MASRAF AL RAYAN (Q.P.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended 31 December 2021

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Deloitte.

Deloitte and Touche – Qatar Branch
Al Ahli Bank Building
Sheikh Suhaim Bin Hamad Street
Doha, P.O. Box 431
The State of Qatar

Tel: +974 443-41112
Fax:+974 4442 2131
www.deloitte.com

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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Masraf Al Rayan (Q.P.S.C.) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of sources and uses of charity fund for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Qatar Central Bank ("QCB").

Basis for opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Estimation uncertainty with respect to the purchase price allocation for the merger with Al Khalij Commercial Bank P.Q.S.C.</td></tr>
<tr><td>The Bank acquired Al Khalij Commercial Bank (Al Khaliji) P.Q.S.C. with effect from 30 November 2021 and accounted for this transaction using the acquisition method of accounting. The purchase price allocation, which resulted in preliminary goodwill and or intangible assets of QAR 1.76 billion as at the date of acquisition, was still provisional as at 31 December 2021 given the time that had elapsed between the transaction date and the approval of the consolidated financial statements. Goodwill arising from the acquisition and the relating carrying amounts of assets and liabilities will be adjusted on a retrospective basis upon finalisation of the purchase price allocation process during 2022. In the absence of specific guidance on business combinations in the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Group has applied International Financial Reporting Standard 3 Business Combinations.</td><td>We performed the following procedures on the preliminary management purchase price allocation, which included, but was not limited, to the following:
- We assessed the design and implementation of controls over the transaction;
- We assessed whether the transaction falls within the scope of IFRS 3 by assessing whether the assets acquired and liabilities assumed constitute a business, whether the acquisition date is determined properly, whether the transaction should be accounted for by applying the acquisition method and whether the consideration price and preliminary goodwill are calculated appropriately;
- We verified that the results of operations of the entities acquired were included in the consolidated financial statements of the Bank from the date of acquisition, as defined by IFRS 3;
- We evaluated the approach and key assumptions used in the Bank's provisional fair value adjustments relative to the acquired portfolio of financial assets at amortised cost, in particular financing assets and challenged management judgements on specific customer or market related factors, such as expected default rates;
- We evaluated accounting policies adopted by management for the identification of purchased or originated credit impaired financial assets and assessed the adequacy of the recognition, presentation, and measurement policy for these assets;
- We evaluated the identification and provisional valuation of intangible assets based on our understanding of the businesses of the acquired entity and discussed the business rationale for the acquisition and assessment with management; and</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Estimation uncertainty with respect to the purchase price allocation for the merger with Al Khalij Commercial Bank P.Q.S.C. (continued)</td></tr>
<tr><td>We considered this as a key audit matter because of the size of the purchase price and the significant judgements applied and estimates made by management in determining the provisional fair values of acquired assets and liabilities. Auditing these complex judgements and assumptions involves, inter alia, challenging management's judgements to assess the provisional fair value of different types of assets, due to the nature and extent of audit evidence and effort required to address these matters.

Refer to the following notes of the consolidated financial statements for more details on this key audit matter:

Note 3 (c) (ii) – Business combinations
Note 14 – Intangible assets
Note 45 – Business combination</td><td>- We assessed the adequacy of the disclosures in the consolidated financial statements relating to this matter against the relevant IFRS disclosure requirements.</td></tr>
<tr><td colspan="2">Impairment of financial assets</td></tr>
<tr><td>The Group's financial assets, both on and off balance sheet, amount to QAR 193.69 billion as at 31 December 2021 (2020: QAR 134.82 billion). The expected credit losses (ECL) provision recognised for the year ended December 31, 2021 amounted to QAR 2.01 billion (2020: QAR 1.07 billion).

FAS 30 Impairment, Credit Losses and Onerous Commitments is a complex accounting standard that requires considerable judgements, which were key in the development of models to measure expected credit losses on financial assets, carried either at amortised cost or at FVTE (debt instruments).

Financial assets might be inaccurate due to:
- The methodologies used to develop probability of default (PD); loss given default (LGD); and (exposure at default EAD) are inappropriate.
- Inappropriate segmentation of portfolios is used to develop risk parameters.
- The input and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes.</td><td>We have updated our understanding of the business process related to impairment of financial assets and assessed and tested the design and operating effectiveness of the relevant controls over data governance, methodologies, inputs and assumptions used by the Group in the ECL model.

In addition, our work performed included the below procedures, among others on the Group's FAS 30 ECL model:

- For a selection of exposures, performed a detailed credit review and challenged the Group's staging and impairment allowance calculation.
- Review and assessment of the appropriateness of the data, assumptions and methodologies used within the Bank's FAS 30 ECL model (PD, LGD, and EAD) and customer internal rating systems and methodology.
- Assessment on whether significant increase in credit risk (SICR) indicators are present for the exposures subject to credit risks based on FAS 30 and Qatar Central Banks guidance and the possible implications on the ECL staging and expected provisioning.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Impairment of financial assets (continued)</td></tr>
<tr><td>- Extrapolation techniques used to project scenarios and parameters (PD, LGD, and EAD) in future periods are inappropriate.
- The methodology used to allocate a probability to each scenario is inappropriate or unsupported.
- Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis.
- Assumptions incorporated in the ECL model, especially scenarios arising from the Covid 19 pandemic, are not updated on a timely basis.

Refer to the following notes of the consolidated financial statements:
Note 3 – Significant accounting policies on financial assets and financial liabilities
Note 4 – Financial risk management
Note 7 – Fair value and classification of financial instruments
Note 9 – Due from banks
Note 10 – Financing assets
Note 11 – Investment securities</td><td>- Assessment of the ECL methodology, macroeconomic scenarios weightage, (including scenario weightage adjustments for COVID-19), model validation/testing, including post model adjustments on a sample basis.

We have assessed whether the related disclosures of this area are adequate in accordance with the requirements of Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Qatar Central Bank (QCB) and applicable provision of QCB regulations.</td></tr>
<tr><td colspan="2">IT systems and controls over financial reporting</td></tr>
<tr><td>We identified IT systems and controls over financial reporting as an area of focus because the Bank's accounting and financial reporting systems are vitally dependent on complex technology. The extensive volume and variety of transactions processed daily raises a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively.

A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.</td><td>Our audit approach relies on automated controls and therefore procedures were designed to test access and controls over IT systems. Our audit procedures included:

- Obtain the understanding on IT applications relevant to financial reporting including the Equation - core banking system, Opics - Treasury system, TI – Trade finance system, LOS – retail and corporate financing assets business and the Swift messaging and the infrastructure supporting these applications;

- Testing the relevant automated input / processing and output controls relevant to business processes.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
IT systems and controls over financial reporting (continued)	
	- Testing the IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations; and - Assessing the accuracy and completeness of computer-generated information in which are relevant to the financial statements.

Other information

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

- Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

Report on other legal requirements

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

Reference to Note 2 to the consolidated financial statements, the Group is in the process of assessing the impact of the Qatar Commercial Companies Law, as per Law no. 8 of 2021. Management believes that the said amendments will not have a material impact on the consolidated financial statements of the Group.

Doha - Qatar
April 6, 2022

For **Deloitte & Touche**
Qatar Branch

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

Masraf Al Rayan (Q.P.S.C.) QAR '000s

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2021	2020
ASSETS			
Cash and balances with central banks	8	5,220,712	7,070,507
Due from banks	9	9,155,812	6,307,575
Financing assets	10	120,806,731	85,983,437
Investment securities	11	32,775,088	20,585,834
Investment in associates	12	348,935	534,116
Fixed assets	13	714,680	271,406
Intangible asset	14	1,758,698	-
Other assets	15	3,253,204	362,005
TOTAL ASSETS		**174,033,860**	121,114,880
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY			
LIABILITIES			
Due to banks	16	23,246,577	27,979,497
Customer current accounts	17	9,192,634	8,491,997
Sukuk and debt financing	18	7,614,762	6,023,180
Other borrowings	19	5,699,994	1,270,775
Other liabilities	20	5,849,975	2,331,558
TOTAL LIABILITIES		**51,603,942**	46,097,007
EQUITY OF INVESTMENT ACCOUNT HOLDERS	21	**97,763,630**	60,425,902
EQUITY			
Share capital	22	9,300,000	7,500,000
Legal reserve	22	9,644,166	2,714,166
Risk reserve	22	2,282,824	1,796,600
Fair value reserve	22	36,125	25,204
Foreign currency translation reserve	22	(5,915)	(3,618)
Other reserves	22	127,274	126,222
Retained earnings		2,082,166	2,206,731
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**23,466,640**	14,365,305
Non-controlling interest	23	199,648	226,666
Instrument eligible as additional capital	24	1,000,000	-
TOTAL EQUITY		**24,666,288**	14,591,971
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY		**174,033,860**	121,114,880

These consolidated financial statements were approved by the Board of Directors on 27 January 2022 and were signed on its behalf by:

Mohamed Bin Hamad Bin Qassim Al Thani Chairman	Hamad Bin Faisal Bin Thani Al Thani Vice Chairman	Fahad Bin Abdulla Al Khalifa Group Chief Executive Officer

DELOITTE & TOUCHE - Qatar
06 APR 2022
Signed for Identification Purposes Only

This statement has been prepared by the Management of the Group and stamped by the Auditors for identification purposes only

The attached notes 1 to 45 form part of, and should be read in conjunction with, these consolidated financial statements.

Masraf Al Rayan (Q.P.S.C.) QAR '000s

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Notes	*2021*	*2020*
Income from financing activities	25	**3,710,612**	3,680,336
Income from investing activities	26	**884,589**	925,202
Total income from financing and investing activities		**4,595,201**	4,605,538
Fee and commission income		**329,260**	263,010
Fee and commission expense		**(5,537)**	(2,280)
Net fee and commission income	27	**323,723**	260,730
Foreign exchange gain (net)	28	**167,198**	158,227
Share of results of associates	12	**13,706**	17,888
Other income	29	**1,298**	3,891
TOTAL INCOME		**5,101,126**	5,046,274
Staff costs	30	**(427,950)**	(386,408)
Depreciation and amortisation	13	**(68,097)**	(24,818)
Other expenses	31	**(300,385)**	(283,230)
Finance expense		**(529,103)**	(671,992)
TOTAL EXPENSES		**(1,325,535)**	(1,366,448)
Net impairment losses on due from banks		**(1,241)**	(113)
Net impairment losses on financing assets		**(910,340)**	(298,764)
Net impairment losses on investments		**(188,836)**	(58,227)
Net reversals on other exposures subject to credit risk		**3,733**	5,415
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		**2,678,907**	3,328,137
Less: Return to investment account holders	21(c)	**(948,843)**	(1,145,186)
PROFIT BEFORE TAX FOR THE YEAR		**1,730,064**	2,182,951
Tax expense	32	**(4,772)**	(2,357)
NET PROFIT FOR THE YEAR		**1,725,292**	2,180,594
Net profit for the year attributable to:			
Equity holders of the Bank		**1,712,519**	2,175,425
Non-controlling interest		**12,773**	5,169
		1,725,292	2,180,594
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	36	**0.217**	0.290

DELOITTE & TOUCHE
Doha - Qatar
06 APR 2022
Signed for Identification
Purposes Only

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The attached notes 1 to 45 form part of, and should be read in conjunction with, these consolidated financial statements.

Masraf Al Rayan (Q.P.S.C.) QAR '000s

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Share capital	*Legal reserve*	*Risk reserve*	*Fair value reserve*	*Foreign currency translation reserve*	*Other reserves*	*Retained earnings*	*Total equity attributable to equity holders of the Bank*	*Non-controlling interest*	*Instrument eligible as additional capital*	*Total equity*
Balance at 31 December 2020	7,500,000	2,714,166	1,796,600	25,204	(3,618)	126,222	2,206,731	14,365,305	226,666	-	14,591,971
Change in foreign currency translation reserve	-	-	-	-	(2,297)	-	-	(2,297)	-	-	(2,297)
Fair value reserve movement	-	-	-	15,679	-	-	-	15,679	-	-	15,679
Effective portion of changes in fair value of cash flow hedges	-	-	-	725	-	-	-	725	-	-	725
Gain on sale of FVTE investments	-	-	-	(5,483)	-	-	5,483	-		-	-
Net profit for the year	-	-	-	-	-	-	1,712,519	1,712,519	12,773	-	1,725,292
Dividend declared and approved for 2020	-	-	-	-	-	-	(1,275,000)	(1,275,000)	-	-	(1,275,000)
Distribution for Tier 1 Capital notes	-	-	-	-	-	-	(48,195)	(48,195)			(48,195)
Transfer to risk reserve	-	-	486,224	-	-	-	(486,224)	-	-	-	-
Net movement in other reserves	-	-	-	-	-	1,052	(1,052)	-	-	-	-
Social and sports fund appropriation (Note 42)	-	-	-	-	-	-	(42,813)	(42,813)	-	-	(42,813)
Acquisition of non-controlling interest of a subsidiary	-	-	-	-	-	-	10,717	10,717	(37,458)	-	(26,741)
Business combination transactions (Notes 24 & 45)	1,800,000	6,930,000	-	-	-	-	-	8,730,000	-	1,000,000	9,730,000
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	(2,333)	-	(2,333)
Balance at 31 December 2021	**9,300,000**	**9,644,166**	**2,282,824**	**36,125**	**(5,915)**	**127,274**	**2,082,166**	**23,466,640**	**199,648**	**1,000,000**	**24,666,288**

DELOITTE
6 APR 2022

This statement has been prepared by the Management of the Group and stamped by the Auditors for identification purposes only

The attached notes 1 to 45 form part of, and should be read in conjunction with, these consolidated financial statements.

Masraf Al Rayan (Q.P.S.C.) QAR '000s

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December

	Share capital	*Legal reserve*	*Risk reserve*	*Fair value reserve*	*Foreign currency translation reserve*	*Other reserves*	*Retained earnings*	*Total equity attributable to equity holders of the Bank*	*Non-controlling interest*	*Total equity*
Balance at 31 December 2019	7,500,000	2,496,623	1,636,268	23,604	(9,703)	123,405	2,148,999	13,919,196	212,719	14,131,915
Change in foreign currency translation reserve	-	-	-	-	6,085	-	-	6,085	-	6,085
Fair value reserve movement	-	-	-	6,485	-	-	-	6,485	-	6,485
Gain on sale of FVTE investments	-	-	-	(4,885)	-	-	4,885	-		-
Net profit for the year	-	-	-	-	-	-	2,175,425	2,175,425	5,169	2,180,594
Dividend declared and approved for 2019	-	-	-	-	-	-	(1,687,500)	(1,687,500)	-	(1,687,500)
Transfer to legal reserve	-	217,543	-	-	-	-	(217,543)	-	-	-
Transfer to risk reserve	-	-	160,332	-	-	-	(160,332)	-	-	-
Net movement in other reserves	-	-	-	-	-	2,817	(2,817)	-	-	-
Social and sports fund appropriation (Note 42)	-	-	-	-	-	-	(54,386)	(54,386)	-	(54,386)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	8,778	8,778
Balance at 31 December 2020	**7,500,000**	**2,714,166**	**1,796,600**	**25,204**	**(3,618)**	**126,222**	**2,206,731**	**14,365,305**	**226,666**	**14,591,971**

This statement has been prepared by the Management of the Group and stamped by the Auditors for identification purposes only

Masraf Al Rayan (Q.P.S.C.) QAR '000s

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		1,730,064	2,182,951
Adjustments for:			
Net impairment losses on financing assets		910,340	298,764
Net impairment losses on investments		188,836	58,227
Net impairment losses on due from banks		1,241	113
Net reversals on other exposures subject to credit risk		(3,733)	(5,415)
Loss on cash flow hedge		28,608	-
Fair value loss / (gain) on investment securities carried as fair value through income statement	26	81	(55)
Unrealized loss / (gain) on revaluation of Shari'a compliant risk management instruments		138,419	(33,254)
Depreciation and amortisation	13	68,097	24,818
Amortisation of transaction costs on sukuk financing, other borrowings and due to banks		12,844	6,996
Net gain on sale of investment securities		(137)	(13,805)
Dividend income	26	(3,911)	(1,442)
Share of results of associates	12	(13,706)	(17,888)
Loss on disposal of fixed assets		5,805	-
Amortisation of premium and discount on investment securities		(5,716)	(22,340)
Employees' end of service benefit provisions	20(b)	10,486	5,814
Profit before changes in operating assets and liabilities		**3,067,618**	2,483,484
Change in reserve account with Qatar Central Bank		(1,630,241)	(61,331)
Change in due from banks		(942,275)	-
Change in financing assets		(113,318)	(11,077,298)
Change in other assets		(1,079,160)	(59,485)
Change in accrued profit from investment securities		17,753	8,646
Change in due to banks		(19,213,722)	6,614,317
Change in customer current accounts		(180,489)	965,314
Change in other liabilities		100,550	(49,426)
Change in profit payable on sukuk financing and other borrowings		54,856	31,772
		(19,918,428)	(1,144,007)
Dividend received		3,911	1,442
Employees' end of service benefits paid	20(b)	(3,610)	(781)
Social and sports fund contribution		(54,386)	(54,460)
Tax paid		(10,998)	(4,382)
Net cash used in operating activities		**(19,983,511)**	(1,202,188)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(3,124,397)	(167,686)
Proceeds from sale / redemption of investment securities		1,847,393	943,632
Proceeds from disposal of fixed assets		-	1,699
Additions on business combination	45(f)	8,985,074	-
Acquisition of fixed assets		(50,993)	(69,402)
Dividend received from associates	12	10,700	4,000
Net cash from investing activities		**7,667,777**	712,243

...continued

This statement has been prepared by the Management of the Group and stamped by the Auditors for identification purposes only

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December

	Notes	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in equity of investment account holders		10,494,256	2,339,955
Net proceeds from sukuk financing and other borrowings		3,082,097	4,129,540
Repayment of sukuk financing and other borrowings		(1,564,573)	(246,845)
Net repayment of Ijarah liabilities		(42,562)	-
Dividends paid		(1,208,240)	(1,623,257)
Net movement in non-controlling interest		(29,074)	8,778
Net cash from financing activities		**10,731,904**	4,608,171
Net (decrease) increase in cash and cash equivalents		(1,583,830)	4,118,226
Cash and cash equivalents at 1 January		10,713,783	6,554,869
NON-CASH ITEM			
Effects of exchange rate changes on cash and cash equivalents held		10,997	40,688
Cash and cash equivalents at 31 December	37	**9,140,950**	10,713,783

Significant non-cash transactions:
The following non-cash investing and financing activities entered into by the Group are not reflected in the consolidated statement of cash flows:

- During the year, the Group recognized right-of-use assets amounting to QAR 81,257 thousand (2020: Nil) resulting from the adoption of FAS 32 (Note 3a). The Group also recognized Ijarah contract additions and modifications resulting to increase in right-of-use assets amounting to QAR 14,895 thousand (2020: Nil).

- The Bank issued 1,800 million new shares to the shareholders of Al Khalij Commercial Bank P.Q.S.C. (“Al Khaliji”) on the effective date of its merger with Al Khaliji which was effected through a share swap transaction (Note 45).

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[6 APR 2022
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Masraf Al Rayan (Q.P.S.C.) QAR '000s

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December

	2021	*2020*
Undistributed charity fund as at 1 January	2,472	3,040
Net earnings prohibited by Shari'a during the year	7,455	532
Total source of charity fund	**9,927**	3,572
Use of charity fund		
Researches, donations and other uses during the year	-	(1,100)
Undistributed charity fund as at 31 December	**9,927**	2,472

This statement has been prepared by the Management of the Group and stamped by the Auditors for identification purposes only

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

1 REPORTING ENTITY

Masraf Al Rayan (Q.P.S.C.) (“Masraf” or “the Bank”) is an entity domiciled in the State of Qatar and was incorporated on 4 January 2006 as a Qatari Public Shareholding Company under Qatar Commercial Companies’ Law No. 5 of 2002, as amended by Qatar Commercial Companies’ Law No. 11 of 2015 under decision No. 11 of 2006. The commercial registration number of the Bank is 32010. The address of the Bank’s registered office is at P.O. Box 28888, Lusail Marina, Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2021 comprise the Bank and its subsidiaries (together referred to as “the Group” and individually as “Group entities”). The Group is primarily involved in Islamic banking, financing and investing activities, and has 17 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan (Q.P.S.C.).

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

On 7 January 2021, the Bank and Al Khalij Commercial Bank P.Q.S.C. (“Al Khaliji”) have entered into a merger agreement as approved by the Board of Directors of both banks, which was subsequently approved by the shareholders of both banks at their respective Extra-Ordinary General Assemblies held on 5 October 2021 and 6 October 2021. On 2 November 2021, Qatar Central Bank (“QCB”) approved the Bank’s merger by way of absorption pursuant to Article 278 of the Commercial Companies Law Number 11 of 2015 (the “Commercial Companies Law”) and Article 161(2) of Law Number 13 of 2012 issuing the Qatar Central Bank Law and Regulation of Financial Institutions (the “QCB Law”) and the merger agreement (the “Merger”).

The merger was effected in a share swap transaction through the issuance of 0.5 new Masraf share for every 1 share in Al Khaliji at the close of business on 30 November 2021 (the “effective date”), subsequent to which Al Khaliji shares were delisted from Qatar Stock Exchange. On the effective date, Al Khaliji has been dissolved and Masraf, which will be the remaining legal entity and will continue to conduct all operations in accordance with Shari’a principles, absorbed its assets and liabilities.

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*	
					2021	*2020*
Al Rayan Investment L.L.C.	Qatar	USD	100,000,000	Investment banking	**100.0%**	100.0%
Al Rayan Financial Brokerage L.L.C.[1]	Qatar	QAR	50,000,000	Financial brokerage	**100.0%**	100.0%
Al Rayan (UK) Limited[2]	UK	GBP	100,000,000	Investment activities	**75.0%**	70.0%
Al Rayan Partners L.L.C.	Qatar	QAR	10,000,000	Real estate consulting	**100.0%**	100.0%
Lusail Waterfront Investment Co.	Cayman Islands	USD	100	Investment activities	**100.0%**	100.0%
MAR Sukuk Limited[3]	Cayman Islands	USD	250	Sukuk issuance	**100.0%**	100.0%
Al Khaliji France S.A.	France	EUR	104,000,000	Banking	**100.0%**	-
AKCB Finance Limited	Cayman Islands	USD	1	Debt Issuance	**100.0%**	-
AKCB Falcon Limited	Cayman Islands	USD	1	Debt Issuance	**100.0%**	-
AKCB Markets Limited	Cayman Islands	USD	1	Over-the-Counter Shari’a-compliant risk management instruments	**100.0%**	-
Lusail Limited	Cayman Islands	USD	1	Financing and investing activities	**100.0%**	-

1 REPORTING ENTITY (continued)

[1] The operations have ceased since 12 January 2017 after Qatar Financial Markets Authority (“QFMA”) approved to freeze its license for two years, which had been extended up to 10 September 2019. On 13 January 2019, the Board of Directors resolved to liquidate Al Rayan Financial Brokerage. The liquidation procedures have been completed as of reporting date.
[2] On 14 July 2021, the Bank acquired additional 5% shares in Al Rayan (UK) Limited. Al Rayan (UK) Limited owns 98.34% of its subsidiary, Al Rayan Bank PLC (formerly known as Islamic Bank of Britain PLC). Effectively, the Bank owns 73.76% of Al Rayan Bank PLC. Al Rayan Bank PLC is the designated “Servicer” of Tolkien Funding Sukuk No. 1 Plc, a special purpose entity incorporated in the UK for the purpose of sukuk issuance for the benefit of Al Rayan Bank PLC.
[3] MAR Sukuk Limited was incorporated in the Cayman Islands as an exempted company with limited liability for the purpose of sukuk issuance and other activities, for the benefit of the Bank.
[4] Upon completion of the merger between the Bank and Al Khaliji” on 30 November 2021, the subsidiaries of Al Khaliji became subsidiaries of the Group. Please refer to Note 45 for more details on the business combination.

The Group doesn’t have any subsidiaries with material non-controlling interests.

2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards (“FASs”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) as modified by the QCB.

The consolidated income statement for the year ended 31 December 2021 includes the results for the one-month period ended 31 December 2021 of Al Khalij Commercial Bank P.Q.S.C (Note 45g). The comparative results for the year ended 31 December 2020 include Masraf Al Rayan (Q.P.S.C.) only.

QCB Circular 13/2020 dated 29 April 2020 modifies the requirements of FAS 33 “Investments in Sukuk, shares and similar instruments” and FAS 30 “Impairment, credit losses and onerous commitments” and requires Islamic Banks to follow principles of IFRS 9 “Financial Instruments” in respect of equity-type investments carried at Fair Value Through Equity (“FVTE”). Further, QCB Circular 13/2020 also modifies the requirements of FAS 1 “General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions” in respect of retrospective adoption and disclosures related to the change in accounting policy. The Bank has adopted the circular from the effective date and the changes to the accounting policies have been adopted prospectively by the Bank.

For matters for which no AAOIFI standards or related guidance exist, the Group applies the relevant International Financial Reporting Standards (“IFRSs”).

The consolidated financial statements comply with the requirements of Qatar Commercial Companies Law No. 11 of 2015, whose certain provisions were subsequently amended by Law No.8 of 2021. The management is in the process of taking necessary actions needed to ensure full compliance with the amended law, including amending the Articles of Association of the Company where necessary, and has concluded that any non-compliance as at the reporting date does not have a material impact on the consolidated financial statements.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of financial investments classified as “investments at fair value through equity”, “investments at fair value through income statement” and Shari’a-compliant risk management instruments.

(c) Functional and presentational currency

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

2 BASIS OF PREPARATION (continued)

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with FASs 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.

(e) Presentation of consolidated financial statements

The Group presents its consolidated statement of financial position in order of liquidity based on the Group’s intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note no 4.4.2 and Note 35.

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) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective from 1 January 2021

FAS 32 - Ijarah
AAOIFI has issued FAS 32 in 2019. FAS 32 improves upon and supersedes FAS 8 - Ijarah and Ijarah Muntahia Bittamleek originally issued in 1997. This standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by Islamic financial institutions, in both the capacities of lessor and lessee.

The Group has applied FAS 32 “Ijarah” from 1 January 2021 and has opted for the simplified transition approach and has not restated comparative information, prior to the date of the adoption of the standard.

Change in accounting policy

Ijarah – Policy applicable from 1 January 2021

The Group as lessee
Identifying an Ijarah
At inception of a contract, the Group assesses whether the contract is, or contains an Ijarah. A contract is, or contains an Ijarah if the contract transfers the usufruct (but not control) of an identified asset for a period of time in exchange for an agreed consideration.

Classification and measurement
For a contract that contains an Ijarah component and one or more additional Ijarah or non-Ijarah components, the Group adopts a simplified approach whereby the Group elects, by class of underlying asset, not to separate the non-Ijarah components from Ijarah components, and instead account for each Ijarah component and any associated non-Ijarah components as a single Ijarah component.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective from 1 January 2021 (continued)

FAS 32 – Ijarah (continued)

The Group, in its capacity as either the lessor or the lessee, classifies each of its Ijarah into:

a. Operating Ijarah;
b. Ijarah Muntahia Bittamleek with expected transfer of ownership after the end of the Ijarah term – either through a sale or a gift; or
c. Ijarah Muntahia Bittamleek with gradual transfer of ownership during the Ijarah term (including Diminishing Musharaka Ijarah).

At the Ijarah commencement date, the Group as a lessee recognises a right-of-use (usufruct) asset and a net Ijarah liability (i.e. gross Ijarah liability less deferred Ijarah cost).

Right-of-use (usufruct) asset
Initial recognition and measurement
On initial recognition, the lessee measures the right-of-use asset at cost. The cost of the right-of use asset comprises of:

a. The prime cost of the right-of-use asset;
b. Initial direct costs incurred by the lessee; and
c. Dismantling or decommissioning costs.

The Group determines the prime cost of the right-of-use asset using the liability estimation method. Under this method, the prime cost of the right-of-use asset is determined through estimation based on the fair value of the total consideration paid or payable (i.e. total Ijarah rentals) against the right-of-use asset, under a similar transaction.

Recognition exemptions and simplified accounting for the lessee
The Group as a lessee elects not to apply the requirements of Ijarah recognition and measurement to:

- Short-term Ijarah; and
- Ijarah for which the underlying asset is of low value.

Subsequent measurement
After the commencement date, the Group as a lessee measures the right-of-use asset at cost less accumulated amortisation and impairment losses, adjusted for the effect of any Ijarah modifications or reassessments. The amortizable amount of a right-of-use asset comprises of the right-of-use asset less residual value, if any, and is amortised according to a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset.

The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of-use asset, which coincides with the end of the Ijarah term. The Group determines the Ijarah term, including the contractually binding period, as well as reasonably certain optional periods, including:

a. Extension periods if it is reasonably certain that the Group will exercise that option; and/ or
b. Termination options if it is reasonably certain that the Group will not exercise that option.

The Group carries out impairment assessment in line with the requirements of FAS 30 “Impairment, Credit Losses and Onerous Commitments” to determine whether the right-of-use asset is impaired and to account for any impairment losses identified. The impairment assessment takes into consideration the estimated residual value of the underlying asset. Any related commitments, including promises to purchase the underlying asset, are also considered in line with FAS 30 “Impairment, Credit Losses and Onerous Commitments”.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective from 1 January 2021 (continued)

FAS 32 – Ijarah (continued)

Net Ijarah liability
Initial recognition and measurement
The net Ijarah liability comprises of the gross Ijarah liability and deferred Ijarah cost (shown as a contra-liability).

The gross Ijarah liability is initially recognised as the gross amount of total Ijarah rental payables for the Ijarah term. The rental payable comprises of the following payments for the right to use the underlying asset during the Ijarah term:

- Fixed Ijarah rentals less any incentives receivable;
- Variable Ijarah rentals including supplementary rentals; and
- Payments of additional rentals, if any, for terminating the Ijarah (if the Ijarah term reflects the lessee exercising the termination option).

Advance rentals paid are netted off with the gross Ijarah liability.

Hamish Jiddiyyah paid by the Group are recognized as a receivable from the lessor and are not netted-off with the Ijarah liability, unless it is to be adjusted against consideration for transfer of ownership or adjustment against rental liability if agreed upon between the parties, at the time of such event taking place.

Subsequent measurement
After the commencement date, the Group measures the net Ijarah liability by:

a. Reducing the carrying amount of the gross Ijarah liability to reflect the Ijarah rentals made;
b. Increasing the net carrying amount to reflect return on the Ijarah liability (amortisation of deferred Ijarah cost); and
c. Re-measuring the carrying amount in the event of reassessment or Ijarah contract modifications or to reflect revised Ijarah rentals.

The deferred Ijarah cost is amortised to consolidated income statement over the Ijarah terms on a time-proportionate basis using the effective rate of return method.

Ijarah contract modifications
After the commencement date, the Group accounts for Ijarah contract modifications as follows:

a. Change in the Ijarah term: re-calculation and adjustment of the right-of-use asset, the Ijarah liability, and the deferred Ijarah cost; or
b. Change in future Ijarah rentals only: re-calculation of the Ijarah liability and the deferred Ijarah cost only, without impacting the right-of-use asset.

An Ijarah modification is considered as a new Ijarah component to be accounted for as a separate Ijarah for the lessee, if the modification both additionally transfers the right to use of an identifiable underlying asset and the Ijarah rentals are increased corresponding to the additional right-of-use asset. For modifications not meeting any of the conditions stated above, the Group considers the Ijarah as a modified Ijarah as of the effective date and recognises a new Ijarah transaction. The Group recalculates the Ijarah liability, deferred Ijarah cost, and right-of-use asset, and de-recognises the existing Ijarah transaction and balances.

Expenses relating to underlying asset
Operational expenses relating to the underlying asset, including any expenses contractually agreed to be borne by the Group, are recognised by the Group in the consolidated income statement in the year incurred.

Masraf Al Rayan (Q.P.S.C.) QAR '000s

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective from 1 January 2021 (continued)

FAS 32 – Ijarah (continued)

Impact on adoption of FAS 32

The following amounts are recognized under the new standard and included in the respective headings of consolidated statement of financial position and income statement:

	1 January 2021	*31 December 2021*
Consolidated statement of financial position		
Right-of-use asset ("Fixed Assets")	**81,257**	**42,792**
Gross Ijarah liability	79,560	57,169
Less: Deferred Ijarah cost	(5,883)	(3,579)
Net Ijarah liability ("Other liabilities")	**73,677**	**53,590**

	For the year ended 31 December 2021
Consolidated income statement	
Amortisation on the right-of-use asset ("Depreciation and amortisation")	**49,275**
Amortisation of Ijarah costs ("Finance expense")	**1,682**

FAS 35 – Risk Reserves

AAOIFI has issued FAS 35 in 2018. This standard along with FAS 30 – "Impairment, credit losses and onerous commitments" supersede the earlier FAS 11 - Provisions and reserves. The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions).

The above standard is effective for annual reporting periods beginning on or after 1 January 2021 and has no material impact on the Group's consolidated financial statements.

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

The Group has not yet applied the following new and revised FAS that has been issued but is not yet effective:

FAS 38 – Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosure in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions.

This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) New standards, amendments and interpretations (continued)

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

FAS 39 – Financial Reporting for Zakah
AAOIFI has issued FAS 39 in 2021. This standard improves upon and supersedes FAS 9 “Zakah” issued previously. This standard aims at setting out the accounting treatment of Zakah in the books of an Islamic financial institution, including the presentation and disclosure in the financial statements.

This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted.

FAS 1 – General Presentation and Disclosures in the Financial Statements (Revised 2021)
AAOIFI has issued FAS 1 (Revised) in 2021. The revised FAS 1 “General Presentation and Disclosures in the Financial Statements” describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. The objective of this standard is to align the accounting treatments and the reporting requirements for the Islamic financial institutions to the maximum possible extent with the generally accepted accounting principles without compromising the Shari’a requirements and nature of Islamic financial transactions and institutions.

This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted.

The Group is currently evaluating the impact of the above standards.

(b) Inter Bank Offered Rate (IBOR) transition

IBOR - Phase 2 amendments, effective from 1 January 2021, address issues that might affect financial reporting as result of the reform of the rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of the rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and hedge accounting.

The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by rate benchmark reform by updating the effective profit rate of the financial asset or financial liability. In addition, it provides certain exceptions to hedge accounting requirements.

The Group is in the process of establishing policies for amending the interbank offered rates that will be replaced as part of IBOR reforms. The Group has discussion with counterparties in relation to exposure to derivative and non-derivative financial assets and liabilities linked to Inter Bank Offered Rate maturing beyond the year 2021.

The Group is in discussions with various stakeholders to amend the contractual terms in preparation for IBOR reform and assess preparedness for adopting alternate reference rates and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:

- Has the power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee;
- Has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- The size of the Group’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements;
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group’s accounting policies.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(i) *Subsidiaries (continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss are attributed to the equity holders of the Parent of the Group and to the non-controlling interests. Profit or loss of the subsidiaries are attributed to the equity holders of the Parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Parent of the Group.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting when applicable, or the cost on initial recognition of an investment in an associate or a joint arrangement.

(ii) *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree;
- Assets (or disposal groups) that are classified as held for sale.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statement as a bargain purchase gain.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(ii) *Business combinations (continued)*

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in consolidated income statement.

When a business combination is achieved in stages, the Group’s previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in consolidated income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by: (a) accounting for financial assets and liabilities at their fair value at the acquisition date; and (b) allocating the remaining balance of the cost of purchasing the assets and liabilities to the individual assets and liabilities, other than financial instruments, based on their relative fair values at the acquisition date.

(iii) *Goodwill*

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(iv) *Non-controlling interest*
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 income 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iv) *Non-controlling interest (continued)*

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

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

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

(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 (equity-accounted investees)*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

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

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

(d) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency (continued)

(ii) *Foreign operations (continued)*
Exchange differences arising from the above process are reported in equity as ‘foreign currency translation reserve’.

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

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

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

(e) Investment securities

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

(i) *Categorization and classification*
FAS 33 – “*Investment in sukuk, shares and similar instruments”* contains classification and measurement approach for investments in sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics.

Under the standard, each investment is to be categorized as investment in:

(a) equity-type instruments;
(b) debt-type instruments (including monetary and non-monetary); and
(c) other investment instruments.

Unless irrevocable initial recognition choices provided in the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

(a) the Group’s business model for managing the investments; and
(b) the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

Investment classification
Investments are classified based on the Group’s assessment of the business model within which the investments are managed, and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Amortised cost
An investment shall be measured at amortised cost if both of the following conditions are met:

(a) the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and
(b) the investment represents either a debt-type instrument or other investment instrument having reasonable determinable effective yield.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment securities (continued)

(i) *Categorization and classification (continued)*

Fair value through equity (“FVTE”)
An investment shall be measured at FVTE if both of the following conditions are met:

(a) the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and
(b) the investment represents a non-monetary debt-type instrument or other investment instrument having reasonable determinable effective yield.

Fair value through income statement (“FVTIS”)
An investment shall be measured at FVTIS unless it is measured at amortised cost or at FVTE or if irrevocable classification at initial recognition is applied.

Irrevocable classification at initial recognition
The Group may make an irrevocable election to designate a particular investment, at initial recognition, being:
(a) an equity-type instrument that would otherwise be measured at FVTIS, to present subsequent changes in fair value through equity; and
(b) a non-monetary debt-type instrument or other investment instrument, as measured at FVTIS if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or recognizing the gains and losses on them on different bases.

(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 FVTIS which are charged to consolidated income statement.

Subsequent measurement
Investments at FVTIS 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 amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the consolidated income statement.

Fair value through equity (“FVTE”)
Policy applicable up to the issuance of QCB circular 13/2020
Investments at FVTE are remeasured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments classified as FVTE 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment securities (continued)

(iii) *Measurement (continued)*

Policy applicable after the issuance of QCB circular 13/2020
The Group has adopted QCB Circular 13/2020 dated 29 April 2020 (effective date), which modifies the requirements of FAS 33 “Investments in Sukuk, shares and similar instruments” and FAS 30 “Impairment, credit losses and onerous commitments” and requires Islamic Banks to follow principles of IFRS 9 “Financial Instruments” in respect of equity-type investments carried at FVTE.

Investments at FVTE are remeasured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity.

The Group may elect to present in statement of changes in equity changes in the fair value of certain investments in equity-type instruments that are not held for trading. The election is made on an instrument by instrument basis on initial recognition and is irrevocable. Gains and losses on such equity-type instruments are never subsequently reclassified to consolidated income statement, including on disposal. However, cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in consolidated income statement, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in consolidated statement of changes in equity.

For debt type investments classified as fair value through equity, the cumulative gain or loss previously recognized 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financing assets

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

Murabaha and Musawama
Murabaha and Musawama receivables are sales on deferred terms. The Group 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 Group 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 Group contributes the capital. These contracts are stated at fair value of consideration given less impairment allowance (if any).

Musharaka
Musharaka financing are partnerships in which the Group 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 Group 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 Group’s profit margin. the Group 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 Group’s estimated cost. The Group’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 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)

(g) Other financial assets and liabilities

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Measurement of ECL

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

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

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

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

Step 2: The expected credit loss is calculated i.e., 12-month expected loss for all facilities in stage 1 and lifetime expected credit loss for all facilities in stage 2. The facilities in stage 3 are covered by specific provisions as per QCB regulations and FAS 30 requirements.

The Group has adopted QCB guidelines on staging and provisioning of certain exposures, which modifies the requirements of FAS 30 “Impairment, credit losses and onerous commitments”.

Restructured financial assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Credit-impaired financial assets

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

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

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

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

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

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

Presentation of allowance for ECL in the consolidated statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Financing commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the financing asset commitment / off balance sheet component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn components is presented as a provision in other liabilities; and

- Debt instruments measured at fair value through equity: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Equity-type investments classified as fair value through equity

With effect from the issuance of QCB circular 13/2020, equity-type instruments classified as fair value through equity are not tested for impairment. However, prior to that, 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.

Until the date of the circular, the Group has provided QAR Nil (2020: QAR 7,113 thousand) as impairment on equity-type investment securities which was recognised under “Net impairment losses on investments” in the consolidated income statement.

(j) Modification of financial assets and liabilities

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

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

(k) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks 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.

(l) Shari’a-compliant risk management instruments

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Shari’a-compliant risk management instruments (continued)

Derivatives held for risk management purposes (including hedge accounting)
Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value on the consolidated statement of financial position. The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging derivative instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

These hedging relationships are discussed below:

Cash flow hedges – qualifying for hedge accounting
The Group applied cash flow hedge accounting for qualifying interest rate caps and profit rate swaps.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in the fair value reserve. The amount recognised in fair value reserve is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect consolidated income statement. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated income statement.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the cumulative amount recognised in the fair value reserve from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in the fair value reserve is reclassified immediately to the consolidated income statement as a reclassification adjustment.

Fair value hedges – qualifying for hedge accounting
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in consolidated income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item, for which the effective profit method is used, is amortised to consolidated income statement as part of the recalculated effective profit rate of the item over its remaining life.

Hedging derivatives – not qualifying for hedge accounting
When a derivative is held for risk management purposes but, due to the characteristics of the derivative (e.g. where it includes embedded options), it does not qualify for hedge accounting, all changes in its fair value are recognised immediately in consolidated income statement. Also included in this category are foreign exchange derivatives (such as forward exchange contracts and cross currency swaps) that are used to hedge foreign currency risks arising between lending and funding activities and interest rate options.

Derivatives held for trading purposes
The Group’s derivative trading instruments includes primarily forward foreign exchange contracts and profit rate swaps, which the Group sells to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the end of reporting date and the corresponding fair value changes are recognised in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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 - 40 years
Leasehold improvements	7 - 10 years
Furniture, fixtures and office equipment	3 - 7 years
Motor vehicles	3 years
Computer equipment	3 years

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

(n) Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately or in a business combination (other than goodwill) are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated income statement when the asset is derecognised.

(o) Due from banks

Due from banks are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, due from banks are stated at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) Customer current accounts

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

(r) Equity of investment account holders

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

The Group 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 Group’s share of income. The allocation of income is determined by the management of the Group 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 Group 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 Group 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.

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

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

- Net profit is arrived at after taking into account all income and expenses at the end of the financial year, and is distributed between investment account holders and its equity holders.

- The share of profit of investment account holders is calculated on the basis of their daily deposit balances over the year, after reducing the Group’s agreed and declared Mudaraba profit.

- In case of any expense or loss, which arises out of negligence on the part of the Group 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 Group at the year-end are net losses, then QCB, being the authority responsible for determining the Group’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 Group’s funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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 Group 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 Group in the consolidated financial statements.

(u) Sukuk financing

Sukuk financing represents common shares in the ownership of assets or benefits or services which bears profit. Profits are recognised periodically until maturity. Sukuks are recognised at amortised cost. Sukuks are disclosed as a separate line in the consolidated financial statements as "Sukuk financing"

(v) Provisions

Provision is recognised if, as a result of a past event, the Group 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.

(w) 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.

(x) Share capital and reserves

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

(y) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Revenue recognition (continued)

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

Fees and commission income
Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, feasibility study / management, arrangement and syndication fees, are recognised over time as the related services are performed. The performance, as well as the timing of their satisfaction, are identified and determined, at the inception of the contract.

The Bank has generally concluded that it is a principal in its revenue arrangements because it typically controls the services before transferring them to customer.

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

(z) Income tax

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

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in the profit or loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Income tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(aa) Earnings per share

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

(bb) 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 recognised 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 recognised in the consolidated income statement under commission and fees income.

(cc) Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) 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 principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(ee) Collateral repossessed

The Bank acquires collaterals in settlement of certain financing assets. These collaterals are recognized at net realisable value on the date of acquisition and are classified as investment properties. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

(ff) Contingent liabilities

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

(gg) 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.

(hh) 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.

(ii) 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.

(jj) Comparatives

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

4 FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

Risk management and structure
Financial instruments cover all financial assets and liabilities of the Group. Financial assets include cash balances, on demand balances and placements with banks, investment securities, financing assets and certain other financial assets. Financial liabilities include customer deposits, due to banks, sukuk financing, other borrowings and certain other financial liabilities. Financial instruments also include contingent liabilities and commitments included in off-statement of financial position items.

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 Group 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 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk

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

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

The main types of collaterals obtained are as follows:

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

Management constantly monitors the market value of collaterals.

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

Details of the composition of the receivables and balances from financing activities to customers are set out in Note 10. Also the details of geographical segments are set out in Note 34.

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.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

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

	2021	*2020*
Credit risk exposures relating to financial assets recorded on the consolidated statement of financial position are as follows:		
Cash and balances with central banks (excluding cash on hand)	**4,582,462**	6,298,293
Due from banks	**9,155,812**	6,307,575
Financing assets	**120,806,731**	85,983,437
Investment securities - debt	**32,440,688**	20,434,864
Other assets[1]	**3,112,166**	59,134
	170,097,859	119,083,303
Other credit risk exposures are as follows:		
Unutilised credit facilities	**5,544,059**	601,212
Guarantees	**15,170,129**	12,376,417
Letters of credit	**3,399,486**	988,168
Contingent liabilities of a non-Shari’a-compliant subsidiary (Note 33b)	**682,218**	-
	24,795,892	13,965,797

[1] Include assets of a non-Shari’a-compliant subsidiary

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*
2021					
Assets recorded on the consolidated statement of financial position:					
Cash and balances with central banks (excluding cash on hand)	**4,559,950**	**-**	**-**	**22,512**	**4,582,462**
Due from banks	**3,987,419**	**1,131,696**	**365,086**	**3,671,611**	**9,155,812**
Financing assets	**103,369,343**	**1,331,747**	**5,041,668**	**11,063,973**	**120,806,731**
Investment securities - debt	**30,397,795**	**1,384,946**	**402,212**	**255,735**	**32,440,688**
Other assets[1]	**216,789**	**1,174,783**	**-**	**1,720,594**	**3,112,166**
	142,531,296	**5,023,172**	**5,808,966**	**16,734,425**	**170,097,859**

[1] Include assets of a non-Shari’a-compliant subsidiary

Masraf Al Rayan (Q.P.S.C.) 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)

2020	*Qatar*	*Other GCC*	*Other Middle East*	*Others*	*Total*
Assets recorded on the consolidated statement of financial position:					
Cash and balances with central banks (excluding cash on hand)	6,282,011	-	-	16,282	6,298,293
Due from banks	3,867,669	1,128,116	395	1,311,395	6,307,575
Financing assets	72,879,746	3,532	3,991,182	9,108,977	85,983,437
Investment securities - debt	19,095,341	844,665	123,256	371,602	20,434,864
Other assets	59,134	-	-	-	59,134
	102,183,901	1,976,313	4,114,833	10,808,256	119,083,303

2021	*Qatar*	*Other GCC*	*Other Middle East*	*Others*	*Total*
Unutilised credit facilities	**5,395,480**	**15,944**	**-**	**132,635**	**5,544,059**
Guarantees	**11,936,342**	**362,070**	**133,054**	**2,738,663**	**15,170,129**
Letters of credit	**1,006,995**	**320,645**	**296,807**	**1,775,039**	**3,399,486**
Contingent liabilities of a non-Shari’a-compliant subsidiary	**13,213**	**376,437**	**-**	**292,568**	**682,218**
	18,352,030	**1,075,096**	**429,861**	**4,938,905**	**24,795,892**

2020	*Qatar*	*Other GCC*	*Other Middle East*	*Others*	*Total*
Unutilised credit facilities	523,849	-	-	77,363	601,212
Guarantees	9,984,922	8,606	204,001	2,178,888	12,376,417
Letters of credit	650,224	379	11,770	325,795	988,168
	11,158,995	8,985	215,771	2,582,046	13,965,797

Masraf Al Rayan (Q.P.S.C.) 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 net, before the effect of mitigation through the use of master netting and collateral agreements.

	Net exposure 2021	*Net exposure 2020*
Funded and unfunded		
Government	**38,260,345**	36,025,692
Government agencies	**45,599,988**	31,450,803
Industry	**3,623,943**	461,669
Commercial	**8,313,368**	5,440,363
Services	**30,833,046**	9,671,300
Contracting	**2,597,170**	1,564,492
Real estate	**30,179,005**	24,799,711
Personal	**10,690,994**	9,665,245
Others	**-**	4,028
Contingent liabilities	**24,113,674**	13,965,797
Contingent liabilities of a non-Shari’a-compliant subsidiary	**682,218**	-
Total	**194,893,751**	133,049,100

4.2.5 Credit quality

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

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality (continued)

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

		2021		
	Stage 1	Stage 2	Stage 3	Total
Due from banks and balances with central banks				
Investment grade	12,891,117	-	-	12,891,117
Sub-investment grade	363,236	485,448	-	848,684
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
	13,254,353	485,448	-	13,739,801
Loss allowance	(1,087)	(440)	-	(1,527)
Carrying amount	**13,253,266**	**485,008**	**-**	**13,738,274**

		2020		
	Stage 1	Stage 2	Stage 3	Total
Due from banks and balances with central banks				
Investment grade	12,452,585	-	-	12,452,585
Sub-investment grade	15	153,554	-	153,569
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
	12,452,600	153,554	-	12,606,154
Loss allowance	(224)	(62)	-	(286)
Carrying amount	12,452,376	153,492	-	12,605,868

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality (continued)

	2021			
	Stage 1	Stage 2	Stage 3	Total
Financing assets				
Investment grade	80,830,096	7,184,703	-	88,014,799
Sub-investment grade	22,063,089	10,561,159	-	32,624,248
Substandard	-	-	1,120,279	1,120,279
Doubtful	-	-	177,762	177,762
Loss	-	-	749,502	749,502
	102,893,185	17,745,862	2,047,543	122,686,590
Loss allowance	(58,617)	(793,979)	(1,027,263)	(1,879,859)*
Carrying amount	**102,834,568**	**16,951,883**	**1,020,280**	**120,806,731**

* Includes profit in suspense of QAR 52,762 thousand

	2020			
	Stage 1	Stage 2	Stage 3	Total
Financing assets				
Investment grade	59,699,395	9,359,191	-	69,058,586
Sub-investment grade	12,896,199	4,006,933	-	16,903,132
Substandard	-	-	580,898	580,898
Doubtful	-	-	248,138	248,138
Loss	-	-	150,618	150,618
	72,595,594	13,366,124	979,654	86,941,372
Loss allowance	(66,810)	(342,620)	(548,505)	(957,935)*
Carrying amount	72,528,784	13,023,504	431,149	85,983,437

* Includes profit in suspense of QAR 39,470 thousand

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality (continued)

	2021			
Investment securities - debt	Stage 1	Stage 2	Stage 3	Total
Investment grade	30,694,272	-	-	30,694,272
Sub-investment grade	1,254,486	510,019	-	1,764,505
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	57,162	57,162
	31,948,758	510,019	57,162	32,515,939
Loss allowance	(11,729)	(6,360)	(57,162)	(75,251)
Carrying amount	**31,937,029**	**503,659**	**-**	**32,440,688**

	2020			
Investment securities - debt	Stage 1	Stage 2	Stage 3	Total
Investment grade	19,481,825	-	-	19,481,825
Sub-investment grade	481,443	490,850	-	972,293
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	57,162	57,162
	19,963,268	490,850	57,162	20,511,280
Loss allowance	(16,571)	(2,683)	(57,162)	(76,416)
Carrying amount	19,946,697	488,167	-	20,434,864

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Credit quality (continued)

	2021			
	Stage 1	Stage 2	Stage 3	Total
Other credit risk exposures				
Investment grade	14,648,042	572,623	-	15,220,665
Sub-investment grade	5,376,869	3,470,958	-	8,847,827
Substandard	-	-	35,820	35,820
Doubtful	-	-	562	562
Loss	-	-	8,800	8,800
	20,024,911	4,043,581	45,182	24,113,674
Loss allowance	(15,110)	(34,513)	(2,019)	(51,642)
Carrying amount	**20,009,801**	**4,009,068**	**43,163**	**24,062,032**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Other credit risk exposures				
Investment grade	10,941,592	1,091,021	-	12,032,613
Sub-investment grade	1,289,975	637,495	-	1,927,470
Substandard	-	-	4,499	4,499
Doubtful	-	-	641	641
Loss	-	-	574	574
	12,231,567	1,728,516	5,714	13,965,797
Loss allowance	(22,168)	(8,452)	-	(30,620)
Carrying amount	12,209,399	1,720,064	5,714	13,935,177

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.6 Credit quality assessments

The table below provides an analysis of counterparties by rating grades and credit quality of the Group’s credit risk, based on Moody’s ratings (or their equivalent).

Rating grade	**Financing assets**	**Due from banks and central banks**	**Debt type investments carried at amortised cost**	**Other exposures subject to credit risk**
AAA to AA-	53,517,251	8,446,198	25,553,251	2,616,593
A+ to A-	21,448,692	3,277,842	5,128,026	7,222,886
BBB+ to BBB-	13,043,689	1,164,819	12,999	5,348,109
BB+ to B-	20,278,127	498,369	1,537,400	7,866,704
Unrated	14,398,831	352,573	277,059	1,059,382
Totals as of 31 December 2021	**122,686,590**	**13,739,801**	**32,508,735**	**24,113,674**

Rating grade	Financing assets	Due from banks and central banks	Debt type investments carried at amortised cost	Other exposures subject to credit risk
AAA to AA-	52,402,747	6,736,954	18,909,903	2,854,269
A+ to A-	8,086,282	5,714,763	539,107	4,911,544
BBB+ to BBB-	8,569,560	869	30,789	4,266,802
BB+ to B-	5,345,948	15	536,916	1,759,697
Unrated	12,536,835	153,553	492,536	173,485
Totals as of 31 December 2020	86,941,372	12,606,154	20,509,251	13,965,797

4.2.7 Collateral

The Group seeks to use collateral, where possible, to mitigate its credit risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, inventories and other non-financial assets. Collateral, unless repossessed, is not recorded in the Group’s consolidated statement of financial position. Cash flows expected from credit enhancements which are not required to be recognized separately by the applicable standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

In its normal course of business, the Group engages external agents to recover funds from the repossessed assets, generally at auctions, to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.7 Collateral (continued)

The fair value of the collateral held against credit-impaired financing assets as at 31 December 2021 is QAR 1,870 million (2020: QAR 498 million).

4.2.8 Renegotiated financing assets

Rescheduled activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts as non-impaired. The carrying value of renegotiated financing assets as at 31 December 2021 was QAR 435 million (2020: QAR 2,738 million).

4.2.9 Write-off policy

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

This determination is made after considering information such as the occurrence of significant changes in the borrower’s / issuer’s financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status. The contractual amount of financial assets written off during the year, subject to enforcement activity as at 31 December 2021 was QAR 1,386 thousand (2020: QAR 1,027 thousand).

4.2.10 Inputs, assumptions and techniques used for estimating impairment

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.10 Inputs, assumptions and techniques used for estimating impairment (continued)

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

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

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

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

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

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

Definition of default
The Group considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is rated 9 or 10.

In assessing whether a borrower is in default, the Group also considers indicators that are:
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

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

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The impact of COVID-19 on forward-looking information is disclosed in Note 44.

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.10 Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

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

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

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

LGD estimation includes:

1) Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

2) Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual’s assets for the unsecured portion of the exposure.

3) Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value

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

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
- credit risk grading's;
- product type; and
- geographic location of the borrower.

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

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts represent allowance account for credit losses and reflect measurement basis under FAS 30.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.10 Inputs, assumptions and techniques used for estimating impairment (continued)

Loss allowance (continued)

Due from banks and balances with central banks		***2021***		
	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	224	62	-	286
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Charge / (reversal) (net)	863	378	-	1,241
Impairment allowance for the year, net	863	378	-	1,241
Amounts written off	-	-	-	-
Foreign currency translation	-	-	-	-
Balance at 31 December	**1,087**	**440**	**-**	**1,527**

Due from banks		*2020*		
	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	173	-	-	173
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Charge / (reversal) (net)	51	62	-	113
Impairment allowance for the year, net	51	62	-	113
Amounts written off	-	-	-	-
Foreign currency translation	-	-	-	-
Balance at 31 December	224	62	-	286

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.10 Inputs, assumptions and techniques used for estimating impairment (continued)

Loss allowance (continued)

Financing assets		***2021***		
	Stage 1	Stage 2	Stage 3	Total ECL*
Balance at 1 January	66,810	342,620	548,505	957,935
Transfers to Stage 1	379	(379)	-	-
Transfers to Stage 2	(8,158)	8,158	-	-
Transfers to Stage 3	(222)	(14,778)	15,000	-
Charge / (reversal) (net)	(97)	458,550	465,179	923,632
Impairment allowance for the year, net	(8,098)	451,551	480,179	923,632
Amounts written off	-	-	(1,386)	(1,386)
Foreign currency translation	(95)	(192)	(35)	(322)
Balance at 31 December	**58,617**	**793,979**	**1,027,263**	**1,879,859**

* Includes profit in suspense of QAR 39,470 thousand and QAR 52,762 thousand as of 1 January and 31 December, respectively, and net profit suspended during the year of QAR 13,292 thousand.

Financing assets		*2020*		
	Stage 1	Stage 2	Stage 3	Total ECL*
Balance at 1 January	38,990	270,543	327,869	637,402
Transfers to Stage 1	7,164	(7,164)	-	-
Transfers to Stage 2	(2,869)	2,869	-	-
Transfers to Stage 3	(201)	(6,992)	7,193	-
Charge / (reversal) (net)	23,305	82,962	214,352	320,619
Impairment allowance for the year, net	27,399	71,675	221,545	320,619
Amounts written off	-	-	(1,027)	(1,027)
Foreign currency translation	421	402	118	941
Balance at 31 December	66,810	342,620	548,505	957,935

* Includes profit in suspense of QAR 17,615 thousand and QAR 39,470 thousand as of 1 January and 31 December, respectively, and net profit suspended during the year of QAR 21,855 thousand.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.10 Inputs, assumptions and techniques used for estimating impairment (continued)

Loss allowance (continued)

Investment securities - debt		***2021***		
	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	16,571	2,683	57,162	76,416
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Charge / (reversal) (net)	(4,841)	3,677	-	(1,164)
Impairment allowance for the year, net	(4,841)	3,677	-	(1,164)
Amounts written off	-	-	-	-
Foreign currency translation	(1)	-	-	(1)
Balance at 31 December	**11,729**	**6,360**	**57,162**	**75,251**

Investment securities - debt		*2020*		
	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	1,715	4,976	28,610	35,301
Transfers to Stage 1	1,629	(1,629)	-	-
Transfers to Stage 2	(1,458)	1,458	-	-
Transfers to Stage 3	-	-	-	-
Charge / (reversal) (net)	14,684	(2,122)	28,552	41,114
Impairment allowance for the year, net	14,855	(2,293)	28,552	41,114
Amounts written off	-	-	-	-
Foreign currency translation	1	-	-	1
Balance at 31 December	16,571	2,683	57,162	76,416

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.10 Inputs, assumptions and techniques used for estimating impairment (continued)

Loss allowance (continued)

Other credit risk exposures		***2021***		
	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	22,168	8,452	-	30,620
Assumed on business combination	2,553	20,183	2,019	24,755
Transfers to Stage 1	31	(31)	-	-
Transfers to Stage 2	(2,595)	2,595	-	-
Transfers to Stage 3	-	-	-	-
Charge / (reversal) (net)	(7,047)	3,314	-	(3,733)
Impairment allowance for the year, net	(7,058)	26,061	2,019	21,022
Amounts written off	-	-	-	-
Foreign currency translation	-	-	-	-
Balance at 31 December	**15,110**	**34,513**	**2,019**	**51,642**

Other credit risk exposures		*2020*		
	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	9,808	26,227	-	36,035
Transfers to Stage 1	779	(779)	-	-
Transfers to Stage 2	(352)	352	-	-
Transfers to Stage 3	-	-	-	-
Charge / (reversal) (net)	11,933	(17,348)	-	(5,415)
Impairment allowance for the year, net	12,360	(17,775)	-	(5,415)
Amounts written off	-	-	-	-
Foreign currency translation	-	-	-	-
Balance at 31 December	22,168	8,452	-	30,620

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.11 Credit Risk Measurement

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

4.2.12 Credit risk grading

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

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.

Masraf Al Rayan (Q.P.S.C.) QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

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

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

	Carrying amount	*Less than 3 months*	*3 to12 months*	*Re-pricing in: 1 to 5 years*	*Over 5 years*	*Non-profit sensitive*	*Effective profit rate*
2021							
Cash and balances with central banks	5,220,712	-	-	-	-	5,220,712	
Due from banks	9,155,812	5,141,068	160,794	-	-	3,853,950	**0.75%**
Financing assets	120,806,731	78,719,512	9,726,352	19,438,071	11,976,300	946,496	**4.03%**
Investment securities	32,433,484	705,593	2,884,807	18,036,304	9,952,655	854,125	**4.10%**
Other assets	3,253,204	1,038,277	722,233	706,227	246,139	540,328	
	170,869,943	**85,604,450**	**13,494,186**	**38,180,602**	**22,175,094**	**11,415,611**	
Due to banks	(23,246,577)	(20,723,967)	(2,255,850)	(159,831)	-	(106,929)	**1.70%**
Customer current accounts	(9,192,634)	-	-	-	-	(9,192,634)	
Sukuk financing	(7,614,762)	(837,315)	(63,250)	(6,664,338)	-	(49,859)	**2.46%**
Other borrowings	(5,699,994)	(5,334,696)	(362,570)	-	-	(2,728)	**1.54%**
Other liabilities	(5,849,975)	(758,242)	(238,758)	(218)	-	(4,852,757)	
	(51,603,942)	**(27,654,220)**	**(2,920,428)**	**(6,824,387)**	**-**	**(14,204,907)**	
Equity of investment account holders	**(97,763,630)**	**(61,153,060)**	**(23,740,061)**	**(9,782,164)**	**-**	**(3,088,345)**	**1.57%**
Consolidated statement of financial position items	21,502,371	(3,202,830)	(13,166,303)	21,574,051	22,175,094	(5,877,641)	
Off consolidated statement of financial position items	-	5,370,830	(977,772)	(2,478,155)	(1,914,903)	-	
Profit Rate Sensitivity Gap	**21,502,371**	**2,168,000**	**(14,144,075)**	**19,095,896**	**20,260,191**	**(5,877,641)**	
Cumulative Profit Rate Sensitivity Gap	**21,502,371**	**2,168,000**	**(11,976,075)**	**7,119,821**	**27,380,012**	**21,502,371**	

Masraf Al Rayan (Q.P.S.C.) 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*
2020							
Cash and balances with central banks	7,070,507	-	-	-	-	7,070,507	
Due from banks	6,307,575	5,520,584	-	14,946	124,548	647,497	1.51%
Financing assets	85,983,437	58,554,916	7,327,656	8,234,887	11,865,978	-	4.76%
Investment securities	20,432,835	474,303	1,185,713	11,705,904	7,066,915	-	4.15%
	119,794,354	64,549,803	8,513,369	19,955,737	19,057,441	7,718,004	
Due to banks	(27,979,497)	(22,874,588)	(3,954,360)	(920,711)	(124,548)	(105,290)	2.57%
Customer current accounts	(8,491,997)	(1,391,615)	-	-	-	(7,100,382)	
Sukuk financing	(6,023,180)	(1,453,195)	-	(4,541,134)	-	(28,851)	2.74%
Other borrowings	(1,270,775)	(1,270,775)	-	-	-	-	2.21%
	(43,765,449)	(26,990,173)	(3,954,360)	(5,461,845)	(124,548)	(7,234,523)	
Equity of investment account holders	(60,425,902)	(36,636,242)	(15,679,126)	(8,110,534)	-	-	2.01%
Consolidated statement of financial position items	15,603,003	923,388	(11,120,117)	6,383,358	18,932,893	483,481	
Off consolidated statement of financial position items	(13,052,172)	(1,302,839)	-	-	-	(11,749,333)	
Profit Rate Sensitivity Gap	2,550,831	(379,451)	(11,120,117)	6,383,358	18,932,893	(11,265,852)	
Cumulative Profit Rate Sensitivity Gap	2,550,831	(379,451)	(11,499,568)	(5,116,210)	13,816,683	2,550,831	

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

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

Sensitivity analysis

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

Sensitivity of net profit	10 bp parallel increase	10 bp parallel decrease
2021		
At 31 December	**(34,043)**	**34,043**
2020		
At 31 December	2,121	(2,121)

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

4.3.3 Exposure to other market risks – non-trading portfolios

Foreign currency transactions

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

	2021	*2020*
Net foreign currency exposure:		
EUR	**1,512**	1,865
GBP	**800**	553
Others	**8,164**	(1,507)

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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	
	2021	*2020*
5% increase / (decrease) in currency exchange rate		
EUR	**76**	93
GBP	**40**	28
Others	**408**	(75)

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:

	2021	*2020*
5% increase / (decrease) in QE 30 index/other indices		
Increase / (decrease) in profit and loss	**-**	-
Increase / (decrease) in equity	**6,298**	1,610

4.3.4 Valuation of financial instruments

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

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

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

4.3.4 Valuation of financial instruments (continued)

- 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. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm’s length.

4.3.5 Financial asset and liability classification

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

2021	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Shari’a-compliant risk management instruments	-	169,877	-	169,877
Investment securities	244,033	97,571	-	341,604
	244,033	**267,448**	**-**	**511,481**
Financial liabilities				
Shari’a-compliant risk management instruments	-	272,722	-	272,722
	-	**272,722**	**-**	**272,722**

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4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Market risk (continued)

4.3.5 Financial asset and liability classification (continued)

2020	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Shari’a-compliant risk management instruments	-	55,306	-	55,306
Investment securities	53,801	99,198	-	152,999
	53,801	154,504	-	208,305
Financial liabilities				
Shari’a-compliant risk management instruments	-	19,732	-	19,732
	-	19,732	-	19,732

The fair values of financial assets and financial liabilities carried at amortised cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for certain investment securities for which the fair value amounts to QAR 8,825 million (2020: QAR 3,428 million), which is derived using Level 1 fair value hierarchy. The details of the Group’s classification of financial assets and liabilities are disclosed in Note 7.

Investment securities totalling QAR nil are carried at cost (2020: QAR nil).

During the reporting periods 31 December 2021 and 2020, there were no transfers among Levels 1, 2 and 3 fair value measurements.

4.4 Liquidity risk

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

4.4.1 Exposure to liquidity risk

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

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

	2021	*2020*
At 31 December	**110%**	104%
Average for the year	**105%**	109%
Maximum for the year	**120%**	117%
Minimum for the year	**93%**	98%

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4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

4.4.2 Maturity analysis

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

2021	*Carrying amount*	*Less than one month*	*1-3 months*	*3 months to 1 year*	*1-5 years*	*More than 5 years*
Cash and balances with central banks	5,220,712	925,886	-	-	-	4,294,826
Due from banks	9,155,812	8,236,695	268,219	490,906	159,992	-
Financing assets	120,806,731	12,695,910	2,822,350	5,679,555	48,712,014	50,896,902
Investment securities	32,775,088	631,129	231,878	2,979,824	18,756,078	10,176,179
Other assets	2,952,585	1,047,101	71,446	700,018	778,989	355,031
Total financial assets	**170,910,928**	**23,536,721**	**3,393,893**	**9,850,303**	**68,407,073**	**65,722,938**
Due to banks	23,246,577	17,280,025	1,753,949	2,255,847	1,956,756	-
Customer current accounts	9,192,634	9,192,634	-	-	-	-
Sukuk financing	7,614,762	28,490	-	63,283	7,522,989	-
Other borrowings	5,699,994	746,129	527,274	1,161,226	3,265,365	-
Financial liabilities of a non-Shari’a-compliant subsidiary	2,245,901	1,298,939	605,058	239,592	218	102,094
Total financial liabilities	47,999,868	28,546,217	2,886,281	3,719,948	12,745,328	102,094
Equity of investment account holders	97,763,630	36,406,250	27,699,557	23,855,829	9,801,994	-
Total financial liabilities and equity of investment account holders	**145,763,498**	**64,952,467**	**30,585,838**	**27,575,777**	**22,547,322**	**102,094**
Difference	**25,147,430**	**(41,415,746)**	**(27,191,945)**	**(17,725,474)**	**45,859,751**	**65,620,844**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

4.4.2 Maturity analysis (continued)

2020	*Carrying amount*	*Less than one month*	*1-3 months*	*3 months to 1 year*	*1-5 years*	*More than 5 years*
Cash and balances with central banks	7,070,507	4,405,922	-	-	-	2,664,585
Due from banks	6,307,575	6,088,078	80,000	-	14,946	124,551
Financing assets	85,983,437	9,595,441	5,895,454	4,392,445	17,852,116	48,247,981
Investment securities	20,585,834	213,840	262,481	1,185,831	11,725,362	7,198,320
Other assets	3,828	3,828	-	-	-	-
Total financial assets	119,951,181	20,307,109	6,237,935	5,578,276	29,592,424	58,235,437
Due to banks	27,979,497	21,602,157	1,240,864	3,954,360	1,057,568	124,548
Customer current accounts	8,491,997	8,491,997	-	-	-	-
Sukuk financing	6,023,180	3,076	6,336	693,490	5,320,278	-
Other borrowings	1,270,775	-	-	-	1,270,775	-
Total financial liabilities	43,765,449	30,097,230	1,247,200	4,647,850	7,648,621	124,548
Equity of investment account holders	60,425,902	20,383,147	15,701,217	16,231,004	8,110,534	-
Total financial liabilities and equity of investment account holders	104,191,351	50,480,377	16,948,417	20,878,854	15,759,155	124,548
Difference	15,759,830	(30,173,268)	(10,710,482)	(15,300,578)	13,833,269	58,110,889

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

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

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

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

	Carrying amount	*Gross undiscounted cash flows*	*Less than one month*	*One to 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*
2021							
Non-derivative liabilities							
Due to banks	23,246,577	23,304,588	17,285,044	1,755,429	2,258,265	2,005,850	-
Customer current accounts	9,192,634	9,192,634	9,192,634	-	-	-	-
Sukuk financing	7,614,762	8,457,810	28,490	9,414	134,326	8,285,580	-
Other borrowings	5,699,994	5,799,189	747,619	530,014	1,207,495	3,314,061	-
Other liabilities	5,849,975	5,850,233	4,366,235	789,897	319,516	129,658	244,927
Total liabilities	**51,603,942**	**52,604,454**	**31,620,022**	**3,084,754**	**3,919,602**	**13,735,149**	**244,927**
Equity of investment account holders	**97,763,630**	**98,603,626**	**36,430,847**	**27,774,208**	**24,136,370**	**10,260,417**	**1,784**
Shari’a-compliant risk management instruments							
Risk management:							
Outflow		(1,839,588)	(774,099)	(282,582)	(510,932)	(271,975)	-
Inflow		1,872,824	836,690	280,143	530,278	225,713	-
	149,367,572	**151,241,316**	**68,113,460**	**30,856,523**	**28,075,318**	**23,949,304**	**246,711**

Masraf Al Rayan (Q.P.S.C.) QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

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

	Carrying amount	*Gross undiscounted cash flows*	*Less than one month*	*One to 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 years*
2020							
Non-derivative liabilities							
Due to banks	27,979,497	28,048,233	21,610,704	1,242,185	3,989,836	1,080,960	124,548
Customer current accounts	8,491,997	8,491,997	8,491,997	-	-	-	-
Sukuk financing	6,023,180	6,573,537	4,552	17,320	765,760	5,785,905	-
Other borrowings	1,270,775	1,309,609	-	1,832	15,484	1,292,293	-
Other liabilities	2,331,558	2,331,558	2,331,558	-	-	-	-
Total liabilities	46,097,007	46,754,934	32,438,811	1,261,337	4,771,080	8,159,158	124,548
Equity of investment account holders	60,425,902	61,076,156	20,396,365	15,739,379	16,427,234	8,513,178	-
Shari'a-compliant risk management instruments							
Risk management:							
Outflow		(33,382)	(14)	(2,403)	(14,061)	(9,954)	(6,950)
Inflow		68,956	10,211	24,520	16,321	10,058	7,846
	106,522,909	107,866,664	52,845,373	17,022,833	21,200,574	16,672,440	125,444

4 FINANCIAL RISK MANAGEMENT (continued)

4.5 Operational risk

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

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

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

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

4.6 Capital management

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

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

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

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4 FINANCIAL RISK MANAGEMENT (continued)

4.6 Capital management (continued)

Regulatory capital (continued)

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

	2021 **Basel III**	*2020* Basel III
Common Equity Tier 1 (CET 1) capital	**20,312,960**	13,299,338
Additional Tier 1 capital	**1,000,000**	-
Tier 2 capital	**921,835**	459,589
Total regulatory capital	**22,234,795**	13,758,927
Risk weighted assets		
Risk weighted assets for credit risk	**98,526,568**	61,625,989
Risk weighted assets for market risk	**541,778**	567,201
Risk weighted assets for operational risk	**6,068,171**	5,552,963
Total risk weighted assets	**105,136,517**	67,746,153

	CET 1 ratio without capital conservation buffer	CET 1 ratio including capital conservation buffer	Tier 1 capital ratio including capital conservation buffer	Tier 1 and 2 capital ratio including capital conservation buffer	Total capital including capital conservation buffer and DSIB[1] buffer	Total capital including conservation buffer, DSIB[1] buffer and ICAAP Pillar II capital charge
2021						
Actual	**19.32%**	**19.32%**	**20.27%**	**21.15%**	**21.15%**	**21.15%**
Minimum QCB limit	**6.00%**	**8.50%**	**10.50%**	**12.50%**	**13.50%**	**15.11%**
2020						
Actual	19.63%	19.63%	19.63%	20.31%	20.31%	20.31%
Minimum QCB limit	6.00%	8.50%	10.50%	12.50%	13.50%	15.11%

[1] *Domestic Systemically Important Bank*

5 USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

(i) *Impairment losses on financial assets:*
The measurement of impairment losses both under FAS 30 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group’s internal credit grading model, which assigns PDs to the individual grades;
- The Group’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group’s policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(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 (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).

(iii) *Going concern*

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(iv) *FAS 32 – Determination of Ijarah term in Ijarah contracts with the renewal and termination option (Bank as a lessee)*

In determining the Ijarah term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the Ijarah term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

5 USE OF ESTIMATES AND JUDGMENTS (continued)

Key sources of estimation uncertainty (continued)

(v) *Provisions and other contingent liabilities*

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in State of Qatar and in other jurisdictions, arising in the ordinary course of the Group’s business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 33.

6 OPERATING SEGMENTS

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

- Corporate Banking provides an extensive range of Islamic funded and non-funded credit facilities, deposit services, investment advisory, currency exchange facilities, profit rate swaps, financing syndication and other services to Corporate, Commercial and Multinational Customers.
- Retail Banking provides investment accounts services, credit card and Islamic financing to retail and individual customers.
- Treasury and Financial Institutions undertake the Group’s funding and centralised risk management activities through borrowings, sukuk and debt financing, use of Shari’a compliant instruments for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.
- Asset Management has two distinct functions. Firstly, the management of Masraf Al Rayan’s portfolio of listed and private equities and funds, strategic investments, income producing instruments such as sukuks and real estate investments. Secondly, the development and operation of Masraf Al Rayan’s investment products, asset management and investment placement business.
- International Operations includes financing assets, deposits and other products and services with corporate and individual customers in the Group’s international locations.

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

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

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

6 OPERATING SEGMENTS (continued)

Information about operating segments

2021	*Corporate Banking*	*Retail Banking*	*Treasury and Financial Institutions*	*Asset Management*	*International Operations*	*Central Function*	*Total*
External revenue:							
Total income from financing and investing activities	2,141,807	1,241,007	868,471	15,273	328,643	-	**4,595,201**
Net fee and commission income	168,323	121,713	(155)	33,023	819	-	**323,723**
Foreign exchange gain / (loss)	-	-	166,635	(1)	564	-	**167,198**
Share of results of associates	-	-	-	-	-	13,706	**13,706**
Other income	-	-	-	-	-	1,298	**1,298**
Total segment revenue	**2,310,130**	**1,362,720**	**1,034,951**	**48,295**	**330,026**	**15,004**	**5,101,126**
Finance expense	-	-	(510,629)	(961)	(17,513)	-	**(529,103)**
Return to investment account holders	(548,009)	(305,997)	-	-	(94,837)	-	**(948,843)**
Net impairment losses on financing assets	(161,661)	(750,310)	-	-	1,631	-	**(910,340)**
Net impairment losses on investments	-	-	(327)	1,491	-	(190,000)	**(188,836)**
Net recoveries and reversals / (impairment losses) on other exposures subject to credit risk	(3,031)	(5)	5,271	257	-	-	**2,492**
Reportable segment profit before tax	**1,572,164**	**320,362**	**503,154**	**29,166**	**45,778**	**(740,560)**	**1,730,064**
Reportable segment assets	**81,544,578**	**30,536,244**	**44,778,061**	**237,409**	**13,937,375**	**3,000,193**	**174,033,860**
Reportable segment liabilities	**4,880,247**	**2,814,198**	**35,867,227**	**123,188**	**4,518,202**	**3,400,880**	**51,603,942**
Reportable segment equity of investment account holders	**57,772,998**	**18,133,799**	**13,693,422**	**-**	**8,163,411**	**-**	**97,763,630**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

6 OPERATING SEGMENTS (continued)

2020	*Corporate Banking*	*Retail Banking*	*Treasury and Financial Institutions*	*Asset Management*	*International Operations*	*Central Function*	*Total*
External revenue:							
Total income from financing and investing activities	1,992,857	1,399,463	878,979	18,202	316,037	-	4,605,538
Net fee and commission income	138,856	95,169	-	25,279	1,426	-	260,730
Foreign exchange gain / (loss)	-	-	160,647	-	(2,420)	-	158,227
Share of results of associates	-	-	-	-	-	17,888	17,888
Other income	-	-	-	-	-	3,891	3,891
Total segment revenue	2,131,713	1,494,632	1,039,626	43,481	315,043	21,779	5,046,274
Finance expense	-	-	(649,320)	(2,182)	(20,490)	-	(671,992)
Return to investment account holders	(653,229)	(372,237)	-	-	(119,720)	-	(1,145,186)
Net impairment losses on financing assets	(185,032)	(105,925)	-	-	(7,807)	-	(298,764)
Net impairment losses on investments	-	-	(45,686)	(2,540)	(1)	(10,000)	(58,227)
Net recoveries and reversals / (impairment losses) on other exposures subject to credit risk	14,203	1	(8,915)	-	13	-	5,302
Reportable segment profit before tax	1,297,200	1,016,471	302,330	20,221	28,859	(482,130)	2,182,951
Reportable segment assets	51,239,748	25,333,414	32,072,251	263,407	11,170,475	1,035,585	121,114,880
Reportable segment liabilities	4,343,170	2,730,997	34,056,187	248,592	2,439,532	2,278,529	46,097,007
Reportable segment equity of investment account holders	35,862,395	15,942,432	222,075	-	8,399,000	-	60,425,902

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

7 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

2021	*Fair value through income statement*	*Fair value through equity*	*Amortised cost*	*Total carrying amount*	*Fair value*
Cash and balances with central banks	-	-	5,220,712	5,220,712	5,220,712
Due from banks	-	-	9,155,812	9,155,812	9,155,812
Financing assets	-	-	120,806,731	120,806,731	120,806,731
Investment securities:					
- Measured at fair value	7,204	334,400	-	341,604	341,604
- Measured at amortised cost	-	-	32,433,484	32,433,484	32,551,098
Financial assets held by a non-Shari’a-compliant subsidiary	30	76,357	2,868,799	2,945,186	3,081,324
Other assets	-	-	7,429	7,429	7,429
Shari’a-compliant risk management instruments	169,877	-	-	169,877	169,877
	177,111	**410,757**	**170,492,967**	**171,080,835**	**171,334,587**
Due to banks	-	-	23,246,577	23,246,577	23,246,577
Customer current accounts	-	-	9,192,634	9,192,634	9,192,634
Sukuk financing	-	-	7,614,762	7,614,762	7,614,762
Other borrowings	-	-	5,699,994	5,699,994	5,699,994
Financial liabilities of a non-Shari’a-compliant subsidiary			2,245,901	2,245,901	2,245,901
Other liabilities	-	-	2,170,886	2,170,886	2,170,886
Equity of investment account holders	-	-	97,763,630	97,763,630	97,763,630
Shari’a-compliant risk management instruments	272,722	-	-	272,722	272,722
	272,722	**-**	**147,934,384**	**148,207,106**	**148,207,106**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

7 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

2020	*Fair value through income statement*	*Fair value through equity*	*Amortised cost*	*Total carrying amount*	*Fair value*
Cash and balances with central banks	-	-	7,070,507	7,070,507	7,070,507
Due from banks	-	-	6,307,575	6,307,575	6,307,575
Financing assets	-	-	85,983,437	85,983,437	85,983,437
Investment securities:					
- Measured at fair value	2,029	150,970	-	152,999	152,999
- Measured at amortised cost	-	-	20,432,835	20,432,835	20,578,155
Other assets	-	-	3,828	3,828	3,828
Shari’a-compliant risk management instruments	55,306	-	-	55,306	55,306
	57,335	150,970	119,798,182	120,006,487	120,151,807
Due to banks	-	-	27,979,497	27,979,497	27,979,497
Customer current accounts	-	-	8,491,997	8,491,997	8,491,997
Sukuk financing	-	-	6,023,180	6,023,180	6,023,180
Other borrowings	-	-	1,270,775	1,270,775	1,270,775
Other liabilities	-	-	1,732,566	1,732,566	1,732,566
Equity of investment account holders	-	-	60,425,902	60,425,902	60,425,902
Shari’a-compliant risk management instruments	19,732	-	-	19,732	19,732
	19,732	-	105,923,917	105,943,649	105,943,649

8 CASH AND BALANCES WITH CENTRAL BANKS

	2021	*2020*
Cash on hand	**638,250**	772,214
Cash reserve with QCB*	**4,294,826**	2,664,585
Current account with QCB and balances with other central banks	**287,636**	3,633,708
	5,220,712	7,070,507

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

9 DUE FROM BANKS

	2021	*2020*
Current accounts	**2,856,924**	647,530
Wakala placements with banks	**1,800,075**	2,862,418
Commodity murabaha receivable	**4,491,607**	2,797,727
Accrued profit	**8,733**	186
Allowance for impairment*	**(1,527)**	(286)
	9,155,812	6,307,575

* For stage-wise exposure and allowance for impairment, refer to Note 4.2.10.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

10 FINANCING ASSETS

(a) By type

	2021	*2020*
Receivables and balances from financing activities:		
Murabaha	**103,395,737**	62,567,084
Ijarah	**17,168,271**	20,438,039
Istisna’a	**814,576**	938,073
Musharaka	**6,117,880**	6,079,771
Others	**1,001,666**	758,729
Accrued profit	**569,892**	410,007
Total receivables and balances from financing activities	**129,068,022**	91,191,703
Deferred profit	**(6,381,432)**	(4,250,331)
Allowance for impairment - Performing (Stages 1 and 2)*	**(842,084)**	(409,430)
Allowance for impairment - Non-performing (Stage3)*	**(985,013)**	(509,035)
Profit in suspense*	**(52,762)**	(39,470)
Net financing assets	**120,806,731**	85,983,437

* For stage-wise exposure and allowance for impairment, refer to Note 4.2.10.

The total non-performing financing assets net of deferred profit at 31 December 2021 amounted to QAR 2,048 million representing 1.67% of the gross financing assets net of deferred profit (2020: QAR 980 million, representing 1.13% of the gross financing assets net of deferred profit).

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

	2021	***Profit in suspense***	***Total 2021***
Balance as at 1 January	918,465	39,470	957,935
Charge for the year	1,015,578	26,797	1,042,375
Recoveries / reversals during the year	(105,238)	(13,505)	(118,743)
Write-off during the year	(1,386)	-	(1,386)
Effect of foreign currency movement	(322)	-	(322)
Balance at 31 December	**1,827,097**	**52,762**	**1,879,859**

	2020	*Profit in suspense*	*Total 2020*
Balance as at 1 January	619,787	17,615	637,402
Charge for the year	405,631	22,849	428,480
Recoveries / reversals during the year	(106,867)	(994)	(107,861)
Write-off during the year	(1,027)	-	(1,027)
Effect of foreign currency movement	941	-	941
Balance at 31 December	918,465	39,470	957,935

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

10 FINANCING ASSETS (continued)

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

	Corporate			*SME*			*Retail*			*Real estate*			***Total 2021***		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Stage 1**	**Stage 2**	**Stage 3**
Balance as at 1 January 2021	20,878	40,755	301,913	1,379	6,653	128,636	12,530	29,600	58,550	32,023	265,612	59,406	**66,810**	**342,620**	**548,505**
Charge for the year	5,683	31,698	101,687	237	10,354	82,873	21,978	30,194	51,771	5,704	437,616	262,580	**33,602**	**509,862**	**498,911**
Recoveries / reversals during the year	(11,479)	(21,392)	(3,017)	(1,456)	(9,511)	(1,449)	(7,714)	(7,862)	(6,328)	(21,051)	(19,546)	(7,938)	**(41,700)**	**(58,311)**	**(18,732)**
Write-off during the year	-	-	(726)	-	-	-	-	-	(660)	-	-	-	**-**	**-**	**(1,386)**
Effect of foreign currency movement	-	-	-	-	-	(16)	(95)	(192)	(19)	-	-	-	**(95)**	**(192)**	**(35)**
Balance as at 31 December 2021	15,082	51,061	399,857	160	7,496	210,044	26,699	51,740	103,314	16,676	683,682	314,048	**58,617**	**793,979**	**1,027,263**

	Corporate			*SME*			*Retail*			*Real estate*			***Total 2020***		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Stage 1**	**Stage 2**	**Stage 3**
Balance as at 1 January 2020	14,165	68,007	151,301	1,666	1,634	98,234	17,117	25,653	46,922	6,042	175,249	31,412	**38,990**	**270,543**	**327,869**
Charge for the year	14,622	26,868	158,094	290	5,568	31,668	5,099	8,864	19,837	27,613	101,954	28,003	**47,624**	**143,254**	**237,602**
Recoveries / reversals during the year	(7,909)	(54,120)	(6,482)	(577)	(549)	(1,266)	(10,107)	(5,319)	(8,300)	(1,632)	(11,591)	(9)	**(20,225)**	**(71,579)**	**(16,057)**
Write-off during the year	-	-	(1,000)	-	-	-	-	-	(27)	-	-	-	**-**	**-**	**(1,027)**
Effect of foreign currency movement	-	-	-	-	-	-	421	402	118	-	-	-	**421**	**402**	**118**
Balance as at 31 December 2020	20,878	40,755	301,913	1,379	6,653	128,636	12,530	29,600	58,550	32,023	265,612	59,406	**66,810**	**342,620**	**548,505**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

10 FINANCING ASSETS (continued)

(d) By sector

	Murabaha	*Ijarah*	*Istisna'a*	*Musharaka*	*Others*	***Total 2021***
Government and related agencies	56,315,350	1,117,976	-	-	61,294	**57,494,620**
Non-banking financial institutions	1,459,640	-	-	-	182	**1,459,822**
Industry	2,112,379	-	-	-	2,349	**2,114,728**
Commercial	7,974,625	124,217	-	25,793	658,299	**8,782,934**
Services	13,602,523	1,093,847	-	-	56,349	**14,752,719**
Contracting	2,732,020	7,590	-	-	56,802	**2,796,412**
Real estate	14,204,607	14,990,019	816,057	371,336	6,026	**30,388,045**
Personal	5,244,028	182,799	-	5,721,285	130,630	**11,278,742**
	103,645,172	**17,516,448**	**816,057**	**6,118,414**	**971,931**	**129,068,022**
Less: Deferred profit						**(6,381,432)**
Allowance for impairment - Performing (Stages 1 and 2)						**(842,084)**
Allowance for impairment - Non-performing (Stage 3)						**(985,013)**
Profit in suspense						**(52,762)**
						120,806,731

	Murabaha	*Ijarah*	*Istisna'a*	*Musharaka*	*Others*	*Total 2020*
Government and related agencies	42,923,382	1,271,458	-	-	61,665	44,256,505
Non-banking financial institutions	131,194	578,151	-	-	1,253	710,598
Industry	177,627	-	-	-	3,705	181,332
Commercial	5,278,954	139,105	-	138,572	473,964	6,030,595
Services	2,656,411	358,710	-	-	20,464	3,035,585
Contracting	1,639,737	5,205	-	-	68,698	1,713,640
Real estate	5,673,344	18,256,035	939,532	144,197	314	25,013,422
Personal	4,127,242	196,829	-	5,797,289	128,666	10,250,026
	62,607,891	20,805,493	939,532	6,080,058	758,729	91,191,703
Less: Deferred profit						(4,250,331)
Allowance for impairment - Performing (Stages 1 and 2)						(409,430)
Allowance for impairment - Non-performing (Stage 3)						(509,035)
Profit in suspense						(39,470)
						85,983,437

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

11 INVESTMENT SECURITIES

	2021			*2020*		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
Investments classified as fair value through income statement						
Investments classified as held for trading						
• Debt-type investments - Fixed profit rate	**7,119**	**-**	**7,119**	2,018	-	2,018
Accrued profit	**85**	**-**	**85**	11	-	11
	7,204	**-**	**7,204**	2,029	-	2,029
Debt-type investments classified at amortised cost						
Fixed profit rate	**3,857,927**	**57,162**	**3,915,089**	1,850,563	50,967	1,901,530
Floating profit rate	**27,969**	**-**	**27,969**	-	-	-
Government of Qatar	**4,751,011**	**23,465,000**	**28,216,011**	1,214,119	17,150,000	18,364,119
Accrued profit	**88,632**	**261,034**	**349,666**	31,590	212,012	243,602
Allowance for impairment*	**(18,089)**	**(57,162)**	**(75,251)**	(19,254)	(57,162)	(76,416)
	8,707,450	**23,726,034**	**32,433,484**	3,077,018	17,355,817	20,432,835
Investments classified as fair value through equity						
• Equity-type investments	**235,087**	**97,571**	**332,658**	51,665	99,198	150,863
Accrued profit	**1,742**	**-**	**1,742**	107	-	107
	236,829	**97,571**	**334,400**	51,772	99,198	150,970
	8,951,483	**23,823,605**	**32,775,088**	3,130,819	17,455,015	20,585,834

* For stage-wise exposure and allowance for impairment, refer to Note 4.2.10.

The Group has recognised impairment loss for certain equity-type investments classified as fair value through equity during the year totalling QAR Nil thousand (2020: QAR 7,113 thousand), due to significant and prolonged reduction in fair values.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

11 INVESTMENT SECURITIES (continued)

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

	2021			*2020*		
	Positive fair value	***Negative fair value***	***Total***	*Positive fair value*	*Negative fair value*	*Total*
Balance at 1 January	**25,239**	**(35)**	**25,204**	24,634	(1,030)	23,604
Net change in fair value	**13,831**	**35**	**13,866**	2,687	(6,118)	(3,431)
Transferred to retained earnings on sale of FVTE investments	**(5,483)**	**-**	**(5,483)**	(4,885)	-	(4,885)
Transferred to consolidated income statement on impairment	**-**	**-**	**-**	-	7,113	7,113
Effective portion of cash flow hedge	**725**	-	**725**	-	-	-
Share of other comprehensive income of associates	**1,813**	**-**	**1,813**	2,803	-	2,803
Net fair value movement	**10,886**	**35**	**10,921**	605	995	1,600
Balance at 31 December	**36,125**	**-.**	**36,125**	25,239	(35)	25,204

12 INVESTMENT IN ASSOCIATES

Movement in investment in associates during the year is as follows:

	2021	*2020*
Balance at 1 January	**534,116**	527,398
Share of results	**13,706**	17,888
Cash dividend received	**(10,700)**	(4,000)
Share of other comprehensive income	**1,813**	2,803
Impairment loss	**(190,000)**	(10,000)
Effect of foreign currency movement	**-**	27
Balance at 31 December	**348,935**	534,116

Name of the Company	***Country***	***Company’s activities***	***Ownership %*** ***2021***	*2020*
National Mass Housing Company SAOC (“NMH”)	Oman	Real estate services	20.00	20.00
Ci-San Trading W.L.L. (“Ci San”)	Qatar	Investing and trading	50.00	50.00
Kirnaf Finance Company (“Kirnaf”)	Saudi Arabia	Leasing	48.76	48.76
Damaan Islamic Insurance Company “Beema” (Q.P.S.C.) (“Daman”)	Qatar	Insurance	20.00	20.00
Linc Facility Services W.L.L. (“Linc”)	Qatar	Facility management	33.50	33.50

All investments are not listed as of reporting date.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

12 INVESTMENT IN ASSOCIATES (continued)

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

2021	**NMH**	**Ci San**	**Kirnaf**	**Daman**	**Linc**
Total assets	**122,864**	**128,883**	**1,065,476**	**1,406,862**	**134,136**
Total liabilities	**551**	**65,088**	**294,870**	**905,336**	**23,203**
Total revenue	**7,102**	**46,078**	**-**	**80,396**	**130,236**
Net profit / (loss)	**(12,151)**	**(1,910)**	**-**	**45,148**	**25,832**
Share of profit / (loss) recognised	**(2,430)**	**(955)**	**-**	**8,438**	**8,653**

2020	NMH	Ci San	Kirnaf	Daman	Linc
Total assets	136,940	132,251	1,065,476	1,338,932	120,103
Total liabilities	2,475	66,545	294,870	909,087	15,002
Total revenue	3,491	45,081	-	74,016	105,648
Net profit / (loss)	(9,081)	508	-	41,898	33,049
Share of profit / (loss) recognised	(1,817)	254	-	8,380	11,071

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

13 FIXED ASSETS

	Land and buildings	*Leasehold improvements*	*Furniture, fixtures and office equipment*	*Computer equipment*	*Right-of-use assets*	*Work in progress*	*Total*
Cost:							
Balance at 1 January 2021	97,108	55,900	54,405	100,025	-	137,666	445,104
Impact of FAS 32 adoption (Note 3(a))	-	-	-	-	81,257	-	81,257
Acquired on business combination (Note 45)	340,089	114,979	175,872	120,478	5,015	12,193	768,626
Additions and Ijarah modifications	-	280	1,483	7,894	14,895	41,336	65,888
Disposals and reclassifications	(16)	(10,572)	(763)	92	(9,814)	-	(21,073)
Transfers during the period	-	1,689	346	21	-	(2,056)	-
Write-off	-	-	-	-	(9,254)	-	(9,254)
Effect of foreign currency movement	(272)	(388)	(98)	(283)	(954)	-	(1,995)
Balance at 31 December 2021	436,909	161,888	231,245	228,227	81,145	189,139	1,328,553
Accumulated depreciation:							
Balance at 1 January 2021	8,150	36,362	41,316	87,870	-	-	173,698
Acquired on business combination (Note 45)	26,223	91,603	157,487	117,631	4,634	-	397,578
Depreciation for the year	1,740	4,758	4,825	7,499	49,275	-	68,097
Disposals and reclassifications	(12)	(8,488)	(715)	36	(6,271)	-	(15,450)
Write-off	-	-	-	-	(9,072)	-	(9,072)
Effect of foreign currency movement	(60)	(339)	(89)	(282)	(213)	5	(978)
Balance at 31 December 2021	36,041	123,896	202,824	212,754	38,353	5	613,873
Net book value:							
At 31 December 2021	**400,868**	**37,992**	**28,421**	**15,473**	**42,792**	**189,134**	**714,680**

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13 FIXED ASSETS (continued)

	Land and building	*Leasehold improvements*	*Furniture, fixtures and office equipment*	*Computer equipment*	*Work in progress*	*Total*
Cost:						
Balance at 1 January 2020	96,396	100,027	56,142	116,610	80,203	449,378
Additions	-	682	2,341	8,916	57,463	69,402
Disposals	-	(5,320)	(177)	-	-	(5,497)
Write-off	-	(40,666)	(4,143)	(26,247)	-	(71,056)
Effect of foreign currency movement	712	1,177	242	746	-	2,877
Balance at 31 December 2020	97,108	55,900	54,405	100,025	137,666	445,104
Accumulated depreciation:						
Balance at 1 January 2020	6,764	72,844	38,097	103,942	-	221,647
Depreciation for the year	1,250	6,860	7,241	9,467	-	24,818
Disposals	-	(3,693)	(105)	-	-	(3,798)
Write-off	-	(40,666)	(4,143)	(26,247)		(71,056)
Effect of foreign currency movement	136	1,017	226	708	-	2,087
Balance at 31 December 2020	8,150	36,362	41,316	87,870	-	173,698
Net book value:						
At 31 December 2020	88,958	19,538	13,089	12,155	137,666	271,406

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14 INTANGIBLE ASSET

Goodwill arising on the acquisition of Al Khalij’s net assets

The intangible asset consists of goodwill which resulted from the acquisition of Al Khalij’s net assets (Note 45). The goodwill is calculated based on the allocation of the purchase consideration of the merger to the preliminary fair values of Al Khaliji’s net assets as of 30 November 2021. The Group has twelve months from the date of acquisition to complete a Purchase Price Allocation (“PPA”) exercise which sets out in detail the way in which the fair value of the acquired Al Khaliji assets and liabilities have been determined. A comprehensive PPA exercise will be undertaken and the results of this exercise will be reflected in subsequent financial statements. This exercise may result in different values being attributed to the assets, liabilities and contingent liabilities acquired, and the identification of other intangible assets, hence, change in the goodwill.

For the purpose of impairment testing, goodwill is allocated to the cash generating units (“CGU”), which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised.

15 OTHER ASSETS

	2021	*2020*
Assets held by non-Shari’a-compliant subsidiary[1]	**2,964,483**	-
Positive fair value of Shari’a-compliant risk management instruments	**169,877**	55,306
Deferred tax asset (Note 32)	**35,654**	31,515
Prepayments and other advances	**26,938**	40,101
Accrued profit	**7,429**	3,828
Others	**48,823**	231,255
	3,253,204	362,005

[1] Assets held by non-Shari’a-compliant subsidiary consist of the following asset portfolio acquired by the Bank in a business combination (Note 45):

	2021	*2020*
Cash and balances with central bank	**806,001**	-
Due from banks	**676,216**	-
Loans and advances to customers	**1,217,215**	-
Investment securities	**245,721**	-
Fixed assets	**11,955**	-
Other assets	**7,375**	-
	2,964,483	-

[2] The outstanding amount of Hamish Jiddiyyah paid by the Group to the lessor as at 31 December 2021 amounted to QAR 841 thousand (2020: QAR 642 thousand).

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16 DUE TO BANKS

	2021	*2020*
Current and short-term investment accounts	**151,114**	105,290
Wakala payable	**12,636,928**	21,467,248
Short-term Murabaha facilities from banks	**6,515,284**	2,450,837
Repurchase agreements	**3,416,392**	1,965,320
Commodity murabaha payable	**497,247**	1,942,153
Profit payable to banks	**29,612**	48,649
	23,246,577	27,979,497

Wakala payable includes various facilities with maturities up to twelve months and carries profit rates of 0.15% to 1.5% (2020: maturities up to six months and carries a profit rate of 0.05% to 2.40%).

The market value of securities given as collateral against the repurchase agreements are QAR 3,960 million (2020: QAR 2,461 million).

17 CUSTOMER CURRENT ACCOUNTS

	2021	*2020*
By sector:		
Government	**890,677**	924,942
Non-banking financial institutions	**40,928**	23,750
Corporate	**4,689,298**	4,092,843
Individuals	**3,571,731**	3,450,462
	9,192,634	8,491,997

18 SUKUK AND DEBT FINANCING

The Group has issued the following debt securities:

Instrument	Issuer	Currency	Due Date	*2021*
Sukuk	MAR Sukuk Limited	USD	20-Nov-23	364,571
Sukuk	MAR Sukuk Limited	USD	21-Nov-23	328,131
Sukuk	MAR Sukuk Limited	USD	13-Nov-24	1,803,472
Sukuk	MAR Sukuk Limited	USD	12-Mar-23	145,628
Sukuk	MAR Sukuk Limited	USD	2-Sep-25	2,709,073
Debt securities[3]	AKCB Finance Limited	USD	9-Oct-23	1,835,974
Debt securities[3]	AKCB Finance Limited	USD	10-Jul-23	92,318
Debt securities[3]	AKCB Finance Limited	JPY	6-Feb-25	31,695
Debt securities[3]	AKCB Finance Limited	JPY	19-May-22	31,653
Debt securities[3]	AKCB Finance Limited	JPY	15-Dec-22	31,630
Debt securities[3]	AKCB Finance Limited	JPY	25-Jan-24	31,691
Debt securities[3]	AKCB Finance Limited	JPY	27-Mar-23	50,640
Debt securities[3]	AKCB Finance Limited	JPY	16-Mar-23	158,286
				7,614,762

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18 SUKUK AND DEBT FINANCING (continued)

Instrument	Issuer	Currency	Due Date	*2020*
Sukuk	MAR Sukuk Limited	USD	20-Nov-23	364,501
Sukuk	MAR Sukuk Limited	USD	21-Nov-23	328,051
Sukuk	MAR Sukuk Limited	USD	13-Nov-24	1,803,153
Sukuk	MAR Sukuk Limited	USD	12-Mar-23	145,551
Sukuk	MAR Sukuk Limited	USD	2-Sep-25	2,707,873
Sukuk	Tolkien Funding Sukuk No.1 Plc[2]	GBP	20-July-52	674,051
				6,023,180

[1] The profit rates range from 0.3% to 4.75% for the current year.

[2] On 26 March 2021, Al Rayan Bank PLC, a subsidiary of Al Rayan (UK) Limited exercised its option to purchase the rights, title interest and benefits in the portfolio of assets held by Tolkien Funding Sukuk No. 1 PLC (the “Trustee”). The Trustee redeemed the certificates issued in full on 20 April 2021, being the next periodic distribution date of the Sukuk Programme.

[3] Upon merger with Al Khaliji (Note 45) and pursuant to the Extra-Ordinary General Assembly held by the Group on 5 October 2021, the Group assumed the QAR 2,263 million debt securities issued by Al Khaliji under its USD 2.5 billion Euro Medium Term Note (“EMTN”) programme whose terms and other related documentation will be converted into Shari’ah compliant instruments.

At 31 December	***2021***	*2020*
Face value of sukuk and debt financing	**7,576,151**	6,003,820
Less: Unamortised transaction costs	**(11,248)**	(9,491)
Profit payable	**49,859**	28,851
	7,614,762	6,023,180

The movement in sukuk and debt financing issued by the Group during the year is as follows:

	2021	*2020*
Balance at 1 January	**6,023,180**	3,333,998
Assumed on business combination (Note 45)	**2,262,870**	-
Net issuances during the year	**-**	2,862,380
Repayments during the year	**(724,728)**	(237,880)
Amortisation of transaction costs	**2,214**	1,352
Effect of foreign currency movement	**1,367**	34,479
Profit payable on sukuk financing	**49,859**	28,851
Balance at 31 December	**7,614,762**	6,023,180

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19 OTHER BORROWINGS

Instrument	Currency	Due Date	*2021*
Floating rate syndications[1]	USD	26-Oct-24	2,362,257
Floating rate syndications[1]	USD	23-Jun-23	182,085
Floating rate syndications[1]	USD	12-Jul-23	181,427
Floating rate syndications[1]	USD	28-Feb-23	362,793
Floating rate syndications[1]	USD	28-Sep-23	181,799
Bilateral floating rate borrowings[2]	USD	1-Dec-22	434,167
Bilateral floating rate borrowings[2]	USD	6-Oct-22	363,704
Certificate of deposit[2]	EUR	14-Jan-22	247,047
Certificate of deposit[2]	EUR	12-Jan-22	247,042
Certificate of deposit[2]	USD	24-Feb-22	163,710
Certificate of deposit[2]	EUR	13-Jan-22	247,044
Certificate of deposit[2]	USD	14-Mar-22	363,564
Certificate of deposit[2]	USD	11-Apr-22	363,355
			5,699,994

Instrument	Currency	Due Date	*2020*
Floating rate syndications[1]	USD	02-Jul-22	546,404
Floating rate syndications[1]	USD	12-Dec-22	542,941
Floating rate syndications[1]	USD	28-Sep-23	181,430
			1,270,775

[1] Floating rate syndications are priced at spreads over LIBOR and have residual maturities of 1 to 2 years.

[2] Bilateral floating rate borrowings and certificate of deposits were originally issued by Al Khaliji and assumed by the Bank upon merger (Note 45).

[3] The movement in other borrowings issued by the Group during the year is as follows:

	2021	*2020*
Balance at 1 January	**1,270,775**	2,002,003
Assumed on business combination (Note 45)	**3,270,966**	-
Net issuances during the year	**3,082,097**	1,267,161
Repayments during the year	**(839,845)**	(8,965)
Amortisation of transaction costs	**2,217**	5,644
Reclassified as Due to banks	**(1,086,803)**	(1,997,989)
Profit payable on borrowings	**4,997**	2,921
Other movements	**(4,410)**	-
Balance at 31 December	**5,699,994**	1,270,775

When the residual maturity of the borrowing is less than one year from the reporting date, the financial instrument is reclassified from ‘Other borrowings’ to ‘Due to banks’.

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20 OTHER LIABILITIES

	2021	*2020*
Liabilities of a non-Shari’a-compliant subsidiary (c)	**2,360,977**	-
Dividend payable	**981,956**	915,196
Acceptances	**841,400**	582,496
Negative fair value of Shari’a-compliant risk management instruments	**272,722**	19,732
Manager’s cheque and prepaid cards	**202,932**	180,488
Accrued expenses	**162,356**	41,031
Unearned commission	**150,867**	141,216
Funds received against dividend payment on behalf of customers	**123,110**	124,321
Other staff provisions	**109,288**	98,968
Provision for employees’ end of service benefits (b)	**93,600**	51,116
Net Ijarah liabilities (a)	**53,590**	-
Allowance for impairment for off balance sheet exposures subject to credit risk	**51,642**	30,620
Social and sports fund (Note 42)	**42,813**	54,386
Others	**402,722**	91,988
	5,849,975	2,331,558

(a) Net Ijarah liabilities

	2021	*2020*
Gross Ijarah liabilities	57,169	-
Less: Deferred Ijarah cost	(3,579)	-
Net Ijarah liabilities	**53,590**	**-**

The table below shows the maturity profile of gross and net Ijarah liabilities:

	2021			*2020*
	Gross Ijarah liabilities	*Deferred Ijarah cost*	*Net Ijarah liabilities*	*Net Ijarah liabilities*
Up to 12 months	20,475	(479)	19,996	-
Between 1 to 5 years	30,149	(2,257)	27,892	-
Over 5 years	6,545	(843)	5,702	-
	57,169	**(3,579)**	**53,590**	**-**

Ijarah rentals waived during the year by the Group’s lessor amounted to QAR 8 thousand (2020: QAR 2,396 thousand).

(b) Provision for employees’ end of service benefits

	2021	*2020*
Balance at 1 January	**51,116**	46,083
Assumed on business combination	**35,608**	-
Provisions made during the year	**10,486**	5,814
Paid during the year	**(3,610)**	(781)
Balance at 31 December	**93,600**	51,116

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20 OTHER LIABILITIES (continued)

(c) Liabilities of a non-Shari'a-compliant subsidiary

	2021	*2020*
Due to banks	**418,442**	-
Subordinated debt[1]	**103,005**	-
Other liabilities	**115,076**	-
Customer deposits	**1,724,454**	
	2,360,977	-

[1] Subordinated debt was assumed by the Bank upon merger with Al Khaliji (Note 45) and consists of a debt amounting to EUR 25 million for an undetermined maturity period, and carries profit at EONIA monthly rate (Euro Overnight index average) payable in arrears on a quarterly basis. This debt will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

21 EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) By type

	2021	*2020*
Saving accounts	**7,239,306**	8,414,414
Term accounts	**83,029,234**	45,781,149
Short-term investment accounts	**7,002,452**	5,926,572
Profit payable to equity of investment account holders	**491,070**	302,626
Share in the fair value reserve	**1,568**	1,141
	97,763,630	60,425,902

(b) By sector

	2021	*2020*
Government	**41,628,864**	23,826,517
Non-banking financial institutions	**13,655,741**	162,770
Individuals	**25,246,206**	23,593,845
Corporate	**16,740,181**	12,539,003
Profit payable to equity of investment account holders	**491,070**	302,626
Share in the fair value reserve	**1,568**	1,141
	97,763,630	60,425,902

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.

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21 EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

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

	2021	*2020*
Return on equity of investment account holders in the profit before Masraf's Mudaraba income	**2,038,332**	2,446,379
Masraf's Mudaraba income	**(1,926,310)**	(2,300,460)
Return on investment account holders	**112,022**	145,919
Support provided by Masraf	**836,821**	999,267
Return on investment account holders after Masraf's support	**948,843**	1,145,186

Rates of profit allotment:	*2021* %	*2020* %
More than one year deposits	**3.49**	3.83
One year deposits	**2.20**	2.28
Six months deposits	**0.94**	0.94
Three months deposits	**0.93**	0.93
Short-term investment accounts	**0.63**	0.67
Saving accounts	**0.62**	0.70
Saving accounts-millionaire	**0.70**	0.80

22 EQUITY

(a) Share capital

	2021	*2020*
Authorised, issued and paid up		
9,300,000,000 shares at QAR 1 each	**9,300,000**	7,500,000

(i) The merger between the Bank and Al Khaliji was effected by a capital issuance of 1,800 million shares of QAR 1 each by the Bank to the shareholders of Al Khaliji, in a share swap transaction at the exchange rate of 0.5 new Masraf share for each share of Al Khaliji. Pursuant to the transaction, the shares of Al Khaliji were delisted from Qatar Stock Exchange and replaced with the newly issued share capital. The newly issued share capital added to the outstanding shares of Masraf already in issue (being the share capital of the surviving legal entity at the time of merger) to constitute the share capital of the merged entity. For details of the business combination, refer to Note 45.

(b) Legal reserve

	2021	*2020*
Balance at 1 January	**2,714,166**	2,496,623
Share premium on issuance of shares on business combination (Note 45)	**6,930,000**	-
Transfer from retained earnings (i)	**-**	217,543
Balance at 31 December	**9,644,166**	2,714,166

(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 the paid up capital. Accordingly, no transfer has been made for the year ended 31 December 2021, as the legal reserve reached 100% of the paid up capital prior to transfer from retained earnings for the current year (2020: 10% of the net profit was transferred to legal reserve).

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22 EQUITY (continued)

(b) Risk reserve

In accordance with QCB circular 102/2011, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 2.5% of the total private sector exposure granted by the Group inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees are excluded from the gross direct financing, which should be appropriated from shareholders’ profit according to QCB instructions. As of 31 December 2021, an amount of QAR 486 million has been appropriated to the risk reserve (2020: QAR 160 million). In accordance with QCB approval, only 50% of the required amount of risk reserve for 2021 was appropriated from retained earnings.

(c) Fair value reserve

	2021	*2020*
Balance at the 1 January	**25,204**	23,604
Net unrealised gains / (losses)	**15,434**	(2,290)
Transferred to retained earnings on sale of FVTE investments	**(5,483)**	(4,885)
Transferred to consolidated income statement due to impairment	**-**	7,113
Effective portion of cash flow hedge	**725**	-
Share of other comprehensive income of associates	**1,813**	2,803
Share of equity of investment account holders in the fair value reserve	**(1,568)**	(1,141)
Net fair value movement	**10,921**	1,600
Balance at 31 December (shareholders’ share)	**36,125**	25,204

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

(d) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(e) 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.

	2021	*2020*
Balance at 1 January	**126,222**	123,405
Share of results of associates	**13,706**	17,888
Dividend from associates transferred to retained earnings	**(10,700)**	(4,000)
Other movement	**(1,954)**	(11,071)
Balance at 31 December	**127,274**	126,222

(f) Proposed dividend

The Board of Directors in its meeting held on 27 January 2022 proposed a cash dividend of 17% (2020: 17%) of the share capital amounting to QAR 1,581 million (2020: QAR 1,275 million). This proposal is subject to the approval of the shareholders’ annual general assembly and the regulators in the State of Qatar.

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23 NON-CONTROLLING INTEREST

This represents the Group's non-controlling interest in Al Rayan (UK) Limited (25%) and Al Rayan Bank PLC (26.24%) (31 December 2020: Al Rayan (UK) Limited - 30% and Al Rayan Bank PLC - 31.16%).

24 INSTRUMENT ELIGIBLE AS ADDITIONAL CAPITAL

Upon merger with Al Khaliji (Note 45), the Group assumed the QAR 1 billion Tier 1 capital notes (the "Notes") that was originally issued by Al Khaliji in March 2016. The Notes are perpetual, subordinated, unsecured and has been issued at a fixed profit rate for the first five years and shall be re-priced thereafter. The coupon is discretionary and the event of non-payment is not considered as an event of default. The Notes carry no maturity date and have been classified under Tier 1 capital.

25 INCOME FROM FINANCING ACTIVITIES

	2021	*2020*
Income from Murabaha	**2,512,330**	2,335,570
Income from Ijarah	**933,157**	1,071,189
Income from Musharaka	**210,067**	219,813
Income from Istisna'a	**55,058**	53,764
	3,710,612	3,680,336

26 INCOME FROM INVESTING ACTIVITIES

	2021	*2020*
Income from investment in debt-type instruments	**846,887**	847,222
Income from inter-bank placements with Islamic banks	**33,450**	62,678
Net gain on sale of debt-type investments	**137**	13,805
Dividend income	**3,911**	1,442
Fair value (loss) / gain on investment securities carried as fair value through income statement	**(81)**	55
Net gain on derivatives	**285**	-
	884,589	925,202

27 NET FEE AND COMMISSION INCOME

	2021	*2020*
Commission on financing activities	**177,940**	138,507
Commission on trade finance activities	**99,470**	80,196
Commission on banking services	**51,850**	44,307
	329,260	263,010
Fee and commission expenses	**(5,537)**	(2,280)
	323,723	260,730

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28 FOREIGN EXCHANGE GAIN (NET)

	2021	*2020*
Dealing in foreign currencies and revaluation of assets and liabilities	**167,198**	158,227

29 OTHER INCOME

	2021	*2020*
Rental income	**794**	626
Miscellaneous	**504**	3,265
	1,298	3,891

30 STAFF COSTS

	2021	*2020*
Salaries, allowances and other staff costs	**406,769**	371,104
Employees' end of service benefits	**10,486**	5,814
Staff pension fund costs	**10,695**	9,490
	427,950	386,408

31 OTHER EXPENSES

	2021	*2020*
Legal, professional and consulting fees	**49,003**	45,269
Information technology	**41,929**	36,954
Rent and maintenance	**40,538**	64,277
Advertising expenses	**32,376**	37,832
Board of Directors' remuneration (Note 38b)	**15,670**	15,589
Shari'a Board compensation	**1,708**	1,471
Other operating expenses	**119,161**	81,838
	300,385	283,230

32 TAX EXPENSE

	2021	*2020*
Current tax expense	**8,613**	2,258
Adjustments in respect of prior years	**941**	1,179
Deferred tax benefit	**(4,782)**	(1,080)
	4,772	2,357

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32 TAX EXPENSE (continued)

Movement of deferred tax assets is as follows:

	2021	*2020*
Balance at 1 January	**31,515**	29,207
Adjustments in respect of prior years	**(890)**	(1,171)
Deferred tax benefit during the year	**5,672**	2,251
Effect of foreign currency movement	**(643)**	1,228
Balance at 31 December	**35,654**	31,515

33 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:

	2021	*2020*
Payable not later than 1 year*	**-**	18,829
Payable later than 1 year and not later than 5 years*	**-**	24,358
	-	43,187

*The Group has applied FAS 32 “Ijarah” from 1 January 2021. The impact on adoption of FAS 32 is disclosed in Note 3(a).

(b) Contingent liabilities

	2021	*2020*
Unutilised credit facilities	**5,544,059**	601,212
Guarantees	**15,170,129**	12,376,417
Letters of credit	**3,399,486**	988,168
	24,113,674	13,965,797
Contingent liabilities of a non-Shari’a-compliant subsidiary[1]	**682,218**	-

[1] Contingent liabilities of a non-Shari’a-compliant subsidiary consist of the following:

	2021	*2020*
Unutilised credit facilities	**346,957**	-
Guarantees	**327,620**	**-**
Letters of credit	**7,641**	**-**
	682,218	-

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33 CONTINGENT LIABILITIES AND COMMITMENTS

(c) Other undertakings and commitments

	2021	*2020*
Profit rate swap	**11,113,336**	1,302,839
Unilateral promise to buy/sell currencies	**10,790,532**	11,749,333
	21,903,868	13,052,172
Other undertakings and commitments of a non-Shari’a-compliant subsidiary[2]	**291,055**	-

[2] Other undertakings and commitments of a non-Shari’a-compliant subsidiary consist of the following:

	2021	*2020*
Profit rate swap	**72,756**	-
Unilateral promise to buy/sell currencies	**218,299**	-
	291,055	-
Capital commitments in respect of Head Office building under construction	**290,509**	333,170
Other capital commitments	**3,015**	-
	293,524	333,170

(d) Post-merger integrations costs

The Group incurred integration-related costs of QAR 16.4 million relating to consultant and external professional fees during the current year. These costs have been included in ‘Other expenses’ in the consolidated income statement. As of reporting date, the Group is in the process of determining a reliable estimate of the probable outflow of economic resources arising from other expected post-merger integration costs that will be incurred in relation to the merger (Note 45).

(e) Others

Certain processes and related controls of a subsidiary of the Group have been placed under a formal review by its local regulator. The management of the Group believes that the ongoing review is not finalized, and the expected outcome of the review remains as a contingent liability, for which based on the information available at year end a financial impact cannot be estimated.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

34 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

Geographical sector

	Qatar	*Other GCC*	*Europe*	*North America*	*Others*	*Total*
2021						
Cash and balances with central banks	5,189,034	-	31,678	-		**5,220,712**
Due from banks	3,987,360	1,131,696	1,822,596	1,388,388	825,772	**9,155,812**
Financing assets	103,369,345	1,331,747	11,751,544	-	4,354,095	**120,806,731**
Investment securities	30,732,192	1,384,946	191,715	-	466,235	**32,775,088**
Investment in associates	148,725	200,210	-	-	-	**348,935**
Fixed assets	677,224	-	37,456	-	-	**714,680**
Intangible assets	1,758,698	-	-	-	-	**1,758,698**
Other assets	436,904	1,191,966	834,057	91,037	699,240	**3,253,204**
TOTAL ASSETS	**146,299,482**	**5,240,565**	**14,669,046**	**1,479,425**	**6,345,342**	**174,033,860**
Due to banks	13,608,116	3,263,811	5,789,049	53	585,548	**23,246,577**
Customer current accounts	8,029,759	69,406	1,080,017	7,112	6,340	**9,192,634**
Sukuk financing	5,350,876	-	2,263,886	-	-	**7,614,762**
Other borrowings	434,578	182,025	4,901,366	-	182,025	**5,699,994**
Other liabilities	3,903,999	859,218	588,684	3,078	494,996	**5,849,975**
Total liabilities	31,327,328	4,374,460	14,623,002	10,243	1,268,909	**51,603,942**
Equity of investment account holders	74,205,417	9,189,932	8,694,785	6,700	5,666,796	**97,763,630**
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**105,532,745**	**13,564,392**	**23,317,787**	**16,943**	**6,935,705**	**149,367,572**

Masraf Al Rayan (Q.P.S.C.) QAR '000s

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

Geographical sector (continued)

	Qatar	*Other GCC*	*Europe*	*North America*	*Others*	*Total*
2020						
Cash and balances with central banks	7,041,081	-	29,426	-		7,070,507
Due from banks	4,301,827	1,128,116	802,498	52,065	23,069	6,307,575
Financing assets	73,240,155	3,532	8,749,157	-	3,990,593	85,983,437
Investment securities	19,246,312	844,665	11,105	-	483,752	20,585,834
Investment in associates	141,476	392,640	-	-	-	534,116
Fixed assets	247,697	-	23,709	-	-	271,406
Other assets	278,679	-	83,326	-	-	362,005
TOTAL ASSETS	104,497,227	2,368,953	9,699,221	52,065	4,497,414	121,114,880
Due to banks	18,696,384	5,589,162	2,887,178	-	806,773	27,979,497
Customer current accounts	7,361,645	56,100	1,061,938	639	11,675	8,491,997
Sukuk financing	5,349,129	-	674,051	-	-	6,023,180
Other borrowings	-	-	1,270,775	-	-	1,270,775
Other liabilities	2,287,269	-	44,289	-	-	2,331,558
Total liabilities	33,694,427	5,645,262	5,938,231	639	818,448	46,097,007
Equity of investment account holders	49,291,842	2,652,005	8,357,377	81,227	43,451	60,425,902
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	82,986,269	8,297,267	14,295,608	81,866	861,899	106,522,909

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

34 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*
2021							
Cash and balances with central banks	-	-	-	5,220,712	-	-	**5,220,712**
Due from banks	-	-	-	9,155,812	-	-	**9,155,812**
Financing assets	30,690,254	5,717,646	914,022	1,080,958	11,988,814	70,415,037	**120,806,731**
Investment securities	275,714	23,962	10,420	2,467,944	-	29,997,048	**32,775,088**
Investment in associates	24,463	-	-	255,403	-	69,069	**348,935**
Intangible assets						1,758,698	**1,758,698**
Fixed assets	-	-	-	-	-	714,680	**714,680**
Other assets	710,911	19,749	-	1,684,705	17,861	819,978	**3,253,204**
TOTAL ASSETS	**31,701,342**	**5,761,357**	**924,442**	**19,865,534**	**12,006,675**	**103,774,510**	**174,033,860**
Due to banks	-	-	-	23,246,577	-	-	**23,246,577**
Customer current accounts	93,926	670,010	15,497	40,928	3,618,298	4,753,975	**9,192,634**
Sukuk financing	-	-	-	7,614,762	-	-	**7,614,762**
Other borrowings	-	-	-	5,699,994	-	-	**5,699,994**
Other liabilities	60,984	121,598	312	744,250	-	4,922,831	**5,849,975**
Total liabilities	154,910	791,608	15,809	37,346,511	3,618,298	9,676,806	**51,603,942**
Equity of investment account holders	57,884	1,019,848	458,789	13,693,422	25,251,782	57,281,905	**97,763,630**
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**212,794**	**1,811,456**	**474,598**	**51,039,933**	**28,870,080**	**66,958,711**	**149,367,572**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

34 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*
2020							
Cash and balances with central banks	-	-	-	7,070,507	-	-	7,070,507
Due from banks	-	-	-	6,307,575	-	-	6,307,575
Financing assets	24,362,923	1,713,558	12,852	685,566	9,665,152	49,543,386	85,983,437
Investment securities	436,789	8,633	-	614,515	-	19,525,897	20,585,834
Investment in associates	26,893	-	-	472,004	-	35,219	534,116
Fixed assets	-	-	-	-	-	271,406	271,406
Other assets	-	-	-	-	-	362,005	362,005
TOTAL ASSETS	24,826,605	1,722,191	12,852	15,150,167	9,665,152	69,737,913	121,114,880
Due to banks	-	-	-	27,979,497	-	-	27,979,497
Customer current accounts	17,842	223,053	707	23,680	3,449,243	4,777,472	8,491,997
Sukuk financing	-	-	-	6,023,180	-	-	6,023,180
Other borrowings	-	-	-	1,270,775	-	-	1,270,775
Other liabilities	-	-	-	-	-	2,331,558	2,331,558
Total liabilities	17,842	223,053	707	35,297,132	3,449,243	7,109,030	46,097,007
Equity of investment account holders	3,981	21,453	728	162,772	23,593,637	36,643,331	60,425,902
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	21,823	244,506	1,435	35,459,904	27,042,880	43,752,361	106,522,909

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

35 MATURITY PROFILE

	Up to 3 months	*3-6 months*	*6 months-1 year*	*1-5 years*	*Over 5 years*	*Total*
2021						
Cash and balances with central banks	925,886	-	-	-	4,294,826	**5,220,712**
Due from banks	8,504,914	490,906	-	159,992	-	**9,155,812**
Financing assets	15,518,260	4,067,958	1,611,597	48,712,014	50,896,902	**120,806,731**
Investment securities	863,007	542,812	2,437,012	18,756,078	10,176,179	**32,775,088**
Investment in associates	-	-	-	-	348,935	**348,935**
Fixed assets	-	-	-	-	714,680	**714,680**
Intangible assets	-	-	-	-	1,758,698	**1,758,698**
Other assets	1,401,914	286,134	420,740	806,158	338,258	**3,253,204**
TOTAL ASSETS	**27,213,981**	**5,387,810**	**4,469,349**	**68,434,242**	**68,528,478**	**174,033,860**
Due to banks	19,033,974	1,057,468	1,198,379	1,956,756	-	**23,246,577**
Customer current accounts	9,192,634	-	-	-	-	**9,192,634**
Sukuk financing	28,490	63,283	-	7,522,989	-	**7,614,762**
Other borrowings	1,273,403	1,161,226	-	3,265,365	-	**5,699,994**
Other liabilities	5,159,963	204,800	114,713	129,657	240,842	**5,849,975**
Total liabilities	34,688,464	2,486,777	1,313,092	12,874,767	240,842	**51,603,942**
Equity of investment account holders	64,105,807	13,851,326	10,004,503	9,801,994	-	**97,763,630**
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	**98,794,271**	**16,338,103**	**11,317,595**	**22,676,761**	**240,842**	**149,367,572**
MATURITY GAP	**(71,580,290)**	**(10,950,293)**	**(6,848,246)**	**45,757,481**	**68,287,636**	**24,666,288**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

35 MATURITY PROFILE (continued)

	Up to 3 months	*3-6 months*	*6 months-1 year*	*1-5 years*	*Over 5 years*	*Total*
2020						
Cash and balances with central banks	4,405,922	-	-	-	2,664,585	7,070,507
Due from banks	6,168,078	-	-	14,946	124,551	6,307,575
Financing assets	15,491,087	1,413,625	2,978,809	17,852,050	48,247,866	85,983,437
Investment securities	476,321	675,876	509,955	11,725,362	7,198,320	20,585,834
Investment in associates	-	-	-	-	534,116	534,116
Fixed assets	-	-	-	-	271,406	271,406
Other assets	362,005	-	-	-	-	362,005
TOTAL ASSETS	26,903,413	2,089,501	3,488,764	29,592,358	59,040,844	121,114,880
Due to banks	22,843,021	1,302,242	2,652,118	1,057,568	124,548	27,979,497
Customer current accounts	8,491,997	-	-	-	-	8,491,997
Sukuk financing	-	28,851	-	5,320,278	674,051	6,023,180
Other borrowings	2,921	-	-	1,267,854	-	1,270,775
Other liabilities	2,331,558	-	-	-	-	2,331,558
Total liabilities	33,669,497	1,331,093	2,652,118	7,645,700	798,599	46,097,007
Equity of investment account holders	36,084,363	8,910,406	7,320,599	8,110,534	-	60,425,902
TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS	69,753,860	10,241,499	9,972,717	15,756,234	798,599	106,522,909
MATURITY GAP	(42,850,447)	(8,151,998)	(6,483,953)	13,836,124	58,242,245	14,591,971

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36 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.

	2021	*2020*
Profit for the year attributable to equity holders of the Bank	**1,712,519**	2,175,425
Less: Distribution for Tier 1 Capital notes	**(48,195)**	-
Profit for earnings per share computation	**1,664,324**	2,175,425
Weighted average number of shares outstanding during the year (thousand)[1]	**7,652,877**	7,500,000
Basic earnings per share (QAR)	**0.217**	0.290

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.

[1] Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share has been calculated as follows:

	2021	*2020*
Weighted average number of shares at 1 January	**7,500,000**	7,500,000
Effect of the shares issued on business combination	**152,877**	-
Weighted average number of shares at 31 December	**7,652,877**	7,500,000

37 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:

	2021	*2020*
Cash on hand and balances with central banks excluding cash reserve with QCB	**925,886**	4,405,922
Due from banks	**8,215,051**	6,307,575
Add: Allowance for impairment	**13**	286
	9,140,950	10,713,783

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38 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.

(a) Transactions and balances

The related party transactions and balances included in these consolidated financial statements are as follows:

	2021			2020		
	Associate companies	**Board of Directors**	**Shareholders**	Associate companies	Board of Directors	Shareholders
Consolidated statement of financial position items:						
Financing assets	-	775,119	-	-	5,046	-
Customer current accounts	80,169	54,644	-	83,994	10,224	-
Equity of investment account holders	5,863	538,837	3,212,842	16,716	64,615	3,181,426
Other liabilities	-	-	103,005	-	-	-
Consolidated income statement items:						
Income from financing activities	-	3,341	-	-	293	-
Return on equity of investment account holders	197	3,049	32,142	136	1,449	48,107
Operating expenses	15,826	-	-	14,637	-	-
Contingent liabilities:						
Letters of credit	-	5,056	-	-	-	-
Guarantees	96,757	144,703	-	67,526	-	-

The Group also has significant commercial transactions with the Government of Qatar which are disclosed in Notes 10, 17 and 21.

All the transactions with the related parties are substantially on the same terms, including profit rates and collateral, as those prevailing in comparable transactions with unrelated parties.

(b) Transactions with key management personnel

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

	2021	*2020*
Remuneration to Board of Directors including meeting allowance (Note 31)	**15,670**	15,589
Salaries and other benefits - Key management	**13,026**	13,848

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39 SHARI'A-COMPLIANT RISK MANAGEMENT INSTRUMENTS

(a) Profit rate swap

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

(b) Unilateral promise to buy/sell currencies

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

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

	Positive fair value	*Negative fair value*	*Notional amount*	*Within three months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*
2021							
Shari'a-compliant risk management instruments							
Profit rate swaps	159,154	167,040	11,113,336	649,009	1,652,846	3,978,318	4,833,163
Unilateral promise to buy/sell currencies	10,723	105,682	10,790,532	7,533,829	2,941,903	314,800	-
	169,877	**272,722**	**21,903,868**	**8,182,838**	**4,594,749**	**4,293,118**	**4,833,163**

	Positive fair value	*Negative fair value*	*Notional amount*	*Within three months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*
2020							
Shari'a-compliant risk management instruments							
Profit rate swaps	17,904	16,904	1,302,839	-	199,276	798,346	305,217
Unilateral promise to buy/sell currencies	37,402	2,828	11,749,333	9,673,851	2,075,482	-	-
	55,306	19,732	13,052,172	9,673,851	2,274,758	798,346	305,217

40 Zakat

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

41 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.

42 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 42.8 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2021 (2020: QAR 54.4 million) for the support of sports, cultural and charitable activities.

43 ASSETS UNDER MANAGEMENT

The Group’s authorized activities include dealing in investments as an agent, arranging the provision of custody services, managing investments and advising on investments.

At the reporting date, the Group held Assets under Management of QAR 4,831 million (31 December 2020: QAR 4,047 million), which include among others, discretionary portfolios and funds under management. These Assets under Management are not consolidated with the financial statements of the Group.

44 IMPACT OF COVID 19

The coronavirus (“COVID-19”) pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

In addition, the Group’s operations are concentrated in economies that are relatively dependent on the price of crude oil. As at the end of the financial reporting period, oil prices have witnessed unprecedented volatility. The Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption the COVID-19 outbreak may have on its operations and financial performance.

The Group has performed an assessment of COVID-19 in light of the available guidance of QCB and FAS, which has resulted in the following changes to the expected credit loss methodology and valuation estimates and judgements as at and for the year ended 31 December 2021:

i. Expected credit losses

The macro-economic variables have been updated as at 31 December 2021 and re-aligned with the economy. ECLs were estimated based on a range of forecast economic conditions. The Group has considered the impact of higher volatility in the forward-looking macro-economic factors when determining the economic scenarios for ECL estimation.

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44 IMPACT OF COVID 19 (continued)

i. Expected credit losses (continued)

The volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factor (Credit Index or "CI") used is determined from the observed historical credit index. The credit index is used to forecast expected point-in-time probability of defaults for the credit portfolio of the Group. The forward looking PDs have been arrived based on the economic outlook on the country/region and based on the macro-economic factors such as GDP, Oil price, LNG, CPI (inflation), Real Estate Sector Concentration and Growth Rate in Financing Assets. These variables were selected based on three criteria: Correlation (degree and direction) of the variable with the segment, Correlation (degree and direction) of the variable with the AQR (Asset Quality Ratio of Qatar) and the relevance of the variable with respect to the segment.

The Group has incorporated different forward-looking economic scenarios into the measurement of expected credit losses by applying conservative weightings of 65%, 10.4% and 24.6% for base, improved and stressed scenarios, respectively, for the wholesale banking portfolio. The situation is fast evolving and, accordingly, any downside scenarios will be reassessed if adverse conditions continue.

The table below shows a comparison of the loss allowances on non-impaired financial assets (stages 1 and 2) by assuming each forward-looking scenarios resulting from simulations of each scenario weighted at 100%:

Sensitivity of impairment assessment	***2021*** ***Impact on ECL***	*2020* *Impact on ECL*
Simulations:		
Base case - 100% weighted, loss allowance would be higher/(lower) by	**(106,283)**	(64,584)
Upside case - 100% weighted, loss allowance would be higher/(lower) by	**(345,440)**	(188,784)
Downside case - 100% weighted, loss allowance would be higher/(lower) by	**457,155**	252,445

ii. Valuation estimates and judgements

The Group has also considered potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations.

iii. Accounting for modified financing assets

Considering the economic circumstances post the COVID-19 outbreak, the QCB has encouraged banks in Qatar to delay repayments for affected sectors via a circular issued on 22 March 2020, pursuant to which the Group has delayed repayments for certain customers for a period of six months.

iv. Accounting for zero rate repo facility

The QCB has advised banks to extend new financing to affected sectors at reduced rates, which is to be supported by zero-cost repo facilities from the QCB, and extended guarantees from the government of the State of Qatar to local banks to support these affected sectors. The Group has no outstanding zero-rate repos as at 31 December 2021.

v. Major events

The implications of the COVID-19 pandemic are ongoing and the outcome of this event is unknown and, therefore, the impact on the Group for conditions that arose after the period-end, i.e. "non-adjusting events" in line with IAS 10 "Subsequent events", cannot be reasonably quantified at the date of issuance of these consolidated financial statements.

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45 BUSINESS COMBINATION

On 7 January 2021, the Bank and Al Khalij Commercial Bank P.Q.S.C. (“Al Khaliji”) have entered into a merger agreement (the “Merger”) as approved by the Board of Directors of both banks, which was subsequently approved by the shareholders of both the Bank and Al Khalij at their respective Extra-Ordinary General Assemblies held on 5 October 2021 and 6 October 2021, respectively.

On 2 November 2021, the QCB approved the Bank’s merger with Al Khalij by way of absorption pursuant to Article 278 of the Commercial Companies Law Number 11 of 2015 and Article 161(2) of Law Number 13 of 2012 issuing the Qatar Central Bank Law and Regulation of Financial Institutions and the merger agreement.

The Merger was effected through a share swap transaction at an exchange ratio of 0.5 Masraf share for every one share of Al Khaliji, corresponding to 1,800 million new shares issued to the shareholders of Al Khaliji at the close of business on 30 November 2021 (the “effective date”).

Al Khaliji shares were delisted from the Qatar Stock Exchange and the Bank issued 1,800 million new shares to the shareholders of Al Khaliji. Following the completion of the merger, Masraf shareholders owned approximately 81 percent of the combined bank and Al Khaliji shareholders owned approximately 19 percent. The merger transaction is accounted for in accordance with IFRS 3 - Business Combinations. IFRS 3 requires that an acquirer be identified in a business combination and acquisition accounting principles be applied. Masraf was identified as the “accounting acquirer” in this transaction.

The merger was effected to create a new Bank with the financial strength, expertise and global network that will become one of Qatar’s and the region’s leading Shari’a-compliant banks which will bolster Qatar’s economic growth and finance development initiatives.

(a) Share capital – issuance of new shares

Outstanding number of shares of Al Khaliji (Units ‘000)	3,600,000
Exchange ratio	0.5
Number of shares of the Bank issued to Al Khaliji shareholders (Units ‘000)	1,800,000
Par value of shares issued by the Bank to Al Khaiji shareholders (QAR 1 each) (QAR ‘000)	1,800,000
Outstanding share capital of the Bank (QAR ‘000)	7,500,000
Total share capital post acquisition (QAR ‘000)	**9,300,000**

(b) Purchase consideration

Outstanding number of shares of the Bank (Units ‘000)	7,500,000
Divided by the Bank’s percentage of ownership in the Group	80.65%
Total number of shares of the Group (Units ‘000)	**9,300,000**
Multiplied by Al Khaliji’s percentage of ownership in the Group	19.35%
Total number of shares issued by the Bank to Al Khaliji	1,800,000
Multiplied by the Bank’s share price on the effective date (QAR)	4.85
Total purchase consideration (QAR ‘000)	**8,730,000**

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45 BUSINESS COMBINATION (continued)

(c) Share premium

In accordance with Qatar Commercial Companies’ Law, any share premium on issuance of new shares will form part of the legal reserve.

Total purchase consideration	8,730,000
Par value of shares issued by the Bank to Al Khaiji shareholders	(1,800,000)
Share premium	**6,930,000**
Legal reserve	
Al Khalij Commercial Bank (al khaliji) P.Q.S.C	1,532,395
Masraf Al Rayan (Q.P.S.C.)	2,714,166
Total	4,246,561
Less: pre-acquisition legal reserve	(1,532,395)
Add: share premium on issuance of new shares	6,930,000
Closing balance post business combination[1]	**9,644,166**
Risk reserve	
Al Khalij Commercial Bank (al khaliji) P.Q.S.C	495,195
Masraf Al Rayan (Q.P.S.C.)	1,796,600
Total	2,291,795
Less: pre-acquisition risk reserve	(495,195)
Closing balance post business combination[1]	**1,796,600**

[1] Prior to transfers from retained earnings for the current year

(c) Integration-related costs

The Group incurred integration-related costs of QAR 16.4 million relating to consultant and external professional fees during the current year. These costs have been included in ‘Other expenses’ in the consolidated income statement.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

45 BUSINESS COMBINATION (continued)

(d) Identifiable assets acquired and liabilities assumed

The purchase consideration (also referred to as “purchase price”) of the merger has been allocated to the assets acquired and liabilities assumed using their preliminary fair values at the acquisition date. The allocation of the purchase consideration and its allocation to the net assets of Al Khaliji based on its preliminary fair values as of 30 November 2021 is presented below. The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed.

	30 November 2021
Assets	
Cash and balances with central banks	1,433,464
Due from banks	6,216,979
Financing assets	35,361,090
Investment securities	10,946,874
Fixed assets	371,048
Assets of a non-Shari’a-compliant subsidiary and Other assets	3,032,742
Total assets	57,362,197
Liabilities	
Due to banks	13,385,586
Customer current accounts	881,126
Equity of investment account holders	26,843,045
Debt securities	2,262,870
Other borrowings	3,270,966
Liabilities of a non-Shari’a-compliant subsidiary and Other liabilities	2,747,302
	49,390,895
Instrument eligible for additional capital	1,000,000
Total liabilities	50,390,895
Al Khaliji net assets as at acquisition date attributable to its equity holders	**6,971,302**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

45 BUSINESS COMBINATION (continued)

(e) Goodwill and intangible assets

The Group has used the preliminary fair values of Al Khaliji’s financial assets and liabilities as at 30 November 2021 for the purpose of calculating goodwill.

	30 November 2021
Total purchase consideration	8,730,000
Total fair value of identifiable net assets of Al Khaliji	(6,971,302)
Goodwill on business acquisition	1,758,698

The goodwill is attributable to the synergies expected to be achieved from integrating Al Khaliji into the Group. The Group has twelve months from the date of acquisition to complete a Purchase Price Allocation (“PPA”) exercise which sets out in detail the way in which the fair value of the acquired Al Khaliji assets and liabilities have been determined. A comprehensive PPA exercise will be undertaken and the results of this exercise will be reflected in subsequent financial statements. This exercise may result in different values being attributed to the assets, liabilities and contingent liabilities acquired, and the identification of other intangible assets, hence, change in the goodwill.

(f) Purchase consideration – cash inflow

Cash and cash equivalents acquired	8,985,074
Purchase consideration paid in cash	-
Net cash inflows – investing activities	**8,985,074**

(g) Impact on Group’s results

From the date of acquisition until 31 December 2021, Al Khaliji contributed total income of QAR 167 million and a net loss of QAR 32 million to the Group’s results. If the acquisition had occurred on 1 January 2021, management estimates that the consolidated total income and net profit for the year would be QAR 6,962 million and QAR 2,242 million, respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

SUPPLEMENTARY FINANCIAL INFORMATION
At 31 December

FINANCIAL STATEMENTS OF THE PARENT BANK

(A) STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

	2021	*2020*
ASSETS		
Cash and balances with QCB	**5,189,034**	7,041,081
Due from banks	**8,229,974**	4,958,865
Financing assets	**111,666,591**	77,258,767
Investment securities	**31,931,459**	19,533,551
Investment in subsidiaries and associates	**1,773,193**	1,121,062
Fixed assets	**681,391**	249,822
Intangible asset	**1,679,583**	-
Other assets	**218,265**	274,420
TOTAL ASSETS	**161,369,490**	110,437,568
LIABILITIES		
Due to banks	**22,899,631**	27,959,916
Customer current accounts	**7,737,269**	7,100,382
Sukuk and debt financing	**7,673,039**	5,407,300
Other borrowings	**5,699,994**	1,270,775
Other liabilities	**3,442,104**	2,323,514
TOTAL LIABILITIES	**47,452,037**	44,061,887
EQUITY OF INVESTMENT ACCOUNT HOLDERS	**90,117,637**	52,596,168
EQUITY		
Share capital	**9,300,000**	7,500,000
Legal reserve	**9,644,166**	2,714,166
Risk reserve	**2,282,824**	1,796,600
Fair value reserves	**47,142**	25,679
Retained earnings	**1,525,684**	1,743,068
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	**22,799,816**	13,779,513
Instrument eligible as additional capital	**1,000,000**	-
TOTAL EQUITY	**23,799,816**	13,779,513
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY	**161,369,490**	110,437,568

Parent bank financial information

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

Masraf Al Rayan (Q.P.S.C.) QAR '000s

SUPPLEMENTARY FINANCIAL INFORMATION
For the year ended 31 December

FINANCIAL STATEMENTS OF THE PARENT BANK (continued)

(B) INCOME STATEMENT OF THE PARENT BANK

	2021	*2020*
Net income from financing activities	**3,389,541**	3,392,320
Net income from investing activities	**877,183**	882,979
Total net income from financing and investing activities	**4,266,724**	4,275,299
Fee and commission income	**293,256**	234,604
Fee and commission expense	**(3,375)**	(579)
Net fee and commission income	**289,881**	234,025
Foreign exchange gain	**166,635**	160,647
Other income	**5,659**	5,486
TOTAL INCOME	**4,728,899**	4,675,457
Staff costs	**(326,920)**	(292,684)
Depreciation	**(52,034)**	(18,135)
Other expenses	**(228,195)**	(213,044)
Finance expense	**(524,875)**	(656,923)
TOTAL EXPENSES	**(1,132,024)**	(1,180,786)
Net (impairment losses) / reversals on due from banks	**(1,241)**	(126)
Net impairment losses on financing assets	**(911,971)**	(290,957)
Net (impairment losses) / reversals on investment securities	**(190,327)**	(55,686)
Net reversals on off balance sheet exposures subject to credit risk	**3,733**	5,415
PROFIT FOR THE YEAR BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS	**2,497,069**	3,153,317
Less: Return to investment account holders	**(862,219)**	(1,035,922)
NET PROFIT FOR THE YEAR	**1,634,850**	2,117,395