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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2021

Contents

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INDEPENDENT AUDITOR'S REVIEW REPORT

To The Board of Directors
Masraf Al Rayan (Q.P.S.C.)
Doha – Qatar

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Masraf Al Rayan (Q.P.S.C.) ("the Bank") and its subsidiaries (together referred to as the "Group") comprising the interim consolidated statement of financial position as at 30 June 2021, and the related interim consolidated statement of income for the three month and six month periods ended 30 June 2021, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six month period then ended, and certain explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Qatar Central Bank ("QCB"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with the Financial Accounting Standards issued by the AAOIFI as modified by the QCB.

Doha – Qatar
13 July 2021

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021

	Notes	30 June 2021 (Reviewed)	31 December 2020 (Audited)	30 June 2020 (Reviewed)
ASSETS				
Cash and balances with central banks		**4,364,548**	7,070,507	4,789,202
Due from banks		**8,536,733**	6,307,575	4,396,958
Financing assets	8	**91,202,417**	85,983,437	78,103,982
Investment securities	9	**20,075,688**	20,585,834	20,931,079
Investment in associates		**344,900**	534,116	538,574
Fixed assets		**370,863**	271,406	258,010
Other assets		**163,810**	362,005	320,983
TOTAL ASSETS		**125,058,959**	121,114,880	109,338,788
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY				
LIABILITIES				
Due to banks	10	**25,063,657**	27,979,497	20,941,525
Customer current accounts		**8,369,651**	8,491,997	8,389,207
Sukuk financing	11	**5,350,146**	6,023,180	3,263,580
Other borrowings	12	**1,925,328**	1,270,775	1,818,151
Other liabilities		**2,308,138**	2,331,558	2,403,654
TOTAL LIABILITIES		**43,016,920**	46,097,007	36,816,117
EQUITY OF INVESTMENT ACCOUNT HOLDERS	13	**67,557,120**	60,425,902	59,028,256
EQUITY				
Share capital	14 (a)	**7,500,000**	7,500,000	7,500,000
Legal reserve	14 (b)	**2,714,166**	2,714,166	2,496,623
Risk reserve	14 (c)	**1,796,600**	1,796,600	1,636,268
Fair value reserve	14 (d)	**31,694**	25,204	11,166
Foreign currency translation reserve	14 (e)	**(1,473)**	(3,618)	(18,713)
Other reserves	14 (f)	**126,222**	126,222	123,405
Retained earnings		**2,080,532**	2,206,731	1,545,020
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**14,247,741**	14,365,305	13,293,769
Non-controlling interest	15	**237,178**	226,666	200,646
TOTAL EQUITY		**14,484,919**	14,591,971	13,494,415
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY		**125,058,959**	121,114,880	109,338,788

These interim condensed consolidated financial statements were approved by the Board of Directors on 13 July 2021 and were signed on its behalf by:

....
Ali Bin Ahmed Al Kuwari
Chairman and Managing Director

....
Ahmed Abdisheikh
Acting Group Chief Executive Officer

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

DELOITTE & TOUCHE
Doha - Qatar
13 JUL 2021
Signed for Identification Purposes Only

The attached notes 1 to 21 form an integral part of, and should be read in conjunction with, these interim condensed consolidated financial statements

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

INTERIM CONSOLIDATED INCOME STATEMENT
For the Three and Six-Month Periods Ended 30 June 2021

	Notes	*For the Three-Month Period Ended 30 June* 2021 (Reviewed)	2020 (Reviewed)	*For the Six-Month Period Ended 30 June* 2021 (Reviewed)	2020 (Reviewed)
Net income from financing activities		**916,039**	914,179	**1,856,895**	1,832,341
Net income from investing activities		**212,371**	228,603	**431,623**	482,465
Total net income from financing and investing activities		**1,128,410**	1,142,782	**2,288,518**	2,314,806
Fee and commission income		**89,623**	54,912	**160,908**	127,263
Fee and commission expense		**(917)**	(496)	**(1,677)**	(988)
Net fee and commission income		**88,706**	54,416	**159,231**	126,275
Foreign exchange gain (net)		**42,331**	50,937	**80,959**	102,422
Share of results of associates		**3,663**	(1,816)	**9,670**	12,348
Other income		**439**	534	**2,007**	3,327
TOTAL INCOME		**1,263,549**	1,246,853	**2,540,385**	2,559,178
Staff costs		**(107,714)**	(95,544)	**(204,244)**	(193,141)
Depreciation and amortisation		**(21,696)**	(5,432)	**(26,355)**	(12,072)
Other expenses		**(56,586)**	(66,898)	**(125,360)**	(134,308)
Finance expense		**(131,212)**	(169,988)	**(275,001)**	(373,735)
TOTAL EXPENSES		**(317,208)**	(337,862)	**(630,960)**	(713,256)
Net reversals / (impairment losses) on due from banks	3 (a)	**186**	(115)	**(1,519)**	4
Net impairment losses on financing assets		**(97,800)**	(60,741)	**(182,096)**	(75,578)
Net (impairment losses) / reversals on investments		**(98,671)**	6,431	**(188,716)**	(11,153)
Net (impairment losses) / reversals on other exposures subject to credit risk	3 (a)	**(285)**	22,753	**10,876**	14,018
PROFIT FOR THE PERIOD BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		**749,771**	877,319	**1,547,970**	1,773,213
Less: Return to investment account holders		**(180,828)**	(340,121)	**(399,218)**	(688,157)
PROFIT BEFORE TAX FOR THE PERIOD		**568,943**	537,198	**1,148,752**	1,085,056
Tax credit		**4,889**	1,534	**1,857**	456
NET PROFIT FOR THE PERIOD		**573,832**	538,732	**1,150,609**	1,085,512
Net profit for the period attributable to:					
Equity holders of the Bank		**568,617**	536,492	**1,143,318**	1,083,521
Non-controlling interest		**5,215**	2,240	**7,291**	1,991
		573,832	538,732	**1,150,609**	1,085,512
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	17	**0.076**	0.072	**0.152**	0.144

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Doha - Qatar

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1 3 JUL 2021

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QAR '000s

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Six-Month Period Ended 30 June 2021

	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 2020 (Audited)	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	-	-	-	-	(68,534)	-	-	(68,534)	-	(68,534)
Net gain on hedging of net investment in a foreign subsidiary	-	-	-	-	70,679	-	-	70,679	-	70,679
Gain on sale of FVTE investments	-	-	-	(5,483)	-	-	5,483	-	-	-
Fair value reserve movement (Note 9)	-	-	-	11,973	-	-	-	11,973	-	11,973
Profit for the period	-	-	-	-	-	-	1,143,318	1,143,318	7,291	1,150,609
Dividend declared and approved for 2020 (Note 14g)	-	-	-	-	-	-	(1,275,000)	(1,275,000)	-	(1,275,000)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	3,221	3,221
Balance at 30 June 2021 (Reviewed)	**7,500,000**	**2,714,166**	**1,796,600**	**31,694**	**(1,473)**	**126,222**	**2,080,532**	**14,247,741**	**237,178**	**14,484,919**

	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 (Audited)	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	-	-	-	-	(120,114)	-	-	(120,114)	-	(120,114)
Net gain on hedging of net investment in a foreign subsidiary	-	-	-	-	111,104	-	-	111,104	-	111,104
Fair value reserve movement (Note 9)	-	-	-	(12,438)	-	-	-	(12,438)	-	(12,438)
Profit for the period	-	-	-	-	-	-	1,083,521	1,083,521	1,991	1,085,512
Dividend declared and approved for 2019 (Note 14g)	-	-	-	-	-	-	(1,687,500)	(1,687,500)	-	(1,687,500)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	(14,064)	(14,064)
Balance at 30 June 2020 (Reviewed)	**7,500,000**	**2,496,623**	**1,636,268**	**11,166**	**(18,713)**	**123,405**	**1,545,020**	**13,293,769**	**200,646**	**13,494,415**

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Doha - Qatar
13 JUL 2021
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Masraf Al Rayan (Q.P.S.C.) QAR '000s

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six-Month Period Ended 30 June 2021

	Note	*For the Six-Month Period Ended 30 June* 2021 (Reviewed)	2020 (Reviewed)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the period		1,148,752	1,085,056
Adjustments for:			
Net impairment losses / (reversals) on due from banks		1,519	(4)
Net impairment losses on financing assets		182,096	75,578
Net impairment losses on investments		188,716	11,153
Net reversals of impairment losses on other exposures subject to credit risk		(10,876)	(14,018)
Fair value (gain) /loss on investment securities carried as fair value through income statement		(8)	103
Unrealized loss / (gain) on revaluation of Shari'a compliant risk management instruments		27,131	(3,972)
Depreciation and amortisation		26,355	12,072
Amortisation of transaction costs on sukuk financing, other borrowings and due to banks		6,012	2,982
Net gain on sale of investment securities		(74)	(6,047)
Dividend income		(1,067)	(1,449)
Share of results of associates		(9,670)	(12,348)
Amortisation of premium and discount on investment securities		(10,577)	(10,525)
Employees' end of service benefit provisions		7,354	2,869
Profit before changes in operating assets and liabilities		**1,555,663**	1,141,450
Change in reserve account with Qatar Central Bank		(255,740)	(84,103)
Change in due from banks		(242,909)	-
Change in financing assets		(5,533,726)	(3,341,308)
Change in other assets		165,873	(31,588)
Change in profit receivable from investments		10,050	2,928
Change in due to banks		(2,918,527)	1,392,309
Change in customer current accounts		(122,346)	862,524
Change in other liabilities		(11,786)	286,337
Change in profit payable on sukuk financing and other borrowings		31,995	13,764
		(7,321,453)	242,313
Dividend received		1,067	1,449
Employees' end of service benefits paid		(567)	(202)
Tax paid		(6,580)	(2,151)
Net cash (used in) / from operating activities		**(7,327,533)**	241,409
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(655,773)	(314,348)
Proceeds from sale / redemption of investment securities		1,189,921	679,810
Acquisition of fixed assets		(42,507)	(44,267)
Dividend received from associates		10,700	4,000
Net cash from investing activities		**502,341**	325,195

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the Six-Month Period Ended 30 June 2021

	Note	*For the Six-Month Period Ended 30 June* 2021 (Reviewed)	2020 (Reviewed)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in equity of investment account holders		7,130,925	942,941
Net repayment of sukuk financing and other borrowings		(63,421)	(31,816)
Net repayment of Ijarah liabilities		(16,547)	-
Dividends paid		(1,202,960)	(1,523,070)
Net movement in non-controlling interest		3,221	(14,064)
Net cash from / (used in) financing activities		**5,851,218**	(626,009)
Net decrease in cash and cash equivalents		(973,974)	(59,405)
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		43	3,508
Cash and cash equivalents at 30 June	18	**9,739,852**	6,498,972

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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, Grand Hamad Steet, Doha, Qatar. The interim condensed consolidated financial statements of the Bank for the six-month period ended 30 June 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, investing and brokerage activities, and has 16 branches including the head office in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan (Q.P.S.C.).

The principal subsidiaries of the Group are as follows:

Entity’s name	*Country of incorporation*	*Entity’s capital*		*Entity’s activities*	*Effective percentage of ownership*	
					30 June 2021	*31 December 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	**70.0%**	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	50,000	Investment activities	**100.0%**	100.0%
MAR Sukuk Limited [3]	Cayman Islands	USD	50,000	Sukuk issuance	**100.0%**	100.0%

[1] The operations have ceased since 12 January 2017 after Qatar Financial Markets Authority (“QFMA”) approved to freeze its license for two years, 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 are ongoing as of reporting date.

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

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

On 7 January 2021, the Bank and Al Khalij Commercial Bank P.Q.S.C. (“Al Khaliji”) have entered into a merger agreement. The Bank will issue one share for every two Al Khaliji shares, equivalent to 1.8 billion new shares to be issued to Al Khaliji shareholders. Upon completion of the merger, Al Khaliji will be dissolved and its assets and liabilities will be absorbed by the Bank, which will be the remaining legal entity and will continue to operate in accordance with Shari’a principles. The merger agreement is subject to the approvals of the regulatory authorities in the State of Qatar and the shareholders of each bank.

2 BASIS OF PREPARATION

(a) Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) as modified by the QCB. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses the guidance from the relevant International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, the interim condensed consolidated financial statements have been prepared in accordance with the guidance provided by International Accounting Standard 34 – ‘Interim Financial Reporting’.

2 BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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”). The Bank has adopted the circular from the effective date and the changes to the accounting policies have been adopted prospectively by the Bank.

The interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2020. In addition, results for the six-month period ended 30 June 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2020.

(b) Basis of measurement

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

(d) New standards, amendments and interpretations

The accounting policies applied by the Group in the preparation of the interim condensed consolidated financial statements are the same as those used in the preparation of the Group’s last audited consolidated financial statements as at and for the year ended 31 December 2020, except for those arising from the adoption of the following standards and amendments to standards effective from 1 January 2021. The impact of the adoption of these standards and amendments is set out below.

(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.

2 BASIS OF PREPARATION (continued)

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

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

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.

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.

2 BASIS OF PREPARATION (continued)

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

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

Right-of-use (usufruct) asset (continued)
Subsequent measurement (continued)
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”.

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.

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);
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.

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2 BASIS OF PREPARATION (continued)

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

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

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 interim consolidated income statement in the period incurred.

Impact on adoption of FAS 32
The following amounts are recognized under the new standard and included in the respective headings of the interim consolidated statement of financial position and income statement:

	1 January 2021	*30 June 2021*
Interim consolidated statement of financial position		
Right-of-use asset (“Fixed Assets”)	**81,257**	**64,986**
Gross Ijarah liability	79,560	64,894
Less: Deferred Ijarah cost	(5,883)	(5,071)
Net Ijarah liability (“Other liabilities”)	**73,677**	**59,823**

	For the Six-Month Period Ended 30 June 2021
Interim consolidated income statement	
Amortisation on the right-of-use asset (“Depreciation and amortisation”)	**17,976**
Amortisation of Ijarah costs (“Finance expense”)	**967**

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 interim condensed 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.

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

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3 EXPECTED CREDIT LOSSES ("ECL")

(a) Expected credit loss / Impairment allowances

	Stage 1	Stage 2	Stage 3	Total
Exposure (carrying value) subject to ECL as at 30 June 2021				
- Due from banks	**7,428,992**	**1,109,546**	**-**	**8,538,538**
- Financing assets	**78,495,243**	**12,862,904**	**985,394**	**92,343,541**
- Debt type investments carried at amortised cost	**19,700,336**	**244,732**	**57,162**	**20,002,230**
- Other exposures subject to credit risk	**10,036,100**	**1,757,994**	**5,403**	**11,799,497**
	115,660,671	**15,975,176**	**1,047,959**	**132,683,806**
Opening balance - as at 1 January 2021				
- Due from banks	224	62	-	286
- Financing assets	66,810	342,620	548,505	957,935
- Debt type investments carried at amortised cost	16,571	2,683	57,162	76,416
- Other exposures subject to credit risk	22,168	8,452	-	30,620
	105,773	353,817	605,667	1,065,257
Foreign currency translation for the period				
- Due from banks	-	-	-	-
- Financing assets	129	122	35	286
- Debt type investments carried at amortised cost	2	-	-	2
- Other exposures subject to credit risk	-	-	-	-
	131	122	35	288
Net transfer between stages				
- Due from banks	-	-	-	-
- Financing assets	(3,939)	2,468	1,471	-
- Debt type investments carried at amortised cost	-	-	-	-
- Other exposures subject to credit risk	(2,612)	2,612	-	-
	(6,551)	5,080	1,471	-
Charge / (reversal) for the period (net)				
- Due from banks	84	1,435	-	1,519
- Financing assets	154,551	32,706	(3,748)	183,509
- Debt type investments carried at amortised cost	(281)	(1,003)	-	(1,284)
- Other exposures subject to credit risk	(3,994)	(6,882)	-	(10,876)
	150,360	26,256	(3,748)	172,868
Write offs				
- Due from banks	-	-	-	-
- Financing assets	-	-	(606)	(606)
- Debt type investments carried at amortised cost	-	-	-	-
- Other exposures subject to credit risk	-	-	-	-
	-	-	(606)	(606)
Closing balance - as at 30 June 2021				
- Due from banks	**308**	**1,497**	**-**	**1,805**
- Financing assets	**217,551**	**377,916**	**545,657**	**1,141,124**
- Debt type investments carried at amortised cost	**16,292**	**1,680**	**57,162**	**75,134**
- Other exposures subject to credit risk	**15,562**	**4,182**	**-**	**19,744**
	249,713	**385,275**	**602,819**	**1,237,807**

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3 EXPECTED CREDIT LOSSES ("ECL") (continued)

(a) Expected credit loss / Impairment allowances (continued)

	Stage 1	Stage 2	Stage 3	Total
Exposure (carrying value) subject to ECL as at 30 June 2020				
- Due from banks	4,396,067	1,060	-	4,397,127
- Financing assets	64,921,287	13,166,239	739,967	78,827,493
- Debt type investments carried at amortised cost	20,337,805	424,994	57,162	20,819,961
- Other exposures subject to credit risk	12,215,674	1,282,155	5,274	13,503,103
	101,870,833	14,874,448	802,403	117,547,684
Opening balance - as at 1 January 2020				
- Due from banks	173	-	-	173
- Financing assets	38,990	270,543	327,869	637,402
- Debt type investments carried at amortised cost	1,715	4,976	28,610	35,301
- Other exposures subject to credit risk	9,808	26,227	-	36,035
	50,686	301,746	356,479	708,911
Foreign currency translation for the period				
- Due from banks	-	-	-	-
- Financing assets	(433)	(370)	(134)	(937)
- Debt type investments carried at amortised cost	(7)	-	-	(7)
- Other exposures subject to credit risk	-	-	-	-
	(440)	(370)	(134)	(944)
Net transfer between stages				
- Due from banks	-	-	-	-
- Financing assets	(1,874)	(177)	2,051	-
- Debt type investments carried at amortised cost	1,629	(1,629)	-	-
- Other exposures subject to credit risk	(45)	45	-	-
	(290)	(1,761)	2,051	-
Charge / (reversal) for the period (net)				
- Due from banks	(4)	-	-	(4)
- Financing assets	50,124	29,714	7,208	87,046
- Debt type investments carried at amortised cost	1,407	2,633	-	4,040
- Other exposures subject to credit risk	8,754	(22,772)	-	(14,018)
	60,281	9,575	7,208	77,064
Write offs				
- Due from banks	-	-	-	-
- Financing assets	-	-	-	-
- Debt type investments carried at amortised cost	-	-	-	-
- Other exposures subject to credit risk	-	-	-	-
	-	-	-	-
Closing balance - as at 30 June 2020				
- Due from banks	169	-	-	169
- Financing assets	86,807	299,710	336,994	723,511
- Debt type investments carried at amortised cost	4,744	5,980	28,610	39,334
- Other exposures subject to credit risk	18,517	3,500	-	22,017
	110,237	309,190	365,604	785,031

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3 EXPECTED CREDIT LOSSES (“ECL”) (continued)

(b) 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	**Due from banks**	**Financing assets**	**Debt type investments carried at amortised cost**	**Other exposures subject to credit risk**
AAA to AA-	443,399	57,967,249	18,970,923	2,813,095
A+ to A-	6,959,826	6,506,983	191,326	4,273,604
BBB+ to BBB-	630	8,190,726	13,036	2,667,980
BB+ to B-	376	6,375,441	580,518	1,487,910
Unrated	1,134,307	13,303,142	246,427	556,908
Totals as at 30 June 2021	**8,538,538**	**92,343,541**	**20,002,230**	**11,799,497**

Rating grade	Due from banks	Financing assets	Debt type investments carried at amortised cost	Other exposures subject to credit risk
AAA to AA-	188	46,724,475	19,587,576	2,725,552
A+ to A-	4,373,030	8,514,984	120,172	4,650,435
BBB+ to BBB-	799	7,880,595	50,416	4,881,840
BB+ to B-	111	4,713,375	536,572	851,441
Unrated	22,999	10,994,064	525,225	393,835
Totals as at 30 June 2020	4,397,127	78,827,493	20,819,961	13,503,103

4 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2020.

(i) *Valuation of financial instruments*

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

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

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4 FINANCIAL RISK MANAGEMENT (continued)

(i) *Valuation of financial instruments (continued)*

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

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

(ii) *Financial asset and liability classification*

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

	Level 1	***Level 2***	***Level 3***	***Total***
30 June 2021 (Reviewed)				
Financial assets				
Shari’a-compliant risk management instruments	-	22,984	-	22,984
Investment securities	52,611	95,981	-	148,592
	52,611	**118,965**	**-**	**171,576**
Financial liabilities				
Shari’a-compliant risk management instruments	-	14,541	-	14,541
	-	**14,541**	**-**	**14,541**

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2020 (Audited)				
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 investment securities for which the fair value amounts to QAR 2,955 million (31 December 2020: QAR 3,216 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 6.

During the reporting periods 30 June 2021 and 31 December 2020, there were no transfers among Levels 1, 2 and 3 fair value measurements.

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 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 interim condensed consolidated financial statements continue to be prepared on the going concern basis.

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6 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

	Fair value through income statement	*Fair value through equity*	*Amortised cost*	*Total carrying amount*	*Fair value*
30 June 2021 (Reviewed)					
Cash and balances with central banks	-	-	4,364,548	4,364,548	4,364,548
Due from banks	-	-	8,536,733	8,536,733	8,536,733
Financing assets	-	-	91,202,417	91,202,417	91,202,417
Investment securities:					
- Measured at fair value	-	148,592	-	148,592	148,592
- Measured at amortised cost	-	-	19,927,096	19,927,096	20,058,808
Other assets	-	-	8,163	8,163	8,163
Shari’a-compliant risk management instruments	22,984	-	-	22,984	22,984
	22,984	**148,592**	**124,038,957**	**124,210,533**	**124,342,245**
Due to banks	-	-	25,063,657	25,063,657	25,063,657
Customer current accounts	-	-	8,369,651	8,369,651	8,369,651
Sukuk financing			5,350,146	5,350,146	5,350,146
Other borrowings			1,925,328	1,925,328	1,925,328
Other liabilities	-	-	1,649,096	1,649,096	1,649,096
Equity of investment account holders	-	-	67,557,120	67,557,120	67,557,120
Shari’a-compliant risk management instruments	14,541	-	-	14,541	14,541
	14,541	**-**	**109,914,998**	**109,929,539**	**109,929,539**

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6 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	Fair value through income statement	*Fair value through equity*	*Amortised cost*	*Total carrying amount*	*Fair value*
30 June 2020 (Reviewed)					
Cash and balances with central banks	-	-	4,789,202	4,789,202	4,789,202
Due from banks	-	-	4,396,958	4,396,958	4,396,958
Financing assets	-	-	78,103,982	78,103,982	78,103,982
Investment securities:					
- Measured at fair value	1,829	148,623	-	150,452	150,452
- Measured at amortised cost	-	-	20,780,627	20,780,627	20,845,102
Other assets	-	-	3,507	3,507	3,507
Shari’a-compliant risk management instruments	42,181	-	-	42,181	42,181
	44,010	148,623	108,074,276	108,266,909	108,331,384
Due to banks	-	-	20,941,525	20,941,525	20,941,525
Customer current accounts	-	-	8,389,207	8,389,207	8,389,207
Sukuk financing			3,263,580	3,263,580	3,263,580
Other borrowings			1,818,151	1,818,151	1,818,151
Other liabilities	-	-	1,551,800	1,551,800	1,551,800
Equity of investment account holders	-	-	59,028,256	59,028,256	59,028,256
Shari’a-compliant risk management instruments	35,889	-	-	35,889	35,889
	35,889	-	94,992,519	95,028,408	95,028,408

7 OPERATING SEGMENTS

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

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

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

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

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7 OPERATING SEGMENTS (continued)

Information about operating segments

30 June 2021 (Reviewed)	***Corporate Banking***	***Retail Banking***	***Asset Management***	***International operations***	***Unallocated***	***Total***
External revenue:						
Total income from financing and investing activities	1,462,510	648,704	12,763	164,541	-	**2,288,518**
Net fee and commission income	143,590	-	15,660	(19)	-	**159,231**
Foreign exchange gain / (loss)	81,348	-	-	(389)	-	**80,959**
Share of results of associates	9,670	-	-	-	-	**9,670**
Other income	-	-	-	-	2,007	**2,007**
Total segment revenue	**1,697,118**	**648,704**	**28,423**	**164,133**	**2,007**	**2,540,385**
Finance expense	(265,374)	-	(689)	(8,938)	-	**(275,001)**
Return to investment account holders	(197,731)	(148,263)	-	(53,224)	-	**(399,218)**
Net impairment losses on financing assets	(163,654)	(17,009)	-	(1,433)	-	**(182,096)**
Net (impairment losses) / reversals on investments	(189,035)	-	319	-	-	**(188,716)**
Net reversals / (impairment losses) on due from banks and other exposures subject to credit risk	9,481	-	(124)	-	-	**9,357**
Reportable segment profit before tax	**881,135**	**483,432**	**18,009**	**20,025**	**(253,849)**	**1,148,752**
Reportable segment assets	**88,384,540**	**22,704,967**	**807,666**	**11,831,102**	**1,330,684**	**125,058,959**
Reportable segment liabilities	**36,227,097**	**2,671,116**	**224,965**	**2,142,123**	**1,751,619**	**43,016,920**
Reportable segment equity of investment account holders	**42,272,123**	**16,357,811**	**-**	**8,927,186**	**-**	**67,557,120**

Masraf Al Rayan (Q.P.S.C.) QAR ’000s

7 OPERATING SEGMENTS (continued)

Information about operating segments (continued)

30 June 2020 (Reviewed)	*Corporate Banking*	*Retail Banking*	*Asset Management*	*International operations*	*Unallocated*	*Total*
External revenue:						
Total income from financing and investing activities	1,450,038	687,516	13,556	163,696	-	2,314,806
Net fee and commission income	112,027	-	13,891	357	-	126,275
Foreign exchange gain / (loss)	104,106	-	-	(1,684)	-	102,422
Share of results of associates	12,348	-	-	-	-	12,348
Other income	-	-	169	-	3,158	3,327
Total segment revenue	1,678,519	687,516	27,616	162,369	3,158	2,559,178
Finance expense	(361,389)	-	(1,361)	(10,985)	-	(373,735)
Return to investment account holders	(426,275)	(199,537)	-	(62,345)	-	(688,157)
Net impairment losses on financing assets	(64,985)	(2,301)	-	(8,292)	-	(75,578)
Net impairment losses on investments	(10,273)	-	(873)	(7)	-	(11,153)
Net reversals / (impairment losses) on due from banks and other exposures subject to credit risk	18,556	(4,536)	(11)	13	-	14,022
Reportable segment profit before tax	821,805	481,142	16,462	5,652	(240,005)	1,085,056
Reportable segment assets	72,633,051	24,662,142	679,354	9,876,046	1,488,195	109,338,788
Reportable segment liabilities	29,611,726	2,870,506	128,899	2,440,544	1,764,442	36,816,117
Reportable segment equity of investment account holders	36,363,113	15,874,118	-	6,791,025	-	59,028,256

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8 FINANCING ASSETS

(a) By type

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Receivables and balances from financing activities:			
Murabaha	**71,623,901**	62,567,084	56,420,007
Ijarah	**17,112,898**	20,438,039	19,887,501
Istisna’a	**1,003,511**	938,073	899,560
Musharaka	**6,513,936**	6,079,771	5,544,240
Others	**648,198**	758,729	703,970
Accrued profit receivable	**347,740**	410,007	322,510
Total financing assets	**97,250,184**	91,191,703	83,777,788
Deferred profit	**(4,906,643)**	(4,250,331)	(4,950,295)
Allowance for impairment - Performing (Stages 1 and 2)*	**(595,467)**	(409,430)	(386,517)
Allowance for impairment - Non-performing (Stage 3)*	**(504,774)**	(509,035)	(307,911)
Profit in suspense*	**(40,883)**	(39,470)	(29,083)
Net financing assets	**91,202,417**	85,983,437	78,103,982

*For stage-wise exposure and allowance for impairment, refer to Note 3(a).

The total non-performing financing assets net of deferred profit at 30 June 2021 amounted to QAR 985,394 thousand representing 1.07% of the gross financing assets net of deferred profit (31 December 2020: QAR 979,654 thousand representing 1.13% of the gross financing assets net of deferred profit; 30 June 2020: QAR 739,967 thousand representing 0.94% of the gross financing assets net of deferred profit).

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

	Allowance for impairment	***Profit in suspense***	***30 June 2021 (Reviewed)***
Balance as at 1 January	918,465	39,470	957,935
Charge for the period	217,352	7,740	225,092
Recoveries / reversals during the period	(35,256)	(6,327)	(41,583)
Write-off during the period	(606)	-	(606)
Effect of foreign currency movement	286	-	286
Balance as at 30 June	**1,100,241**	**40,883**	**1,141,124**

	Allowance for impairment	*Profit in suspense*	*31 December 2020 (Audited)*
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 as at 31 December	918,465	39,470	957,935

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8 FINANCING ASSETS (continued)

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

	Allowance for impairment	*Profit in suspense*	*30 June 2020 (Reviewed)*
Balance as at 1 January	619,787	17,615	637,402
Charge for the period	141,382	12,491	153,873
Recoveries / reversals during the period	(65,804)	(1,023)	(66,827)
Effect of foreign currency movement	(937)	-	(937)
Balance as at 30 June	694,428	29,083	723,511

9 INVESTMENT SECURITIES

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Investments classified as fair value through income statement			
Investments classified as held for trading (Quoted)			
Debt type investments - Fixed profit rate	**-**	2,018	1,818
Accrued profit receivable	**-**	11	11
	-	2,029	1,829
Debt-type investments classified as amortised cost			
Fixed profit rate - Quoted	**1,632,502**	1,901,530	1,517,065
Government of Qatar Sukuk - Quoted	**1,236,108**	1,214,119	1,303,664
Government of Qatar Sukuk - Unquoted	**16,900,000**	17,150,000	17,750,000
Accrued profit receivable	**233,620**	243,602	249,232
Less: Allowance for impairment*	**(75,134)**	(76,416)	(39,334)
	19,927,096	20,432,835	20,780,627
Investments classified as fair value through equity			
• Equity type investments			
- Quoted	**32,271**	32,207	27,403
- Unquoted	**95,981**	99,198	102,585
• Debt type investments - Fixed profit rate - Quoted	**20,233**	19,458	18,528
Accrued profit receivable	**107**	107	107
	148,592	150,970	148,623
	20,075,688	20,585,834	20,931,079

*For stage-wise exposure and allowance for impairment, refer to Note 3(a).

The Group has recognized impairment loss for certain equity-type investments classified as fair value through equity during the period amounting to Nil (30 June 2020: QAR 7,113 thousand), due to significant and prolonged reduction in fair values.

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9 INVESTMENT SECURITIES (continued)

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

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Positive fair value reserve:			
Balance at 1 January	**25,239**	24,634	24,634
Net change in fair value	**10,160**	2,687	(736)
Transferred to retained earnings on sale of FVTE investments	**(5,483)**	(4,885)	-
Transferred to consolidated income statement on sale of investment securities	-	-	(217)
Share of other comprehensive income of associates	**1,813**	2,803	2,803
Net fair value movement	**6,490**	605	1,850
Balance at 30 June / 31 December	**31,729**	25,239	26,484
Negative fair value reserve:			
Balance at 1 January	**(35)**	(1,030)	(1,030)
Net change in fair value	-	(6,118)	(21,401)
Transferred to consolidated income statement on impairment of investment securities	-	7,113	7,113
Net fair value movement	-	995	(14,288)
Balance at 30 June / 31 December	**(35)**	(35)	(15,318)
Total fair value reserve at 30 June / 31 December	**31,694**	25,204	11,166

10 DUE TO BANKS

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Wakala payable	**18,968,715**	21,467,248	16,560,572
Short-term murabaha facilities from banks	**2,245,948**	2,450,837	553,116
Commodity murabaha payable	**1,935,269**	1,942,153	1,830,716
Repurchase agreements	**1,792,699**	1,965,320	1,766,501
Current and short-term investment accounts	**92,533**	105,290	140,807
Profit payable to banks	**28,493**	48,649	89,813
	25,063,657	27,979,497	20,941,525

The market value of securities given as collateral against the repurchase agreements are QAR 2,108 million (31 December 2020: QAR 2,461 million; 30 June 2020: QAR 2,158 million).

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11 SUKUK FINANCING

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

Instrument	Issuer	Issued amount	Issued on	Maturity	Profit rate
Sukuk	MAR Sukuk Limited	USD 100 million	20 November 2018	20 November 2023	3-month USD LIBOR + 1.75% p.a. payable quarterly
Sukuk	MAR Sukuk Limited	USD 90 million	21 November 2018	21 November 2023	3-month USD LIBOR + 1.75% payable quarterly
Sukuk	MAR Sukuk Limited	USD 500 million	13 November 2019	13 November 2024	Fixed rate of 3.025% payable semi-annually
Sukuk	MAR Sukuk Limited	USD 40 million	12 March 2020	12 March 2023	3-month USD LIBOR + 1.05% payable quarterly
Sukuk	MAR Sukuk Limited	USD 750 million	2 September 2020	2 September 2025	Fixed rate of 2.210% payable semi-annually
Sukuk	Tolkien Funding Sukuk No.1 Plc[1]	GBP 221 million	20 February 2018	20 July 2052	3-month Sterling LIBOR + 0.8% payable quarterly

[1] On 26 March 2021, Al Rayan Bank PLC, a subsidiary of Al Rayan (UK) Limited exercised its options 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.

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Face value of sukuks	**5,329,717**	6,003,820	3,258,661
Less: Unamortised transaction costs	**(8,406)**	(9,491)	(4,207)
Profit payable	**28,835**	28,851	9,126
	5,350,146	6,023,180	3,263,580

The movement in sukuk financing issued by the Group during the period / year is as follows:

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Balance at 1 January	**6,023,180**	3,333,998	3,333,998
Net issuances during the period / year	**-**	2,862,380	138,762
Repayments during the period / year	**(712,574)**	(237,880)	(161,613)
Amortisation of transaction costs	**1,085**	1,352	482
Effect of foreign currency movement	**9,620**	34,479	(57,175)
Profit payable on sukuk financing	**28,835**	28,851	9,126
Balance at 30 June / 31 December	**5,350,146**	6,023,180	3,263,580

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12 OTHER BORROWINGS

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

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Balance at 1 January	**1,270,775**	2,002,003	2,002,003
Issuances during the period / year	**652,074**	1,267,161	-
Repayments during the period / year	**(2,921)**	(8,965)	(8,965)
Amortisation of transaction cost	**2,240**	5,644	2,500
Reclassified as Due to banks	**-**	(1,997,989)	(182,025)
Profit payable on borrowings	**3,160**	2,921	4,638
Balance at 30 June / 31 December	**1,925,328**	1,270,775	1,818,151

13 EQUITY OF INVESTMENT ACCOUNT HOLDERS

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Term accounts	**54,918,742**	45,781,149	45,739,491
Saving accounts	**7,633,739**	8,414,414	7,404,396
Short-term investment accounts	**4,726,669**	5,926,572	5,506,893
Profit payable to equity of investment account holders	**276,536**	302,626	376,967
Share in the fair value reserves	**1,434**	1,141	509
	67,557,120	60,425,902	59,028,256

14 EQUITY

(a) Share capital

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Authorised			
7,500,000,000 shares at QAR 1 each	**7,500,000**	7,500,000	7,500,000

(b) Legal reserve

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Balance at 1 January	**2,714,166**	2,496,623	2,496,623
Transfer from retained earnings	**-**	217,543	-
Balance at 30 June / 31 December	**2,714,166**	2,714,166	2,496,623

According to QCB Law No. 13 of 2012, 10% of the profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of paid up capital. No transfer has been made for the period ended 30 June 2021, as Masraf will transfer the required amount by 31 December 2021.

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14 EQUITY (continued)

(c) Risk reserve

In accordance with QCB circular 102/2011, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 2.5% of the total private sector exposure granted by Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees are excluded from the gross direct financing, which should be appropriated from shareholders’ profit according to QCB instructions. No transfer has been made for the period ended 30 June 2021 as Masraf will transfer the required amount by 31 December 2021.

(d) Fair value reserve

This reserve comprises changes in fair value of investments designated as fair value through equity.

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Balance at 1 January	**25,204**	23,604	23,604
Net unrealised gains / (losses)	**11,594**	(2,290)	(21,628)
Transferred to retained earnings on sale of FVTE investments	**(5,483)**	(4,885)	-
Transferred to consolidated income statement on sale of investment securities	-	-	(217)
Transferred to consolidated income statement on impairment of investment securities	**-**	7,113	7,113
Share of other comprehensive income of associates	**1,813**	2,803	2,803
Share of equity of investment account holders in the fair value reserve	**(1,434)**	(1,141)	(509)
Net fair value movement	**6,490**	1,600	(12,438)
Balance at 30 June / 31 December (shareholders’ share)	**31,694**	25,204	11,166

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

(e) Foreign currency translation reserve

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

(f) Other reserves

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Balance at 1 January	**126,222**	123,405	123,405
Share of results of associates	**-**	17,888	-
Dividend from associates transferred to retained earnings	**-**	(4,000)	-
Other movement	**-**	(11,071)	-
Balance at 30 June / 31 December	**126,222**	126,222	123,405

No transfer has been made for the period ended 30 June 2021 as Masraf will transfer the share of results of associates to other reserves by 31 December 2021.

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14 EQUITY (continued)

(g) Dividend

On 1 March 2021, the General Assembly approved a cash dividend of 17.0% of the paid up share capital (2020: 22.5%) amounting to QAR 1,275 million (2020: QAR 1,687.5 million).

15 NON-CONTROLLING INTEREST

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

16 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 lease agreements are as follows:

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Payable not later than 1 year*	**-**	18,829	19,085
Payable later than 1 year and not later than 5 years*	**-**	24,358	31,655
	-	43,187	50,740

*The Group has applied FAS 32 “Ijarah” from 1 January 2021. The impact on adoption of FAS 32 is disclosed in Note 2(d).

(b) Contingent liabilities

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Unutilised credit facilities	**1,034,428**	601,212	731,467
Guarantees	**9,777,032**	12,376,417	11,783,178
Letters of credit	**988,037**	988,168	988,458
	11,799,497	13,965,797	13,503,103

(c) Other undertakings and commitments

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Profit rate swap	**1,352,852**	1,302,839	731,328
Unilateral promise to buy/sell currencies	**15,642,900**	11,749,333	19,611,795
	16,995,752	13,052,172	20,343,123
Capital commitment - Head Office building under construction	**294,093**	333,170	353,922

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17 BASIC AND DILUTED EARNINGS PER SHARE

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

	For the Six-Month Period Ended 30 June	
	2021 (Reviewed)	*2020 (Reviewed)*
Profit for the period attributable to equity holders of the Bank	**1,143,318**	1,083,521
Weighted average number of shares outstanding during the period (thousand)	**7,500,000**	7,500,000
Basic earnings per share (QAR)	**0.152**	0.144

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

18 CASH AND CASH EQUIVALENTS

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

	30 June 2021 (Reviewed)	*30 June 2020 (Reviewed)*
Cash on hand and balances with QCB excluding cash reserve	**1,444,223**	2,101,845
Due from banks	**8,295,224**	4,396,958
Allowance for impairment	**405**	169
	9,739,852	6,498,972

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19 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

	30 June 2021 (Reviewed)			31 December 2020 (Audited)			30 June 2020 (Reviewed)		
	Associate companies	**Board of Directors**	**Shareholders**	Associate companies	Board of Directors	Shareholders	Associate companies	Board of Directors	Shareholders
Consolidated statement of financial position items:									
Financing assets	**-**	**4,927**	**-**	-	5,046	-	-	5,686	-
Customer current accounts	**40,165**	**13,366**	**-**	83,994	10,224	-	78,634	10,476	-
Equity of investment account holders	**17,683**	**55,214**	**3,184,897**	16,716	64,615	3,181,426	14,805	49,203	3,185,416
Contingent liabilities:									
Guarantees	**95,191**	**-**	**-**	67,526	-	-	36,607	-	-

	For the Six-Month Period Ended 30 June					
	2021 (Reviewed)			2020 (Reviewed)		
	Associate companies	**Board of Directors**	**Shareholders**	Associate companies	Board of Directors	Shareholders
Consolidated income statement items:						
Income from financing activities	**-**	**42**	**-**	-	48	-
Return on equity of investment account holders	**106**	**562**	**17,698**	60	752	27,922
Operating expenses	**5,335**	**-**	**-**	3,483	-	-

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.

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19 RELATED PARTIES (continued)

(b) Transactions with key management personnel

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

	For the Six-Month Period Ended 30 June	
	2021 (Reviewed)	*2020 (Reviewed)*
Remuneration to Board of Directors including meeting allowances:		
- Parent	**8,150**	7,737
- Subsidiaries	**1,844**	1,357
	9,994	9,094
Salaries and other benefits - Key management	**6,964**	6,559

20 CAPITAL ADEQUACY RATIO

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.

Pursuant to Qatar Central Bank circular 24/2019, there is no material change to the Group's current ICAAP capital charge based on revised Profit Rate Risk on Banking Book (PRRBB) rules, which are effective from 30 June 2020.

	30 June 2021 (Reviewed)	*31 December 2020 (Audited)*	*30 June 2020 (Reviewed)*
Common Equity Tier 1 (CET 1) capital	**13,325,941**	13,299,338	12,390,795
Additional Tier 1 capital	**-**	-	-
Tier 2 capital	**634,986**	459,589	419,427
Total regulatory capital	**13,960,927**	13,758,927	12,810,222
Risk weighted assets			
Risk weighted assets for credit risk	**62,683,210**	61,625,989	59,224,098
Risk weighted assets for market risk	**566,137**	567,201	552,187
Risk weighted assets for operational risk	**5,552,963**	5,552,963	5,241,574
Total risk weighted assets	**68,802,310**	67,746,153	65,017,859

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20 CAPITAL ADEQUACY RATIO (continued)

	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
30 June 2021						
Actual	**19.37%**	**19.37%**	**19.37%**	**20.29%**	**20.29%**	**20.29%**
Minimum QCB limit	**6.00%**	**8.50%**	**10.50%**	**12.50%**	**13.50%**	**15.11%**
31 December 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%
30 June 2020						
Actual	19.06%	19.06%	19.06%	19.70%	19.70%	19.70%
Minimum QCB limit	6.00%	8.50%	10.50%	12.50%	13.50%	14.80%

[1] *Domestic Systemically Important Bank*

21 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 period ended 30 June 2021:

i. Expected credit losses

The uncertainties caused by COVID-19, and the volatility in oil prices have required the Group to update the inputs and assumptions used for the determination of ECLs as at 30 June 2021. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factor (here 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. Interdependency exists between the CI and macro-economic factors as applicable, which for Qatar includes: i) yearly weighted average oil price of USD 53/barrel, ii) weighted average real GDP growth of 2.5% for financial year 2021 (31 December 2020: Oil price of $45/barrel and GDP of -2%) and c) Loan Growth rate (LGR) and LNG prices for wholesale banking portfolio based on the results of correlation analysis. The macro variable factors were selected after considering inter-correlation of the macro-variable direction and degree of association, relationship with asset quality of Qatar as well as market benchmarking.

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21 IMPACT OF COVID-19 (continued)

i. Expected credit losses (continued)

The aforementioned values of macro-economic factors have been derived by applying weightings of 65%, 10.4% and 24.6% for base, stressed and improved scenarios, respectively, for the wholesale banking portfolio (31 December 2020: 65%, 20% and 15% for base, stressed and improved scenarios). The situation is fast evolving and, accordingly, any downside scenarios will be reassessed if adverse conditions continue.

The Group has updated the methodologies for all segments of wholesale and retail banking by calibrating the PD curve to the internal default history.

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	***30 June 2021 Impact on ECL***	*31 December 2020 Impact on ECL*
Simulations:		
Base case - 100% weighted, loss allowance would be higher/(lower) by	**(55,279)**	(64,584)
Upside case - 100% weighted, loss allowance would be higher/(lower) by	**(199,528)**	(188,784)
Downside case - 100% weighted, loss allowance would be higher/(lower) by	**310,131**	252,445

In addition to the assumptions outlined above, the Group has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in Note 3 to the interim condensed consolidated financial statements.

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 not utilized the zero-rate repos during the three-month period ended 30 June 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 interim condensed consolidated financial statements.