | 56.4% | 63.4% |
| Al Rayan GCC Fund (Q) | Qatar | Not applicable** | Investment activities | 26.7% | 26.5% |
| SapuraCrest Qatar L.L.C.* | Qatar | QAR 700,000 | Oil and gas services | – | 51.0% |
| Al Rayan Partners * | Qatar | QAR 10,000,000 | Real estate consulting | 100.0% | 100.0% |

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

## 2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentational currency

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

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with FAS requires management to make 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 entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

ii) Special purpose entities

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

– The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE’s operation;

– The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an ‘autopilot’ mechanism, the Group has delegated these decision-making powers;

– The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE;

– The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

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

iii) Loss of Control

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of consolidation (continued)

iv) Non-controlling interests

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

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

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

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

v) Transactions eliminated on consolidation

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

vi) Associates 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of consolidation (continued)

vi) Associates and joint arrangements (equity-accounted investees) (continued)

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.

vii) Fund management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial results of these entities are included in these consolidated financial statements when the Group controls the entity.

b) Foreign currency

i) Foreign currency transactions and balances

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

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

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

ii) Foreign operations

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Investment securities

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

i) Classification

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

Debt-type instruments

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

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

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

Equity-type instruments

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

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

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

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

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

ii) Recognition and de-recognition

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

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

iii) Measurement

Initial recognition

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Investment securities (continued)

iii) Measurement (continued)

Subsequent measurement

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

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

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

iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

d) Financing assets

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financing assets (continued)

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 and work. These contracts are stated at fair value of consideration given less impairment allowance (if any).

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

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

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Other financial assets and liabilities (continued)

ii) De-recognition of financial assets and financial liabilities

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

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

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

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

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

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

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

iii) Offsetting

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### f) Impairment of financial assets

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

Equity-type investments classified as fair value through equity

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

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

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

### g) Cash and cash equivalents

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

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

### h) Investment property

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Investment property (continued)

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated income statement in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

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

i) Risk management instruments

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

The Group's risk management instruments include forward exchange contracts and profit rate swaps. After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, 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.

j) Fixed assets

Recognition and initial measurement

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

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

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

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

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

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

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

k) Impairment of non-financial assets

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

l) Customer current accounts

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Equity of investment account holders

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

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

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

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

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

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

o) Restricted investment accounts

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

p) Provisions

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) 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.

r) Share capital and reserves

Dividends on ordinary shares

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

s) Revenue recognition

Murabaha

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

Mudaraba

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

Musharaka

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

Ijara

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

Istisna'a

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

Wakala

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

Income from investment banking services

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### s) Revenue recognition (continued)

Fees and commission income

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

Dividend income

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

### t) Income tax

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

### u) Earnings per share

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

### v) Placements with banks and other financial institutions

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

### w) Financial guarantees

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

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

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

### x) Contingent liabilities

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

### y) Segment reporting

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Fiduciary activities

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

aa) Earnings prohibited by Shari'a

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

bb) Comparatives

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

cc) Parent bank financial information

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

dd) New standards and interpretations

New standards, amendments and interpretations effective from 1 January 2013:

The following accounting standards and interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 and are expected to be relevant to the Group:

FAS – 26 'Investment in Real estate'

The entity has adopted Financial Accounting Standard 26 ("FAS 26") "Investment in real estate" issued by AAOIFI during 2012, which is effective from 1 January 2013. The new standard replaces the requirements of FAS 17 which was applied for investments in real estate. The significant requirement of the standard is that for investment in real estate held-for-use, the entity shall choose either fair value model or cost model as its accounting policy. Where the entity adopts the fair value model, the fair value changes should be directly recognised in equity under 'property fair value reserve'. The standard has to be applied retroactively. Previously, the entity was following the cost model.

The adoption of the new standard did not have any material impact on the entity.

New standards, amendments and interpretations issued but not yet effective

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

## 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.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Credit risk (continued)

The main types of collaterals obtained are as follows:

- For securities lending: cash or securities.
- For commercial lending: mortgages over real estate properties, inventory, cash or securities.
- For retail lending: mortgages over residential properties, vehicles and securities.

Management constantly monitors the market value of collaterals.

The Group also obtains corporate guarantees from parent companies for receivables and balances from financing activities to their subsidiaries.

Details of the composition of the receivables and balances from financing activities to customers are set out in Note 10. Also the details of geographical segments are set out in Note 30.

#### 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.

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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

| | 2013 | 2012 |
|---|---|---|
| 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) | 3,227,597 | 2,062,705 |
| Due from banks | 4,334,667 | 2,627,154 |
| Financing assets | 41,440,198 | 41,719,216 |
| Investment securities - debt | 14,714,915 | 12,827,223 |
| Other assets | 390,206 | 326,480 |
| | **64,107,583** | **59,562,778** |
| Other credit risk exposures are as follows: | | |
| Guarantees | 8,040,566 | 5,510,161 |
| Letters of credit | 11,430,735 | 2,711,280 |
| Unutilized credit facilities | 15,290,101 | 7,403,642 |
| | **34,761,402** | **15,625,083** |

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 |
|---|---|---|---|---|---|
| 2013 | | | | | |
| Assets recorded on the consolidated statement of financial position: | | | | | |
| Cash and balances with QCB (excluding cash on hand) | 3,227,597 | – | – | – | 3,227,597 |
| Due from banks | 1,461,862 | 2,511,452 | 448 | 360,905 | 4,334,667 |
| Financing assets | 40,463,688 | 100,294 | – | 876,216 | 41,440,198 |
| Investment securities - debt | 14,258,007 | 349,202 | 33,677 | 74,029 | 14,714,915 |
| Other assets | 390,206 | – | – | – | 390,206 |
| | **59,801,360** | **2,960,948** | **34,125** | **1,311,150** | **64,107,583** |

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)

a) By Geographical Sector (continued)

| | Qatar | Other GCC | Other Middle East | Others | Total |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Assets recorded on the consolidated statement of financial position: | | | | | |
| Cash and balances with QCB (excluding cash on hand) | 2,062,705 | – | – | – | 2,062,705 |
| Due from banks | 28,280 | 1,325,962 | 685 | 1,272,227 | 2,627,154 |
| Financing assets | 40,928,223 | – | 65,529 | 725,464 | 41,719,216 |
| Investment securities - debt | 12,464,033 | 359,294 | 3,896 | – | 12,827,223 |
| Other assets | 326,480 | – | – | – | 326,480 |
| | 55,809,721 | 1,685,256 | 70,110 | 1,997,691 | 59,562,778 |

| | Qatar | Other GCC | Other Middle East | Others | Total |
|---|---|---|---|---|---|
| 2013 | | | | | |
| Guarantees | 4,901,424 | 5,598 | 702,687 | 2,430,857 | 8,040,566 |
| Letters of credit | 9,587,763 | – | – | 1,842,972 | 11,430,735 |
| Unutilized credit facilities | 15,228,222 | 61,722 | – | 157 | 15,290,101 |
| | **29,717,409** | **67,320** | **702,687** | **4,273,986** | **34,761,402** |

| | Qatar | Other GCC | Other Middle East | Others | Total |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Guarantees | 3,729,002 | 3,469 | 732,489 | 1,045,201 | 5,510,161 |
| Letters of credit | 2,711,280 | – | – | – | 2,711,280 |
| Unutilized credit facilities | 7,230,417 | 200 | – | 173,025 | 7,403,642 |
| | 13,670,699 | 3,669 | 732,489 | 1,218,226 | 15,625,083 |

QAR '000s

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Credit risk (continued)

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

b) By Industry Sector

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

| | Gross exposure 2013 | Gross exposure 2012 |
|---|---|---|
| Funded and unfunded | | |
| Government | 20,677,331 | 16,693,441 |
| Government agencies | 17,205,605 | 21,086,793 |
| Industry | 624,025 | 554,665 |
| Commercial | 2,577,486 | 1,438,475 |
| Services | 13,355,821 | 9,004,304 |
| Contracting | 718,057 | 176,069 |
| Real estate | 7,010,210 | 8,832,122 |
| Personal | 1,525,655 | 1,447,936 |
| Others | 413,393 | 328,973 |
| Contingent liabilities | 34,761,402 | 15,625,083 |
| **Total** | 98,868,985 | 75,187,861 |

Credit risk exposure

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

| | 2013 | 2012 |
|---|---|---|
| Equivalent grades | | |
| AAA to AA- | 37,877,355 | 29,599,854 |
| A+ to A- | 3,143,764 | 1,667,031 |
| BBB to BBB- | 7,510 | 7,057 |
| BB+ to B- | 485,607 | – |
| Unrated | 57,354,749 | 43,913,919 |
| | 98,868,985 | 75,187,861 |

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 | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Neither past due nor impaired (low risk): | | | | | | | | |
| Investment grade | 20,574,942 | 14,284,940 | – | – | 14,056,702 | 12,300,000 | – | – |
| Standard monitoring | 20,186,237 | 26,876,425 | 4,334,667 | 2,627,154 | 629,089 | 498,099 | 390,206 | 326,480 |
| Special monitoring | 312,796 | – | – | – | – | – | – | – |
| Carrying amount | 41,073,975 | 41,161,365 | 4,334,667 | 2,627,154 | 14,685,791 | 12,798,099 | 390,206 | 326,480 |
| Past due but not impaired (special mentioned): | | | | | | | | |
| Investment grade | – | – | – | – | – | – | – | – |
| Standard monitoring | 274,914 | 481,618 | – | – | – | – | – | – |
| Special monitoring | 86,044 | 86,044 | – | – | – | – | – | – |
| Carrying amount | 360,958 | 567,662 | – | – | – | – | – | – |
| Impaired | | | | | | | | |
| Substandard (overdue > 3 months) | 985 | 1,746 | – | – | – | – | – | – |
| Doubtful (overdue > 6 months) | – | 146 | – | – | – | – | – | – |
| Loss (overdue > 9 months) | 41,405 | 38,019 | – | – | 50,967 | 50,967 | 3,126 | 3,126 |
| | 42,390 | 39,911 | – | – | 50,967 | 50,967 | 3,126 | 3,126 |
| Less: impairment allowance-specific | (31,522) | (28,111) | – | – | (21,843) | (21,843) | (3,126) | (3,126) |
| Less: impairment allowance-collective | (5,603) | (21,611) | – | – | – | – | – | – |
| Carrying amount | 5,265 | (9,811) | – | – | 29,124 | 29,124 | – | – |
| Carrying amount – net | 41,440,198 | 41,719,216 | 4,334,667 | 2,627,154 | 14,714,915 | 12,827,223 | 390,206 | 326,480 |

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.

| | 2013 | 2012 |
|---|---|---|
| Up to 30 days | 164,435 | 389,310 |
| 31 to 60 days | 31,015 | 22,448 |
| 61 – 90 days | 165,508 | 155,904 |
| Gross | 360,958 | 567,662 |

**Renegotiated financing assets**

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

| | 2013 | 2012 |
|---|---|---|
| Continuing to be impaired after restructuring | 12,693 | – |
| Non–impaired after restructuring | | |
| – would otherwise not have been impaired | 6,494 | 291,767 |
| | 19,187 | 291,767 |

QAR '000s

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Credit risk (continued)

#### 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 | |
|---|---|---|
| | 2013 | 2012 |
| Past due category: | | |
| Up to 30 days | 317,291 | 81,207 |
| 31 to 60 days | 40 | 53,155 |
| 61 – 90 days | 1,607 | 75,384 |
| 91 days and above | 26,253 | 40,890 |
| | 345,191 | 250,636 |

#### 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 105 thousand (2012: QAR 22 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.

QAR '000s

## 4. FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

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

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

| | | 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 |
| 2013 | | | | | | | |
| Cash and balances with QCB | 3,510,514 | – | – | – | – | 3,510,514 | |
| Due from banks | 4,334,667 | 4,020,305 | – | – | – | 314,362 | 0.75% |
| Financing assets | 41,440,198 | 21,102,229 | 10,506,375 | 5,116,563 | 4,715,031 | – | 4.34% |
| Investment securities | 14,592,975 | 66,667 | 83,732 | – | – | 14,442,576 | 4.75% |
| | 63,878,354 | 25,189,201 | 10,590,107 | 5,116,563 | 4,715,031 | 18,267,452 | |
| Due to banks | (6,765,067) | (6,191,227) | – | – | – | (573,840) | 1.73% |
| Customer current accounts | (3,514,402) | – | – | – | – | (3,514,402) | |
| | (10,279,469) | (6,191,227) | – | – | – | (4,088,242) | |
| Equity of investment account holders | (44,816,865) | (39,988,078) | (4,231,403) | (597,384) | – | – | 1.05% |
| Consolidated statement of financial position items | 8,782,020 | (20,990,104) | 6,358,704 | 4,519,179 | 4,715,031 | 14,179,210 | |
| Off consolidated statement of financial position items | 18,516,075 | 14,002,272 | 4,513,803 | – | – | – | |
| Profit Rate Sensitivity Gap | (9,734,055) | (34,992,376) | 1,844,901 | 4,519,179 | 4,715,031 | 14,179,210 | |
| Cumulative Profit Rate Sensitivity Gap | (9,734,055) | (34,992,376) | (33,147,475) | (28,628,296) | (23,913,265) | (9,734,055) | |

QAR '000s

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Market risk (continued)

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

| | | | 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 |
| 2012 | | | | | | | |
| Cash and balances with QCB | 2,267,508 | – | – | – | – | 2,267,508 | |
| Due from banks | 2,627,154 | 1,146,566 | – | – | – | 1,480,588 | 0.49% |
| Financing assets | 41,719,216 | 31,330,832 | 2,863,438 | 6,209,119 | 1,315,827 | – | 4.29% |
| Investment securities | 12,661,633 | 201,638 | 159,995 | – | – | 12,300,000 | 5.46% |
| | 59,275,511 | 32,679,036 | 3,023,433 | 6,209,119 | 1,315,827 | 16,048,096 | |
| Due to banks | (6,383,877) | (5,090,023) | (727,475) | – | – | (566,379) | 1.27% |
| Customer current accounts | (2,502,739) | – | – | – | – | (2,502,739) | |
| | (8,886,616) | (5,090,023) | (727,475) | – | – | (3,069,118) | |
| Equity of investment account holders | (42,506,876) | (39,582,522) | (2,367,776) | (419,445) | – | (137,133) | 1.30% |
| Consolidated statement of financial position items | 7,882,019 | (11,993,509) | (71,818) | 5,789,674 | 1,315,827 | 12,841,845 | |
| Off consolidated statement of financial position items | 17,620,134 | 12,540,714 | 5,079,420 | – | – | – | |
| Profit Rate Sensitivity Gap | (9,738,115) | (24,534,223) | (5,151,238) | 5,789,674 | 1,315,827 | 12,841,845 | |
| Cumulative Profit Rate Sensitivity Gap | (9,738,115) | (24,534,223) | (29,685,461) | (23,895,787) | (22,579,960) | (9,738,115) | |

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:

| | 10 bp parallel increase | 10 bp parallel decrease |
|---|---|---|
| Sensitivity of net profit | | |
| 2013 | | |
| At 31 December | 892 | (892) |
| 2012 | | |
| At 31 December | 714 | (714) |

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

#### 4.3.3 Exposure to other market risks – non-trading portfolios

Foreign currency transactions

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

| | 2013 | 2012 |
|---|---|---|
| Net foreign currency exposure: | | |
| EUR | (99) | (1,719) |
| GBP | 191 | 4,188 |
| Others | 6,160 | 5,847 |

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 | |
|---|---|---|
| | 2013 | 2012 |
| 5% increase / (decrease) in currency exchange rate | | |
| EUR | (5) | (86) |
| GBP | 10 | 209 |
| Others | 308 | 292 |

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:

| | 2013 | 2012 |
|---|---|---|
| 5% increase / (decrease) in QE 30 index/other indices | | |
| Increase / (decrease) in profit and loss | 9,052 | 7,964 |
| Increase / (decrease) in equity | 5,858 | 988 |

### 4.4 Liquidity risk

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

#### 4.4.1 Exposure to liquidity risk

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

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

| | 2013 | 2012 |
|---|---|---|
| At 31 December | 126% | 105% |
| Average for the year | 106% | 110% |
| Maximum for the year | 126% | 132% |
| Minimum for the year | 99% | 100% |

QAR '000s

## 4. FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

4.4.2 Maturity analysis

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

| | Carrying amount | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| 2013 | | | | | | |
| Cash and balances with QCB | 3,510,514 | 1,237,196 | – | – | – | 2,273,318 |
| Due from banks | 4,334,667 | 4,334,667 | – | – | – | – |
| Financing assets | 41,440,198 | 14,940,311 | 6,161,918 | 10,506,375 | 5,116,563 | 4,715,031 |
| Investment securities - debt | 14,714,915 | 10,179,103 | 49,842 | 496,610 | 3,018,988 | 970,372 |
| Other assets | 390,206 | 390,206 | – | – | – | – |
| Total financial assets | 64,390,500 | 31,081,483 | 6,211,760 | 11,002,985 | 8,135,551 | 7,958,721 |
| Due to banks | 6,765,067 | 4,550,658 | 2,214,409 | – | – | – |
| Customer current accounts | 3,514,402 | 3,514,402 | – | – | – | – |
| Total financial liabilities | 10,279,469 | 8,065,060 | 2,214,409 | – | – | – |
| Equity of investment account holders | 44,816,865 | 32,652,927 | 7,335,151 | 4,231,403 | 597,384 | – |
| Total financial liabilities and equity of investment account holders | 55,096,334 | 40,717,987 | 9,549,560 | 4,231,403 | 597,384 | – |
| Difference | 9,294,166 | (9,636,504) | (3,337,800) | 6,771,582 | 7,538,167 | 7,958,721 |

QAR '000s

## 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 |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Cash and balances with QCB | 2,267,508 | 291,393 | – | – | – | 1,976,115 |
| Due from banks | 2,627,154 | 2,627,154 | – | – | – | – |
| Financing assets | 41,719,216 | 22,064,331 | 9,266,501 | 2,863,438 | 6,209,119 | 1,315,827 |
| Investment securities - debt | 12,827,223 | – | 1,050,000 | 209,328 | 10,207,079 | 1,360,816 |
| Other assets | 326,480 | 319,539 | – | 6,941 | – | – |
| Total financial assets | 59,767,581 | 25,302,417 | 10,316,501 | 3,079,707 | 16,416,198 | 4,652,758 |
| Due to banks | 6,383,877 | 4,439,854 | 1,216,548 | 727,475 | – | – |
| Customer current accounts | 2,502,739 | 2,502,739 | – | – | – | – |
| Total financial liabilities | 8,886,616 | 6,942,593 | 1,216,548 | 727,475 | – | – |
| Equity of investment account holders | 42,506,876 | 29,791,732 | 9,927,923 | 2,367,776 | 419,445 | – |
| Total financial liabilities and equity of investment account holders | 51,393,492 | 36,734,325 | 11,144,471 | 3,095,251 | 419,445 | – |
| Difference | 8,374,089 | (11,431,908) | (827,970) | (15,544) | 15,996,753 | 4,652,758 |

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## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4 Liquidity risk (continued)

#### 4.4.3 Maturity analysis (Financial liabilities and risk management instruments)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

The Group maintains a portfolio of highly marketable, diverse and liquid assets in the event of an unforeseen interruption to cash flow. The Group maintains statutory reserves with QCB. Liquidity is assessed and managed using a variety of stressed scenarios applicable to the Group.

| | Carrying amount | Gross undiscounted cash flows | Less than one month | One to 3 months | 3 to 12 months | 1 to 5 Years | Over 5 years |
|---|---|---|---|---|---|---|---|
| 2013 | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Due to banks | 6,765,067 | 6,769,323 | 4,615,738 | 2,153,585 | – | – | – |
| Customer current accounts | 3,514,402 | 3,514,402 | 3,514,402 | – | – | – | – |
| Other liabilities | 746,906 | 746,906 | 746,906 | – | – | – | – |
| Total liabilities | 11,026,375 | 11,030,631 | 8,877,046 | 2,153,585 | – | – | – |
| Equity of investment account holders | 44,816,865 | 44,882,779 | 32,657,809 | 7,345,583 | 4,258,883 | 620,504 | – |
| Risk management instruments | | | | | | | |
| Risk management: | 6,669 | | | | | | |
| Outflow | | (6,443) | (6,443) | – | – | – | – |
| Inflow | | 13,112 | 3,915 | 7,452 | 1,745 | – | – |
| | 55,849,909 | 55,920,079 | 41,532,327 | 9,506,620 | 4,260,628 | 620,504 | – |

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## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4 Liquidity risk (continued)

4.4.3 Maturity analysis (Financial liabilities and 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 |
|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Due to banks | 6,383,877 | 6,389,898 | 4,291,116 | 1,370,324 | 728,458 | – | – |
| Customer current accounts | 2,502,739 | 2,502,739 | 2,502,739 | – | – | – | – |
| Other liabilities | 500,828 | 500,828 | 500,828 | – | – | – | – |
| Total liabilities | 9,387,444 | 9,393,465 | 7,294,683 | 1,370,324 | 728,458 | – | – |
| Equity of investment account holders | 42,506,876 | 42,601,275 | 29,783,003 | 9,978,583 | 2,396,953 | 442,736 | – |
| Risk management instruments | | | | | | | |
| Risk management: | 3,865 | | | | | | |
| Outflow | | (5,968) | (70) | (103) | (5,795) | – | – |
| Inflow | | 9,833 | 47 | 439 | 9,347 | – | – |
| | 51,898,185 | 51,998,605 | 37,077,663 | 11,349,243 | 3,128,963 | 442,736 | – |

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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 owners' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

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

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

| | 2013 | 2012 |
|---|---|---|
| Tier 1 Capital | 7,537,585 | 7,180,731 |
| Tier 2 Capital | – | – |
| Total regulatory capital | 7,537,585 | 7,180,731 |

Tier 1 capital includes paid up share capital, legal reserve, other reserves and retained earnings after excluding proposed dividend.

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## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.6 Capital management (continued)

Regulatory capital (continued)

Tier 2 capital comprises the risk reserve and fair value reserve (45% if positive and 100% if negative).

Risk weighted assets and carrying amounts

| | Basel II Risk weighted amount | | Carrying amount | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Cash and balances with QCB | – | – | 3,510,514 | 2,267,508 |
| Due from banks | 2,161,899 | 1,027,914 | 4,334,667 | 2,627,154 |
| Financing assets | 20,260,711 | 32,325,730 | 41,440,198 | 41,719,216 |
| Investment securities | 1,202,537 | 714,435 | 15,016,627 | 13,011,322 |
| Fixed assets and other assets | 697,103 | 462,414 | 697,103 | 462,414 |
| Off balance sheet assets | 8,613,615 | 4,638,459 | 53,277,477 | 33,245,217 |
| Total risk weighted assets for credit risk | 32,935,865 | 39,168,952 | 118,276,586 | 93,332,831 |
| Risk weighted assets for market risk | 245,488 | 407,228 | | |
| Risk weighted assets for operational risk | 3,499,990 | 2,965,796 | | |
| | 3,745,478 | 3,373,024 | | |

| | 2013 | 2012 |
|---|---|---|
| Risk weighted assets | 36,681,343 | 42,541,976 |
| Regulatory capital | 7,537,585 | 7,180,731 |
| Risk weighted assets as a percentage of regulatory capital (capital ratio) | 20.55% | 16.88% |

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

## 5. USE OF ESTIMATES AND JUDGMENTS

a) Key sources of estimation uncertainty

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

i) Allowances for credit losses

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

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

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

### 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

a) Key sources of estimation uncertainty (continued)

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.

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

i) Valuation of financial instruments

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

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

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

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

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

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## 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

ii) Financial asset and liability classification

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 2013 | | | | |
| Risk management instruments | – | 13,112 | – | 13,112 |
| Investment securities | 418,974 | – | – | 418,974 |
| | 418,974 | 13,112 | – | 432,086 |
| Risk management instruments | – | 6,443 | – | 6,443 |
| | – | 6,443 | – | 6,443 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 2012 | | | | |
| Risk management instruments | – | 13,256 | – | 13,256 |
| Investment securities | 344,619 | – | – | 344,619 |
| | 344,619 | 13,256 | – | 357,875 |
| Risk management instruments | – | 9,391 | – | 9,391 |
| | – | 9,391 | – | 9,391 |

The fair value of financial assets and financial liabilities not carried at fair value is equal to the carrying value, hence, not included in the fair value hierarchy table.

Investment securities totalling QAR 4,678 thousand are carried at cost (2012: QAR 5,070 thousand).

During the reporting periods 31 December 2013 and 2012, there were no transfers among Levels 1, 2 and 3 fair value measurements.

iii) Impairment of investments in equity and debt securities

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

iv) Useful lives of fixed assets

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

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## 6. OPERATING SEGMENTS

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

- Corporate Banking provides an extensive range of Islamic funded and non-funded credit facilities, deposit services, investment advisory, currency exchange facilities, profit rate swaps, financing syndication and and other services to Corporate, Commercial and Multinational Customers.
- Retail Banking provides investment accounts services, credit card and Islamic financing to retail and individual customers.
- 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.

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

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

Information about operating segments

| 2013 | Corporate Banking | Retail Banking | Asset Management | Unallocated | Total |
|---|---|---|---|---|---|
| External revenue: | | | | | |
| Total income from financing and investing activities | 2,092,896 | 296,327 | 63,249 | – | 2,452,472 |
| Net fee and commission income | 134,750 | – | 12,269 | – | 147,019 |
| Foreign exchange gain / (loss) | 60,441 | – | (33) | – | 60,408 |
| Share of results of associates and joint arrangements | – | – | – | 7,943 | 7,943 |
| Other income | – | – | 4,666 | 9,199 | 13,865 |
| Total segment revenue | 2,288,087 | 296,327 | 80,151 | 17,142 | 2,681,707 |
| Other material non-cash items: | | | | | |
| Net impairment loss on investment securities | – | – | – | (1,157) | (1,157) |
| Net recoveries (impairment losses) on financing assets | 11,485 | (153) | – | – | 11,332 |
| Reportable segment profit before tax | 1,811,513 | 226,982 | 58,389 | (357,819) | 1,739,065 |
| Reportable segment assets | 59,086,204 | 6,229,017 | 690,823 | 541,593 | 66,547,637 |
| Reportable segment liabilities | 49,317,021 | 6,002,035 | 5,994 | 518,190 | 55,843,240 |

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## 6. OPERATING SEGMENTS (CONTINUED)

Information about operating segments (continued)

| 2012 | Corporate Banking | Retail Banking | Asset Management | Unallocated | Total |
|---|---|---|---|---|---|
| External revenue: | | | | | |
| Total income from financing and investing activities | 2,062,766 | 189,096 | 47,739 | – | 2,299,601 |
| Net fee and commission income | 103,464 | – | 9,094 | – | 112,558 |
| Foreign exchange gain / (loss) | 46,810 | – | (27) | – | 46,783 |
| Share of results of associates and joint arrangements | – | – | – | 6,876 | 6,876 |
| Other income | – | – | 540 | 35,692 | 36,232 |
| Total segment revenue | 2,213,040 | 189,096 | 57,346 | 42,568 | 2,502,050 |
| Other material non-cash items: | | | | | |
| Net impairment loss on investment securities | – | – | – | – | – |
| Net recoveries (impairment losses) on financing assets | 35,580 | (1,123) | – | – | 34,457 |
| Reportable segment profit before tax | 1,670,470 | 126,481 | 39,438 | (330,553) | 1,505,836 |
| Reportable segment assets | 56,252,168 | 4,445,210 | 609,316 | 321,691 | 61,628,385 |
| Reportable segment liabilities | 47,027,337 | 4,571,691 | 4,797 | 290,495 | 51,894,320 |

## 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 |
|---|---|---|---|---|---|
| 2013 | | | | | |
| Cash and balances with QCB | – | – | 3,510,514 | 3,510,514 | 3,510,514 |
| Due from banks | – | – | 4,334,667 | 4,334,667 | 4,334,667 |
| Financing assets | – | – | 41,440,198 | 41,440,198 | 41,440,198 |
| Investment securities: | | | | | |
| – Measured at fair value | 302,972 | 120,680 | – | 423,652 | 423,652 |
| – Measured at amortised cost | – | – | 14,592,975 | 14,592,975 | 14,493,319 |
| Other assets | – | – | 390,206 | 390,206 | 390,206 |
| Risk management instruments | 13,112 | – | – | 13,112 | 13,112 |
| | 316,084 | 120,680 | 64,268,560 | 64,705,324 | 64,605,668 |
| Due to banks | – | – | 6,765,067 | 6,765,067 | 6,765,067 |
| Customer current accounts | – | – | 3,514,402 | 3,514,402 | 3,514,402 |
| Equity of investment account holders | – | – | 44,816,865 | 44,816,865 | 44,816,865 |
| Risk management instruments | 6,443 | – | – | 6,443 | 6,443 |
| | 6,443 | – | 55,096,334 | 55,102,777 | 55,102,777 |

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## 7. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

| | Fair value through income statement | Fair value through equity | Amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Cash and balances with QCB | – | – | 2,267,508 | 2,267,508 | 2,267,508 |
| Due from banks | – | – | 2,627,154 | 2,627,154 | 2,627,154 |
| Financing assets | – | – | 41,719,216 | 41,719,216 | 41,719,216 |
| Investment securities: | | | | | |
| – Measured at fair value | 324,865 | 24,824 | – | 349,689 | 349,689 |
| – Measured at amortised cost | – | – | 12,661,633 | 12,661,633 | 12,640,339 |
| Other assets | – | – | 326,480 | 326,480 | 326,480 |
| Risk management instruments | 13,256 | – | – | 13,256 | 13,256 |
| | 338,121 | 24,824 | 59,601,991 | 59,964,936 | 59,943,642 |
| Due to banks | – | – | 6,383,877 | 6,383,877 | 6,383,877 |
| Customer current accounts | – | – | 2,502,739 | 2,502,739 | 2,502,739 |
| Equity of investment account holders | – | – | 42,506,876 | 42,506,876 | 42,506,876 |
| Risk management instruments | 9,391 | – | – | 9,391 | 9,391 |
| | 9,391 | – | 51,393,492 | 51,402,883 | 51,402,883 |

## 8. CASH AND BALANCES WITH QATAR CENTRAL BANK

| | 2013 | 2012 |
|---|---|---|
| Cash on hand | 282,917 | 204,803 |
| Cash reserve with QCB* | 2,273,318 | 1,976,115 |
| Current account with QCB | 954,279 | 86,590 |
| | 3,510,514 | 2,267,508 |

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

## 9. DUE FROM BANKS

| | 2013 | 2012 |
|---|---|---|
| Current accounts | 314,362 | 1,480,588 |
| Wakala placements with banks | 1,217,575 | 33,063 |
| Commodity murabaha receivable | 2,802,730 | 1,113,503 |
| | 4,334,667 | 2,627,154 |

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## 10. FINANCING ASSETS

a) By type

| | 2013 | 2012 |
|---|---|---|
| Receivables and balances from financing activities: | | |
| Murabaha | 38,375,758 | 38,581,243 |
| Ijarah | 3,705,824 | 3,424,472 |
| Istisna'a | 983,684 | 784,106 |
| Musharaka | 520,050 | 122,112 |
| Others | 127,112 | 110,256 |
| Total receivables and balances from financing activities | 43,712,428 | 43,022,189 |
| Deferred profit | (2,235,105) | (1,253,251) |
| Allowance for impairment and profit in suspense (note b) | (37,125) | (49,722) |
| Net receivables and balances from financing activities | 41,440,198 | 41,719,216 |

The total non-performing financing assets at 31 December 2013 amounted to QAR 42,390 thousand representing 0.10% of the gross financing assets (2012: QAR 39,911 thousand, representing 0.09% of the gross financing assets).

Specific impairment of financing assets includes QAR 3,209 thousand of profit in suspense (2012: QAR 4,369 thousand).

b) Movement in the allowance for impairment on financing assets

| | Specific and collective impairment | Profit in suspense | Total 2013 |
|---|---|---|---|
| Balance as at 1 January | 45,353 | 4,369 | 49,722 |
| Charge for the year | 30,917 | (1,160) | 29,757 |
| Recoveries / reversals during the year | (42,249) | – | (42,249) |
| Write off during the year | (105) | – | (105) |
| Balance at 31 December | 33,916 | 3,209 | 37,125 |

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

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## 10. FINANCING ASSETS (CONTINUED)

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

| | Corporate | SME | Retail | Total 2013 |
|---|---|---|---|---|
| Balance as at 1 January | 34,878 | 12,876 | 1,968 | 49,722 |
| Charge for the year | 24,566 | 4,915 | 276 | 29,757 |
| Recoveries / reversals during the year | (42,158) | (7) | (84) | (42,249) |
| Write off during the year | – | – | (105) | (105) |
| Balance at 31 December | 17,286 | 17,784 | 2,055 | 37,125 |

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

d) By sector

| | Murabaha | Ijarah | Istisna'a | Musharaka | Others | Total 2013 |
|---|---|---|---|---|---|---|
| Government and related agencies | 21,183,932 | – | 90,568 | – | – | 21,274,500 |
| Non-banking financial institutions | 6,056,452 | – | – | – | – | 6,056,452 |
| Industry | 191,602 | – | 461,155 | – | – | 652,757 |
| Commercial | 3,419,835 | 12,530 | – | – | – | 3,432,365 |
| Services | 2,152,945 | 335,148 | 206,933 | – | 86,981 | 2,782,007 |
| Contracting | 744,300 | 15,269 | – | – | – | 759,569 |
| Real estate | 3,002,244 | 3,250,487 | 225,028 | 514,225 | – | 6,991,984 |
| Personal | 1,584,338 | 92,390 | – | 5,825 | 40,131 | 1,722,684 |
| Other | 40,110 | – | – | – | – | 40,110 |
| | 38,375,758 | 3,705,824 | 983,684 | 520,050 | 127,112 | 43,712,428 |
| Less: Deferred profit | | | | | | (2,235,105) |
| Allowance for impairment on financing assets | | | | | | (37,125) |
| | | | | | | 41,440,198 |

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## 10. FINANCING ASSETS (CONTINUED)

d) By sector (continued)

| | Murabaha | Ijarah | Istisna'a | Musharaka | Others | Total 2012 |
|---|---|---|---|---|---|---|
| Government and related agencies | 23,548,464 | – | – | – | – | 23,548,464 |
| Non-banking financial institutions | 3,566,389 | 600 | – | – | – | 3,566,989 |
| Industry | 109,410 | – | 461,155 | – | – | 570,565 |
| Commercial | 1,771,008 | 42,791 | – | – | – | 1,813,799 |
| Services | 2,423,493 | 65,331 | 235,589 | – | 86,044 | 2,810,457 |
| Contracting | 178,832 | 19,668 | – | – | – | 198,500 |
| Real estate | 5,924,421 | 2,806,443 | 87,362 | 115,329 | – | 8,933,555 |
| Personal | 1,059,226 | 489,639 | – | 4,290 | 24,212 | 1,577,367 |
| Other | – | – | – | 2,493 | – | 2,493 |
| | 38,581,243 | 3,424,472 | 784,106 | 122,112 | 110,256 | 43,022,189 |
| Less: Deferred profit | | | | | | (1,253,251) |
| Allowance for impairment on financing assets | | | | | | (49,722) |
| | | | | | | 41,719,216 |

## 11. INVESTMENT SECURITIES

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Investments classified as fair value through income statement | | | | | | |
| Investments classified as held for trading | | | | | | |
| • Equity type investments | 181,032 | – | 181,032 | 159,275 | – | 159,275 |
| • Debt type investments | | | | | | |
| – Fixed profit rate | 121,940 | – | 121,940 | 158,838 | – | 158,838 |
| – Floating profit rate | – | – | – | 6,752 | – | 6,752 |
| | 302,972 | – | 302,972 | 324,865 | – | 324,865 |
| Debt-type investments classified as amortised cost | | | | | | |
| Fixed profit rate | 436,842 | – | 436,842 | 50,967 | – | 50,967 |
| Floating profit rate | 121,274 | – | 121,274 | 332,509 | – | 332,509 |
| Government of Qatar Sukuk | 910,580 | 13,146,122 | 14,056,702 | – | 12,300,000 | 12,300,000 |
| Less: Allowance for impairment | (21,843) | – | (21,843) | (21,843) | – | (21,843) |
| | 1,446,853 | 13,146,122 | 14,592,975 | 361,633 | 12,300,000 | 12,661,633 |
| Equity-type investments classified as fair value through equity | 116,002 | 4,678 | 120,680 | 19,754 | 5,070 | 24,824 |
| | 1,865,827 | 13,150,800 | 15,016,627 | 706,252 | 12,305,070 | 13,011,322 |

The Group has taken impairment loss for equity-type investments classified as fair value through equity during the year totalling QAR 1,157 thousand (2012: nil).

QAR '000s

### 11. INVESTMENT SECURITIES (CONTINUED)

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Total | Positive fair value | Negative fair value | Total |
| Balance at 1 January | 9,244 | – | 9,244 | 8,795 | – | 8,795 |
| Net change in fair value | 16,830 | (1,157) | 15,673 | 449 | – | 449 |
| Transferred to consolidated income statement | – | 1,157 | 1,157 | – | – | – |
| Share of other comprehensive income of associates | 814 | – | 814 | – | – | – |
| Balance at 31 December | 26,888 | – | 26,888 | 9,244 | – | 9,244 |

### 12. INVESTMENT IN ASSOCIATES AND JOINT ARRANGEMENTS

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

| | 2013 | 2012 |
|---|---|---|
| Balance at 1 January | 1,449,521 | 1,431,286 |
| Investments acquired during the year | – | 11,359 |
| Share of results | 7,943 | 6,876 |
| Share of other comprehensive income | 814 | – |
| Reclassification of investment to other assets | (1,000) | – |
| Balance at 31 December | 1,457,278 | 1,449,521 |

| Name of the Company | Associate/Joint Arrangement | Country | Company's activities | Ownership % 2013 | Ownership % 2012 |
|---|---|---|---|---|---|
| National Mass Housing ("NMH") | Associate | Oman | Real estate services | 20.00 | 20.00 |
| CI San Trading ("Ci San") | Associate | Qatar | Real estate | 50.00 | 50.00 |
| Kirnaf Investment and Installment Company ("Kirnaf") | Associate | Saudi Arabia | Leasing | 48.00 | 48.00 |
| Daman Insurance – Beema ("Daman") | Associate | Qatar | Insurance | 20.00 | 20.00 |
| Linc Facility Services ("Linc") | Joint arrangement | Qatar | Facility management | 33.33 | 33.33 |
| Seef Lusail Real Estate Development Company W.L.L. ("Seef") | Associate | Qatar | Investment and credit facilities management | 50.00 | 50.00 |

Notes:

A) As at reporting date, Linc Facility Services is still in the pre-operating stage. Accordingly, the investment balance represents the acquisition cost.

B) All investments are not listed.

QAR '000s

## 12. INVESTMENT IN ASSOCIATES AND JOINT ARRANGEMENTS (CONTINUED)

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

| 2013 | NMH | Ci San | Kirnaf | Daman | Linc | Seef |
|---|---|---|---|---|---|---|
| Total assets | 163,049 | 51,776 | 977,162 | 396,521 | 6,000 | 2,127,478 |
| Total liabilities | 5,464 | 8,512 | 321,369 | 166,993 | – | 44,593 |
| Total revenue | 3,048 | 93,284 | – | 34,552 | – | 41 |
| Net profit / (loss) | 1,186 | 12,632 | – | 14,204 | – | (6,406) |
| Share of profit / (loss) | 499 | 6,332 | – | 4,315 | – | (3,203) |

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

## 13. INVESTMENT PROPERTY

Investment property pertains to freehold land and is carried at cost. The fair value of the investment property as at 31 December 2013 amounted to QAR 101 million (2012: QAR 95 million).

## 14. FIXED ASSETS

| | Land and building | Leasehold improve-ments | Furniture, fixtures and office equipment | Computer equipment | Work in progress | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Balance at 1 January 2013 | 14,163 | 52,398 | 20,436 | 65,619 | 1,969 | 154,585 |
| Additions | – | 2,137 | 2,030 | 6,146 | – | 10,313 |
| Transfers | – | 44 | 426 | – | (470) | – |
| Disposals / write off | – | – | – | – | (1,199) | (1,199) |
| Balance at 31 December 2013 | 14,163 | 54,579 | 22,892 | 71,765 | 300 | 163,699 |
| Accumulated depreciation: | | | | | | |
| Balance at 1 January 2013 | 1,747 | 23,784 | 11,505 | 55,331 | – | 92,367 |
| Depreciation for the year | 359 | 5,340 | 3,039 | 7,311 | – | 16,049 |
| Balance at 31 December 2013 | 2,106 | 29,124 | 14,544 | 62,642 | – | 108,416 |
| Net book value: | | | | | | |
| At 31 December 2013 | 12,057 | 25,455 | 8,348 | 9,123 | 300 | 55,283 |

QAR '000s

## 14. FIXED ASSETS (CONTINUED)

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

## 15. OTHER ASSETS

| | 2013 | 2012 |
|---|---|---|
| Accrued profit | 393,332 | 329,606 |
| Prepayments and other receivables | 229,143 | 64,438 |
| Advances to suppliers | 22,471 | 9,278 |
| | 644,946 | 403,322 |
| Less: Allowance for impairment losses | (3,126) | (3,126) |
| | 641,820 | 400,196 |

Notes:

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

ii) Other receivables include positive fair value of derivatives amounting to QAR 13,112 thousand (2012: QAR 13,256 thousand).

## 16. DUE TO BANKS

| | 2013 | 2012 |
|---|---|---|
| Current accounts | 573,840 | 566,379 |
| Commodity murabaha payable | 1,426,604 | 851,898 |
| Wakala payable | 4,764,623 | 4,965,600 |
| | 6,765,067 | 6,383,877 |

Wakala payable includes various facilities with maturities up to 3 months and carries a profit rate of 0.22% to 1.25% (2012: maturities ranging from 1 month to 6 months and carries a profit rate of 0.20% to 1.50%).

QAR '000s

## 17. CUSTOMER CURRENT ACCOUNTS

| | 2013 | 2012 |
|---|---|---|
| By sector: | | |
| Government | 629,791 | 296,334 |
| Non-banking financial institutions | 20,053 | 14,176 |
| Corporate | 1,464,581 | 1,346,690 |
| Individuals | 1,399,977 | 845,539 |
| | 3,514,402 | 2,502,739 |

## 18. OTHER LIABILITIES

| | 2013 | 2012 |
|---|---|---|
| Unearned commission | 207,305 | 204,410 |
| Dividend payable | 186,802 | 97,944 |
| Other staff provisions | 65,321 | 58,764 |
| Social and sports fund | 42,557 | 37,605 |
| Accrued expenses | 37,634 | 17,993 |
| Provision for employees' end of service benefits (a) | 21,552 | 16,912 |
| Escrow accounts | – | 1,149 |
| Others | 185,735 | 66,051 |
| | 746,906 | 500,828 |

Others include negative fair value of derivatives amounting to QAR 6,443 thousand (2012: QAR 9,391 thousand).

a) Provision for employees' end of service benefits

| | 2013 | 2012 |
|---|---|---|
| Balance at 1 January | 16,912 | 12,582 |
| Provisions made during the year | 6,126 | 5,202 |
| Paid during the year | (1,486) | (872) |
| Balance at 31 December | 21,552 | 16,912 |

## 19. EQUITY OF INVESTMENT ACCOUNT HOLDERS

| | 2013 | 2012 |
|---|---|---|
| a) By type | | |
| Saving accounts | 1,843,583 | 1,519,970 |
| Term accounts | 40,334,469 | 38,691,069 |
| Call accounts | 2,538,393 | 2,158,704 |
| Profit payable to equity of investment account holders | 99,305 | 136,762 |
| Share in the fair value reserve | 1,115 | 371 |
| | 44,816,865 | 42,506,876 |

QAR '000s

## 19. EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)

b) By sector

| | 2013 | 2012 |
|---|---|---|
| Government | 27,525,382 | 24,244,995 |
| Non-banking financial institutions | 131,812 | 114,527 |
| Retail | 4,942,875 | 4,194,590 |
| Corporate | 12,116,376 | 13,815,631 |
| Profit payable to equity of investment account holders | 99,305 | 136,762 |
| Share in the fair value reserve | 1,115 | 371 |
| | 44,816,865 | 42,506,876 |

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

| | 2013 | 2012 |
|---|---|---|
| Return on equity of investment account holders in the profit before Masraf's Mudaraba income | 1,667,733 | 1,544,570 |
| Masraf's Mudaraba income | (1,581,756) | (1,464,599) |
| Return on investment account holders | 85,977 | 79,971 |
| Support provided by Masraf | 389,389 | 481,986 |
| Return on investment account holders after Masraf's support | 475,366 | 561,957 |

| | 2013<br>% | 2012<br>% |
|---|---|---|
| Rates of profit allotment: | | |
| More than one year deposits | 1.84 | 2.29 |
| One year deposits | 1.55 | 1.19 |
| Six months deposits | 1.41 | 0.89 |
| Three months deposits | 1.30 | 0.73 |
| Call accounts | 0.57 | 0.56 |
| Saving accounts | 0.89 | 0.49 |
| Saving accounts-millionaire | 1.00 | 1.00 |

## 20. OWNERS' EQUITY

a) Share capital

| | 2013 | 2012 |
|---|---|---|
| Authorised, issued and paid up 750,000,000 shares at QAR 10 each | 7,500,000 | 7,500,000 |

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## 20. OWNERS' EQUITY (CONTINUED)

b) Legal reserve

| | 2013 | 2012 |
|---|---|---|
| Balance at 1 January | 292,292 | 141,871 |
| Transfer from retained earnings (i) | 340,454 | 150,421 |
| Balance at 31 December | 632,746 | 292,292 |

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 2013, the Group transferred to legal reserve 20% of the net profit for the year (2012: 10% of the net profit).

c) Fair value reserve

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

| | 2013 | 2012 |
|---|---|---|
| Balance at the 1 January | 9,244 | 8,795 |
| Net unrealised gains | 17,945 | 820 |
| Share of other comprehensive income of associates | 814 | – |
| | 28,003 | 9,615 |
| Share of equity of investment account holders in the fair value reserve | (1,115) | (371) |
| Balance at 31 December (shareholders' share) | 26,888 | 9,244 |

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

d) Risk reserve

In accordance with QCB 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 Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees are excluded from the gross direct financing, which should be appropriated from shareholders' profit according to QCB instructions. As of 31 December 2013, an amount of QAR 88 million has been transferred to the risk reserve (2012: QAR 337 million).

e) Proposed dividend

The Board of Directors in its meeting held on 27 January 2014 proposed a cash dividend of 15% (2012: 10%) of the share capital amounting to QAR 1,125 million (2012: QAR 750 million).

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

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.

| | 2013 | 2012 |
|---|---|---|
| Balance at 1 January | 18,866 | 11,990 |
| Share of results of associates | 7,943 | 6,876 |
| Balance at 31 December | 26,809 | 18,866 |

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## 21. NON-CONTROLLING INTERESTS

This represents the Group's non-controlling interest in Al Rayan GCC Fund (F) and Al Rayan GCC Fund (Q) of 43.6% and 73.3%, respectively (31 December 2012: 36.6% and 73.5%, respectively).

At 31 December 2012, the Group's non-controlling interest included 49% of the share capital of SapuraCrest Qatar L.L.C. SapuraCrest Qatar L.L.C. is 51% owned by Al Rayan Investment LLC, a wholly-owned subsidiary of Masraf. SapuraCrest Qatar L.L.C. was liquidated during the current year.

## 22. NET INCOME FROM FINANCING ACTIVITIES

| | 2013 | 2012 |
|---|---|---|
| Income from Murabaha | 1,488,861 | 1,409,794 |
| Income from Istisna'a | 32,963 | 18,368 |
| Income from Ijarah | 201,154 | 164,546 |
| Income from Musharaka | 20,026 | 9,037 |
| | 1,743,004 | 1,601,745 |

## 23. NET INCOME FROM INVESTING ACTIVITIES

| | 2013 | 2012 |
|---|---|---|
| Income from investment in debt-type instruments | 646,793 | 643,811 |
| Fair value gain on investment securities carried as fair value through income statement | 22,597 | 15,616 |
| Income from inter-bank placements with Islamic banks | 9,963 | 15,478 |
| Dividend income | 8,387 | 7,985 |
| Net gain on sale of debt-type investments | 1,897 | 14,938 |
| Net gain on sale of equity-type investments | 19,831 | 28 |
| | 709,468 | 697,856 |

## 24. NET FEE AND COMMISSION INCOME

| | 2013 | 2012 |
|---|---|---|
| Commission on financing activities | 83,619 | 70,927 |
| Commission on trade finance activities | 47,023 | 32,726 |
| Commission on banking services | 17,621 | 10,523 |
| | 148,263 | 114,176 |
| Fee and commission expenses | (1,244) | (1,618) |
| | 147,019 | 112,558 |

## 25. FOREIGN EXCHANGE GAIN

| | 2013 | 2012 |
|---|---|---|
| Dealing in foreign currencies | 60,744 | 47,316 |
| Revaluation of assets and liabilities | (336) | (533) |
| | 60,408 | 46,783 |

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## 26. OTHER INCOME

| | 2013 | 2012 |
|---|---|---|
| Rental income | 2,808 | 3,545 |
| Miscellaneous | 11,057 | 32,687 |
| | 13,865 | 36,232 |

## 27. STAFF COSTS

| | 2013 | 2012 |
|---|---|---|
| Salaries, allowances and other staff costs | 218,867 | 201,155 |
| Staff indemnity costs | 6,126 | 5,202 |
| Staff pension fund costs | 3,679 | 3,842 |
| | 228,672 | 210,199 |

## 28. OTHER EXPENSES

| | 2013 | 2012 |
|---|---|---|
| Rent and maintenance | 48,333 | 39,317 |
| Advertising expenses | 39,497 | 28,018 |
| Board of Directors' remuneration (Note 34/c) | 15,444 | 16,997 |
| Legal, professional and consulting fees | 14,846 | 14,783 |
| Information technology | 8,648 | 7,206 |
| Shari'a Board compensation | 1,620 | 1,404 |
| Other operating expenses | 26,568 | 11,296 |
| | 154,956 | 119,021 |

## 29. CONTINGENT LIABILITIES AND COMMITMENTS

a) Capital commitments

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

| | 2013 | 2012 |
|---|---|---|
| Payable not later than 1 year | 23,795 | 22,157 |
| Payable later than 1 year and not later than 5 years | 34,397 | 35,179 |
| | 58,192 | 57,336 |

b) Contingent liabilities

| | 2013 | 2012 |
|---|---|---|
| Unutilised credit facilities | 15,290,101 | 7,403,642 |
| Guarantees | 8,040,566 | 5,510,161 |
| Letters of credit | 11,430,735 | 2,711,280 |
| | 34,761,402 | 15,625,083 |

c) Other undertakings and commitments

| | 2013 | 2012 |
|---|---|---|
| Profit rate swap | – | 1,529,010 |
| Unilateral promise to buy/sell currencies | 18,516,075 | 16,091,124 |
| | 18,516,075 | 17,620,134 |

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

Geographical sector

| | Qatar | Other GCC | Europe | North America | Others | Total |
|---|---|---|---|---|---|---|
| 2013 | | | | | | |
| Cash and balances with QCB | 3,510,514 | – | – | – | – | 3,510,514 |
| Due from banks | 1,461,862 | 2,511,452 | 89,436 | 268,596 | 3,321 | 4,334,667 |
| Financing assets | 40,463,688 | 100,294 | 876,189 | – | 27 | 41,440,198 |
| Investment securities | 14,437,302 | 471,229 | 70,444 | – | 37,652 | 15,016,627 |
| Investment in associates and joint arrangements | 1,110,981 | 346,297 | – | – | – | 1,457,278 |
| Investment property | 91,250 | – | – | – | – | 91,250 |
| Fixed assets | 55,283 | – | – | – | – | 55,283 |
| Other assets | 641,820 | – | – | – | – | 641,820 |
| TOTAL ASSETS | 61,772,700 | 3,429,272 | 1,036,069 | 268,596 | 41,000 | 66,547,637 |
| Due to banks | 4,105,277 | 1,932,057 | 30,155 | 2 | 697,576 | 6,765,067 |
| Customer current accounts | 3,509,925 | 2,103 | 1,151 | 2 | 1,221 | 3,514,402 |
| Other liabilities | 746,906 | – | – | – | – | 746,906 |
| Total liabilities | 8,362,108 | 1,934,160 | 31,306 | 4 | 698,797 | 11,026,375 |
| Equity of investment account holders | 44,123,821 | 662,859 | 20,375 | – | 9,810 | 44,816,865 |
| TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS | 52,485,929 | 2,597,019 | 51,681 | 4 | 708,607 | 55,843,240 |

| | Qatar | Other GCC | Europe | North America | Others | Total |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Cash and balances with QCB | 2,267,508 | – | – | – | – | 2,267,508 |
| Due from banks | 28,280 | 1,325,962 | 1,181,306 | 89,387 | 2,219 | 2,627,154 |
| Financing assets | 40,928,223 | – | 657,734 | – | 133,259 | 41,719,216 |
| Investment securities | 12,543,001 | 459,356 | – | – | 8,965 | 13,011,322 |
| Investment in associates and joint arrangements | 1,104,537 | 344,984 | – | – | – | 1,449,521 |
| Investment property | 91,250 | – | – | – | – | 91,250 |
| Fixed assets | 62,218 | – | – | – | – | 62,218 |
| Other assets | 400,196 | – | – | – | – | 400,196 |
| TOTAL ASSETS | 57,425,213 | 2,130,302 | 1,839,040 | 89,387 | 144,443 | 61,628,385 |
| Due to banks | 3,568,459 | 2,131,891 | 117,748 | – | 565,779 | 6,383,877 |
| Customer current accounts | 2,491,409 | 5,782 | 1,027 | 9 | 4,512 | 2,502,739 |
| Other liabilities | 500,828 | – | – | – | – | 500,828 |
| Total liabilities | 6,560,696 | 2,137,673 | 118,775 | 9 | 570,291 | 9,387,444 |
| Equity of investment account holders | 39,217,117 | 3,203,787 | 8,487 | – | 77,485 | 42,506,876 |
| TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS | 45,777,813 | 5,341,460 | 127,262 | 9 | 647,776 | 51,894,320 |

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

Industrial sector

| | Real estate | Construction, engineering and manufacturing | Oil and gas | Financial services | Individuals | Others | Total |
|---|---|---|---|---|---|---|---|
| 2013 | | | | | | | |
| Cash and balances with QCB | – | – | – | 3,510,514 | – | – | 3,510,514 |
| Due from banks | – | – | – | 4,334,667 | – | – | 4,334,667 |
| Financing assets | 6,772,341 | 880,927 | 461,155 | 5,933,958 | 1,525,655 | 25,866,162 | 41,440,198 |
| Investment securities | 278,985 | 63,991 | 6,149 | 187,676 | – | 14,479,826 | 15,016,627 |
| Investment in associates and joint arrangements | 1,072,959 | – | – | 360,687 | – | 23,632 | 1,457,278 |
| Investment property | 91,250 | – | – | – | – | – | 91,250 |
| Fixed assets | – | – | – | – | – | 55,283 | 55,283 |
| Other assets | – | – | – | – | – | 641,820 | 641,820 |
| TOTAL ASSETS | 8,215,535 | 944,918 | 467,304 | 14,327,502 | 1,525,655 | 41,066,723 | 66,547,637 |
| Due to banks | – | – | - | 6,765,067 | – | – | 6,765,067 |
| Customer current accounts | 3,439 | 126,912 | 2,541 | 20,053 | 1,399,977 | 1,961,480 | 3,514,402 |
| Other liabilities | – | – | – | – | – | 746,906 | 746,906 |
| Total liabilities | 3,439 | 126,912 | 2,541 | 6,785,120 | 1,399,977 | 2,708,386 | 11,026,375 |
| Equity of investment account holders | 12,104 | 152,808 | 1,100 | 131,812 | 4,942,875 | 39,576,166 | 44,816,865 |
| TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS | 15,543 | 279,720 | 3,641 | 6,916,932 | 6,342,852 | 42,284,552 | 55,843,240 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

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## 30. 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 |
|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | |
| Cash and balances with QCB | – | – | – | 2,267,508 | – | – | 2,267,508 |
| Due from banks | – | – | – | 2,627,154 | – | – | 2,627,154 |
| Financing assets | 8,637,113 | 276,862 | 461,155 | 3,357,925 | 1,447,936 | 27,538,225 | 41,719,216 |
| Investment securities | 235,390 | 34,579 | 21,213 | 143,411 | – | 12,576,729 | 13,011,322 |
| Investment in associates and joint arrangements | 1,074,849 | – | – | 356,372 | – | 18,300 | 1,449,521 |
| Investment property | 91,250 | – | – | – | – | – | 91,250 |
| Fixed assets | – | – | – | – | – | 62,218 | 62,218 |
| Other assets | – | – | – | – | – | 400,196 | 400,196 |
| TOTAL ASSETS | 10,038,602 | 311,441 | 482,368 | 8,752,370 | 1,447,936 | 40,595,668 | 61,628,385 |
| Due to banks | - | - | - | 6,383,877 | - | - | 6,383,877 |
| Customer current accounts | 24,574 | 94,329 | 5,177 | 14,176 | 845,539 | 1,518,944 | 2,502,739 |
| Other liabilities | - | - | - | - | - | 500,828 | 500,828 |
| Total liabilities | 24,574 | 94,329 | 5,177 | 6,398,053 | 845,539 | 2,019,772 | 9,387,444 |
| Equity of investment account holders | 104,265 | 6,723 | 728 | 114,527 | 4,194,590 | 38,086,043 | 42,506,876 |
| TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS | 128,839 | 101,052 | 5,905 | 6,512,580 | 5,040,129 | 40,105,815 | 51,894,320 |

QAR '000s

## 31. MATURITY PROFILE

| | Up to 3 months | 3-6 months | 6 months-1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| 2013 | | | | | | |
| Cash and balances with QCB | 1,237,196 | – | – | – | 2,273,318 | 3,510,514 |
| Due from banks | 4,334,667 | – | – | – | – | 4,334,667 |
| Financing assets | 21,102,229 | 7,941,272 | 2,565,103 | 5,116,563 | 4,715,031 | 41,440,198 |
| Investment securities | 10,435,024 | 496,610 | – | 3,018,988 | 1,066,005 | 15,016,627 |
| Investment in associates and joint arrangements | – | – | – | – | 1,457,278 | 1,457,278 |
| Investment property | – | – | – | – | 91,250 | 91,250 |
| Fixed assets | – | – | – | – | 55,283 | 55,283 |
| Other assets | 641,820 | – | – | – | – | 641,820 |
| TOTAL ASSETS | 37,750,936 | 8,437,882 | 2,565,103 | 8,135,551 | 9,658,165 | 66,547,637 |
| Due to banks | 6,765,067 | – | – | – | – | 6,765,067 |
| Customer current accounts | 3,514,402 | – | – | – | – | 3,514,402 |
| Other liabilities | 746,906 | – | – | – | – | 746,906 |
| Total liabilities | 11,026,375 | – | – | – | – | 11,026,375 |
| Equity of investment account holders | 39,988,078 | 3,083,008 | 1,148,395 | 597,384 | – | 44,816,865 |
| TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS | 51,014,453 | 3,083,008 | 1,148,395 | 597,384 | – | 55,843,240 |
| MATURITY GAP | (13,263,517) | 5,354,874 | 1,416,708 | 7,538,167 | 9,658,165 | 10,704,397 |

QAR '000s

## 31. MATURITY PROFILE (CONTINUED)

| | Up to 3 months | 3-6 months | 6 months- 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Cash and balances with QCB | 291,393 | – | – | – | 1,976,115 | 2,267,508 |
| Due from banks | 2,627,154 | – | – | – | – | 2,627,154 |
| Financing assets | 31,330,832 | 2,143,024 | 720,414 | 6,209,119 | 1,315,827 | 41,719,216 |
| Investment securities | 1,209,275 | 155,425 | 53,903 | 10,207,079 | 1,385,640 | 13,011,322 |
| Investment in associates and joint arrangements | – | – | – | – | 1,449,521 | 1,449,521 |
| Investment property | – | – | – | – | 91,250 | 91,250 |
| Fixed assets | – | – | – | – | 62,218 | 62,218 |
| Other assets | 393,255 | 6,941 | – | – | – | 400,196 |
| TOTAL ASSETS | 35,851,909 | 2,305,390 | 774,317 | 16,416,198 | 6,280,571 | 61,628,385 |
| Due to banks | 5,656,402 | 532,210 | 195,265 | – | – | 6,383,877 |
| Customer current accounts | 2,502,739 | – | – | – | – | 2,502,739 |
| Other liabilities | 500,828 | – | – | – | – | 500,828 |
| Total liabilities | 8,659,969 | 532,210 | 195,265 | – | – | 9,387,444 |
| Equity of investment account holders | 39,719,655 | 1,324,185 | 1,043,591 | 419,445 | – | 42,506,876 |
| TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS | 48,379,624 | 1,856,395 | 1,238,856 | 419,445 | – | 51,894,320 |
| MATURITY GAP | (12,527,715) | 448,995 | (464,539) | 15,996,753 | 6,280,571 | 9,734,065 |

QAR '000s

## 32. BASIC AND DILUTED EARNINGS PER SHARE

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

| | 2013 | 2012 |
|---|---|---|
| Profit for the year attributable to owners of the Bank | 1,702,270 | 1,504,213 |
| Weighted average number of shares outstanding during the year (thousand) (a) | 750,000 | 750,000 |
| Basic earnings per share (QAR) | 2.270 | 2.006 |

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

| | 2013<br>Nos'000 | 2012<br>Nos'000 |
|---|---|---|
| Weighted average number of shares at 1 January / 31 December | 750,000 | 750,000 |

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

## 33. CASH AND CASH EQUIVALENTS

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

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and balances with QCB excluding cash reserve | 1,237,196 | 291,393 |
| Due from banks | 4,334,667 | 2,627,154 |
| | 5,571,863 | 2,918,547 |

QAR '000s

## 34. RELATED PARTIES

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

Transactions with related parties

a) Consolidated statement of financial position items

| | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Murabaha - customer | – | 4,316,378 |
| Liabilities | | |
| Current account - customer | 184 | 215 |
| Equity of investment account holders - customer | 3,541,599 | 5,512,704 |
| | 3,541,783 | 5,512,919 |

b) Consolidated income statement items

| | 2013 | 2012 |
|---|---|---|
| Income from financing activities - customer | – | 231,184 |
| Gain (loss) from foreign exchange operations - customer | 21 | (11,491) |
| | 21 | 219,693 |
| Return on equity of investment account holders - customer | 13,541 | 24,961 |

c) Transactions with key management personnel

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

| | 2013 | 2012 |
|---|---|---|
| Financing | 10,011 | 283 |

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

| | 2013 | 2012 |
|---|---|---|
| Remuneration to Board of Directors including meeting allowances (Note 28) | 15,444 | 16,997 |
| Salaries and other benefits | 8,649 | 9,900 |

QAR '000s

## 35. RISK MANAGEMENT INSTRUMENTS

A) Profit rate swap

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

B) Unilateral promise to buy/sell currencies

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

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

| | Positive fair value | Negative fair value | Notional amount | Within 3 months | 3 - 12 months | 1 - 5 years |
|---|---|---|---|---|---|---|
| 2013 | | | | | | |
| Risk management instruments | | | | | | |
| Unilateral promise to buy/sell currencies | 13,112 | 6,443 | 18,516,075 | 14,002,272 | 4,513,803 | – |

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

## 36. ZAKAT

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

## 37. SHARI'A SUPERVISORY BOARD

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

## 38. SOCIAL RESPONSIBILITY

Pursuant to Law No. 13 of 2008 and further clarifications of the law issued in 2010, the Group made an appropriation of QAR 42.6 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2013 (2012: QAR 37.6 million) for the support of sports, cultural and charitable activities.

## 39. SUBSEQUENT EVENT

The Bank, through its 100% owned subsidiary, Al Rayan (UK), acquired equity ownership stake of more than 95% in Islamic Bank of Britain PLC ("IBB"), a Shari'a compliant retail bank in the United Kingdom.

## 40. COMPARATIVE FIGURES

The comparative figures presented for 2012 have been reclassified where necessary to preserve consistency with the 2013 figures.  However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

# SUPPLEMENTARY FINANCIAL INFORMATION

AT 31 DECEMBER

QAR '000s

## FINANCIAL STATEMENTS OF THE PARENT BANK

### A) STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

| | 2013 | 2012 |
|---|---|---|
| ASSETS | | |
| Cash and balances with QCB | 3,462,880 | 2,255,502 |
| Due from banks | 4,334,667 | 2,627,154 |
| Financing assets | 41,440,198 | 41,719,216 |
| Investment securities | 14,590,847 | 12,658,946 |
| Investment in subsidiaries, associates and joint arrangements | 1,902,490 | 1,903,490 |
| Investment property | 91,250 | 91,250 |
| Fixed assets | 54,008 | 60,236 |
| Other assets | 637,544 | 393,998 |
| TOTAL ASSETS | 66,513,884 | 61,709,792 |
| LIABILITIES | | |
| Due to banks | 6,996,087 | 6,622,168 |
| Customer current accounts | 3,521,413 | 2,511,750 |
| Other liabilities | 739,378 | 495,387 |
| TOTAL LIABILITIES | 11,256,878 | 9,629,305 |
| EQUITY OF INVESTMENT ACCOUNT HOLDERS | 44,824,544 | 42,532,063 |
| OWNERS' EQUITY | | |
| Share capital | 7,500,000 | 7,500,000 |
| Legal reserve | 632,746 | 292,292 |
| Risk reserve | 875,414 | 787,141 |
| Fair value reserves | 7,490 | 7,491 |
| Retained earnings | 1,416,812 | 961,500 |
| TOTAL OWNERS' EQUITY | 10,432,462 | 9,548,424 |
| TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY | 66,513,884 | 61,709,792 |

# SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER

QAR '000s

### FINANCIAL STATEMENTS OF THE PARENT BANK (CONTINUED)

B) INCOME STATEMENT OF THE PARENT BANK

| | 2013 | 2012 |
|---|---|---|
| Net income from financing activities | 1,743,004 | 1,601,745 |
| Net income from investing activities | 646,424 | 655,630 |
| Total net income from financing and investing activities | 2,389,428 | 2,257,375 |
| Fee and commission income | 135,235 | 107,193 |
| Fee and commission expense | (1,244) | (1,618) |
| Net fee and commission income | 133,991 | 105,575 |
| Foreign exchange gain | 60,441 | 46,810 |
| Other income | 13,399 | 39,892 |
| TOTAL INCOME | 2,597,259 | 2,449,652 |
| Staff costs | (214,522) | (198,028) |
| Depreciation | (15,317) | (18,118) |
| Other expenses | (145,868) | (111,520) |
| Finance expense | (80,924) | (111,731) |
| TOTAL EXPENSES | (456,631) | (439,397) |
| Net recoveries / reversals on financing assets | 11,332 | 34,457 |
| Net impairment losses on investment securities | – | – |
| Impairment losses on other assets | – | – |
| PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS | 2,151,960 | 2,044,712 |
| Less: Return to investment account holders | (475,366) | (561,957) |
| NET PROFIT FOR THE YEAR | 1,676,594 | 1,482,755 |