

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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

31 MARCH 2018

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2018

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RN: 000661/WS/FY2018

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 31 March 2018, and the related interim consolidated statements of income, interim statement of changes in equity and interim statement of cash flows for the three 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”), the applicable provisions of Qatar Central Bank regulations, the basis of accounting mentioned in note (2a) of the accompanying interim condensed consolidated financial statements and the Bank’s undertaking to operate in accordance with Islamic Shari’a rules and principles. 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.

Other Matter

The consolidated financial statements and interim condensed consolidated financial statements of the Group for the year ended 31 December 2017 and for the three month period ended 31 March 2017, respectively, were audited / reviewed by another auditor who expressed an unmodified audit / review opinion on those statements on 16 January 2018 and 24 April 2017, respectively.

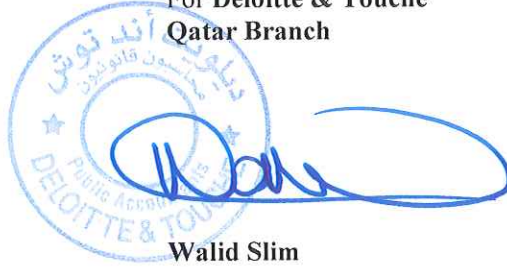
INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)

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 note 2 of the accompanying interim condensed consolidated financial statements and applicable provisions of Qatar Central Bank regulations.

**Doha – Qatar
April 16, 2018**

**For Deloitte & Touche
Qatar Branch**

A blue circular stamp of Deloitte & Touche Qatar Branch is positioned over a blue ink signature. The stamp contains the text "Deloitte & Touche" in Arabic and English, along with "Public Accountants" and "Qatar Branch". The signature is written in a cursive style over the stamp.


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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	31 March 2018 (Reviewed)	31 December 2017 (Audited)	31 March 2017 (Reviewed)
ASSETS				
Cash and balances with Qatar Central Bank		3,067,019	2,799,819	3,192,101
Due from banks		2,071,368	3,311,900	7,507,003
Financing assets	8	72,307,599	72,097,080	67,511,249
Investment securities	9	24,568,080	23,423,469	15,032,839
Investment in associates		524,653	520,287	526,385
Fixed assets		170,173	159,951	149,809
Other assets		783,130	636,466	458,693
TOTAL ASSETS		103,492,022	102,948,972	94,378,079
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY				
LIABILITIES				
Due to banks	10	26,645,000	25,123,319	16,464,041
Customer current accounts		7,563,015	6,620,840	7,384,672
Other liabilities		2,233,040	1,904,529	2,953,878
TOTAL LIABILITIES		36,441,055	33,648,688	26,802,591
EQUITY OF INVESTMENT ACCOUNT HOLDERS	11	55,110,520	55,910,346	55,689,179
EQUITY				
Share capital	12	7,500,000	7,500,000	7,500,000
Legal reserve	12	2,065,741	2,065,741	1,862,926
Risk reserve	12	1,507,567	1,507,567	1,345,733
Fair value reserves	12	5,543	3,074	(1,738)
Foreign currency translation reserve	12	(3,645)	(7,519)	(14,040)
Other reserves	12	113,001	113,001	107,146
Retained earnings		544,131	2,009,007	912,322
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		11,732,338	13,190,871	11,712,349
Non-controlling interest	13	208,109	199,067	173,960
TOTAL EQUITY		11,940,447	13,389,938	11,886,309
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY		103,492,022	102,948,972	94,378,079

These interim condensed consolidated financial statements were approved by the Board of Directors on 16 April 2018 and were signed on its behalf by:


.....
Dr. Hussain Ali Al Abdulla
Chairman and Managing Director


.....
Adel Mustafawi
Group Chief Executive Officer

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED INCOME STATEMENT

For the Three-Month Period Ended 31 March 2018

	Notes	For the Three-Month Period Ended 31 March	
		2018 (Reviewed)	2017 (Reviewed)
Net income from financing activities		885,415	740,283
Net income from investing activities		220,122	156,477
Total net income from financing and investing activities		1,105,537	896,760
Fee and commission income		67,869	68,410
Fee and commission expense		(1,102)	(609)
Net fee and commission income		66,767	67,801
Foreign exchange gain		51,943	24,800
Share of results of associates		8,760	20,861
Other income		962	3,446
TOTAL INCOME		1,233,969	1,013,668
Staff costs		(90,453)	(82,437)
Depreciation		(3,829)	(5,021)
Other expenses		(66,964)	(53,759)
Finance expense		(207,487)	(85,830)
TOTAL EXPENSES		(368,733)	(227,047)
Net reversal of impairment losses on due from banks		249	-
Net (impairment losses) / recoveries and reversals on financing assets	8	(10,601)	564
Net impairment losses on investment securities	9	(8,794)	-
Net reversal of impairment losses on off balance sheet exposures subject to credit risk		2,660	-
PROFIT FOR THE PERIOD BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		848,750	787,185
Less: Return to investment account holders		(312,711)	(273,746)
PROFIT BEFORE TAX FOR THE PERIOD		536,039	513,439
Tax expense		(1,763)	(325)
NET PROFIT FOR THE PERIOD		534,276	513,114
Net profit for the period attributable to:			
Equity holders of the Bank		531,065	510,252
Non-controlling interests		3,211	2,862
		534,276	513,114
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	15	0.708	0.680

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Three-Month Period Ended 31 March 2018

	Share capital	Legal reserve	Risk reserve	Fair value reserves	Foreign currency translation reserve	Other reserves	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
Balance at 31 December 2017	7,500,000	2,065,741	1,507,567	3,074	(7,519)	113,001	2,009,007	13,190,871	199,067	13,389,938
Adoption of ECL regulations (Note 3)	-	-	-	-	-	-	(495,941)	(495,941)	(2,185)	(498,126)
Balance at 1 January 2018 (Audited)	<u>7,500,000</u>	<u>2,065,741</u>	<u>1,507,567</u>	<u>3,074</u>	<u>(7,519)</u>	<u>113,001</u>	<u>1,513,066</u>	<u>12,694,930</u>	<u>196,882</u>	<u>12,891,812</u>
Change in foreign currency translation reserve	-	-	-	-	(62,045)	-	-	(62,045)	-	(62,045)
Net gain on hedging of net investment in a foreign subsidiary	-	-	-	-	65,919	-	-	65,919	-	65,919
Fair value reserve movement (Note 9)	-	-	-	2,469	-	-	-	2,469	-	2,469
Profit for the period	-	-	-	-	-	-	531,065	531,065	3,211	534,276
Dividend paid (Note 12g)	-	-	-	-	-	-	(1,500,000)	(1,500,000)	-	(1,500,000)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	8,016	8,016
Balance at 31 March 2018 (Reviewed)	<u>7,500,000</u>	<u>2,065,741</u>	<u>1,507,567</u>	<u>5,543</u>	<u>(3,645)</u>	<u>113,001</u>	<u>544,131</u>	<u>11,732,338</u>	<u>208,109</u>	<u>11,940,447</u>
Balance at 1 January 2017 (Audited)	7,500,000	1,862,926	1,345,733	1,983	(14,942)	107,146	1,902,070	12,704,916	168,597	12,873,513
Change in foreign currency translation reserve	-	-	-	-	(106,387)	-	-	(106,387)	-	(106,387)
Net gain on hedging of net investment in a foreign subsidiary	-	-	-	-	107,289	-	-	107,289	-	107,289
Fair value reserve movement (Note 9)	-	-	-	(3,721)	-	-	-	(3,721)	-	(3,721)
Profit for the period	-	-	-	-	-	-	510,252	510,252	2,862	513,114
Dividend paid (Note 12g)	-	-	-	-	-	-	(1,500,000)	(1,500,000)	-	(1,500,000)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	2,501	2,501
Balance at 31 March 2017 (Reviewed)	<u>7,500,000</u>	<u>1,862,926</u>	<u>1,345,733</u>	<u>(1,738)</u>	<u>(14,040)</u>	<u>107,146</u>	<u>912,322</u>	<u>11,712,349</u>	<u>173,960</u>	<u>11,886,309</u>

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three-Month Period Ended 31 March 2018

	Notes	For the Three-Month Period Ended 31 March	
		2018 (Reviewed)	2017 (Reviewed)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the period		536,039	513,439
Adjustments for:			
Net impairment losses / (recoveries and reversals) on financing assets		10,601	(564)
Net impairment losses on investment securities		8,794	-
Net reversal of impairment losses on other financial assets		(2,909)	-
Fair value loss / (gain) on investment securities carried as fair value through income statement		33	(89)
Unrealized gain on revaluation of Shari'a compliant risk management instruments		(51,013)	(1,797)
Depreciation		3,829	5,021
Net gain on sale of investment securities		(14,967)	(2,421)
Dividend income		(4,718)	(6,219)
Share of results of associates		(8,760)	(20,861)
Amortisation of premium and discount on investment securities		(1,034)	(389)
Employees' end of service benefit provisions		1,403	1,426
Profit before changes in operating assets and liabilities		477,298	487,546
Change in reserve account with Qatar Central Bank		(45,521)	(280,509)
Change in due from banks		305,000	(364,050)
Change in financing assets		(662,146)	122,524
Change in other assets		(83,128)	(50,857)
Change in due to banks		1,521,681	(2,595,664)
Change in customer current accounts		942,175	(3,148,955)
Change in other liabilities		23,971	(107,653)
		2,479,330	(5,937,618)
Dividend received		4,718	6,219
Employees' end of service benefits paid		-	(263)
Net cash from / (used in) operating activities		2,484,048	(5,931,662)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities		(1,458,333)	(4,165,599)
Proceed from sale / redemption of investment securities		351,316	3,153,835
Acquisition of fixed assets		(12,843)	(6,249)
Proceeds from sale of fixed assets		-	39
Dividend received from associates		4,000	4,000
Net cash used in investing activities		(1,115,860)	(1,013,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in equity of investment account holders		(799,927)	8,199,029
Dividends paid		(1,261,334)	(10,602)
Net movement in non-controlling interest		8,016	2,501
Net cash (used in) / from financing activities		(2,053,245)	8,190,928
Net (decrease) / increase in cash and cash equivalents		(685,057)	1,245,292
Cash and cash equivalents at 1 January		3,124,051	6,451,850
NON-CASH ITEMS			
Expected credit losses for due from banks		(555)	-
Effects of exchange rate changes on cash and cash equivalents held		(28,241)	(9,071)
Cash and cash equivalents at 31 March	16	2,410,198	7,688,071

The attached notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018

1 REPORTING ENTITY

Masraf Al Rayan (Q.P.S.C.) (“Masraf” or “the Bank”) is an entity domiciled in the State of Qatar and was incorporated on 4 January 2006 as a Qatari Public Shareholding Company under Qatar Commercial Companies’ Law No. 5 of 2002, as amended by Qatar Commercial Companies’ Law No. 11 of 2015, under decision No. 11 of 2006. The commercial registration number of the Bank is 32010. The address of the Bank’s registered office is at P.O. Box 28888, Grand Hamad Steet, Doha, Qatar. The interim condensed consolidated financial statements of the Bank for the three-month period ended 31 March 2018 comprise the Bank and its subsidiaries (together referred to as “the Group” and individually as “Group entities”). The Group is primarily involved in Islamic banking, financing, investing and brokerage activities, and has 18 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan.

The principal subsidiaries of the Group are as follows:

<i>Entity's name</i>	<i>Country of incorporation</i>	<i>Entity's capital</i>	<i>Entity's activities</i>	<i>Effective percentage of ownership</i>	
				<i>31 March 2018</i>	<i>31 December 2017</i>
Al Rayan Investment L.L.C.	Qatar	USD 100,000,000	Investment banking	100.0%	100.0%
Al Rayan Financial Brokerage ¹	Qatar	QAR 50,000,000	Financial brokerage	100.0%	100.0%
Al Rayan (UK) Limited ²	UK	GBP 100,000,000	Investment activities	70.0%	70.0%
Al Rayan Partners	Qatar	QAR 10,000,000	Real estate consulting	100.0%	100.0%
Lusail Waterfront Investment Co.	Cayman Islands	USD 50,000	Investment activities	100.0%	100.0%

¹ The operations has ceased from 12 January 2017 after Qatar Financial Markets Authority (“QFMA”) approved to freeze its license for two years.

² Al Rayan (UK) Limited owns 98.34% of its subsidiary, Al Rayan Bank PLC (formerly known as Islamic Bank of Britain PLC). Effectively, the Bank owns 68.84% of Al Rayan Bank PLC.

The Bank and two other local unlisted banks, namely Barwa Bank Q.S.C. and International Bank of Qatar Q.S.C., announced on 19 December 2016 that they have entered into initial negotiations regarding a potential merger of the three banks. The potential merger is subject to the approval of the Qatar Central Bank (“QCB”), the QFMA, the Ministry of Economy and Commerce and other relevant official bodies in the State of Qatar, and the approval of the shareholders in each of the three banks after completion of a detailed legal and financial due diligence. If the merger is approved, the new merged entity will maintain all its dealings in compliance with Shari’a principles.

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

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”) and the applicable provisions of Qatar Central Bank (“QCB”) regulations. 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’.

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 2017 except for the changes in the policies as disclosed in Note 3. In addition, results for the three-month period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018**2 BASIS OF PREPARATION (continued)****(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 issued but not yet effective*FAS 30 Impairment, Credit losses and onerous commitments*

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

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

Expected credit losses (‘ECL’)

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

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

The standard is effective from financial periods beginning on or after 1 January 2020 with early adoption permitted. However, the Group is currently awaiting guidance from QCB in this regard.

QCB has issued ECL regulations (“ECL regulations”) via its circular 9 of 2017 for all banks operating in Qatar.

As required by the QCB, the Group has adopted the ECL regulations as mentioned in note 2, which is similar to FAS 30 with effect from 1 January 2018 and as permitted by those ECL regulations, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interest of the current period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018

3 ADOPTION OF ECL REGULATIONS

The adoption of the ECL regulations has resulted in changes in the accounting policies for impairment of financial assets. Set out below are the ECL regulations transition impact disclosures for the Group. Further details of the specific changes to accounting policies applied in the current period are described in more detail in Note 3(c).

(a) Impact of adopting the ECL regulations

The impact from the adoption of the ECL regulations as at 1 January 2018 has been to decrease retained earnings by QAR 496 million and non-controlling interest by QAR 2 million.

	<i>Retained earnings</i>	<i>Non- controlling interest</i>
Closing balance as at 31 December 2017	2,009,007	199,067
<i>Impact on recognition of Expected Credit Losses</i>		
Due from banks	800	4
Financing assets	428,979	2,163
Debt type securities at amortized cost	3,056	18
Off balance sheet exposures subject to credit risk	63,106	-
	<u>495,941</u>	<u>2,185</u>
Opening balance under ECL regulations on date of initial application of 1 January 2018	<u>1,513,066</u>	<u>196,882</u>

Financial Liabilities

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

(b) Expected credit loss / Impairment allowances

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

	31 December 2017	Re- measurement	1 January 2018
Due from banks	-	804	804
Financing assets	165,680	431,142	596,822
Debt type investments carried at amortised cost	25,484	3,074	28,558
Off balance sheet exposures subject to credit risk	-	63,106	63,106
	<u>191,164</u>	<u>498,126</u>	<u>689,290</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018

3 ADOPTION OF ECL REGULATIONS (continued)

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

	Stage 1 QR000	Stage 2 QR000	Non - performing QR000	Total QR000
Exposure (carrying value) subject to ECL				
- Due from banks	1,796,923	275,000	-	2,071,923
- Financing assets	68,110,449	4,420,636	386,898	72,917,983
- Debt type investments carried at amortised cost	24,146,287	189,319	50,967	24,386,573
- Off balance sheet exposures subject to credit risk	7,484,656	270,118	-	7,754,774
	101,538,315	5,155,073	437,865	107,131,253
Opening Balance (Day 1 impact) - as at 1 January 2018				
- Due from banks	543	261	-	804
- Financing assets	135,977	295,165	165,680	596,822
- Debt type investments carried at amortised cost	2,657	417	25,484	28,558
- Off balance sheet exposures subject to credit risk	13,154	49,952	-	63,106
	152,331	345,795	191,164	689,290
Foreign currency translation for the period				
- Due from banks	-	-	-	-
- Financing assets	-	-	281	281
- Debt type investments carried at amortised cost	-	-	-	-
- Off balance sheet exposures subject to credit risk	-	-	-	-
	-	-	281	281
Net transfer between stages				
- Due from banks	-	-	-	-
- Financing assets	(15,500)	15,500	-	-
- Debt type investments carried at amortised cost	-	-	-	-
- Off balance sheet exposures subject to credit risk	(49)	49	-	-
	(15,549)	15,549	-	-
Charge for the period (net)				
- Due from banks	(22)	(227)	-	(249)
- Financing assets	10,230	31	3,095	13,356
- Debt type investments carried at amortised cost	2,704	444	-	3,148
- Off balance sheet exposures subject to credit risk	3,333	(5,993)	-	(2,660)
	16,245	(5,745)	3,095	13,595
Write offs				
- Due from banks	-	-	-	-
- Financing assets	-	-	(75)	(75)
- Debt type investments carried at amortised cost	-	-	-	-
- Off balance sheet exposures subject to credit risk	-	-	-	-
	-	-	(75)	(75)
Closing Balance - as at 31 March 2018				
- Due from banks	521	34	-	555
- Financing assets	130,707	310,696	168,981	610,384
- Debt type investments carried at amortised cost	5,361	861	25,484	31,706
- Off balance sheet exposures subject to credit risk	16,438	44,008	-	60,446
	153,027	355,599	194,465	703,091

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018**3 ADOPTION OF ECL REGULATIONS (continued)****(c) Changes in Accounting Policies and Significant Estimates and Judgements***Key changes to the Group's accounting policies*

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

Impairment of financial assets

The ECL regulations replace the 'incurred loss' model in existing FAS with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under the ECL regulations, credit losses are recognised earlier than under existing FAS.

Key changes in the Group's accounting policy for impairment of financial assets are listed below:

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Non performing - credit impaired

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

Inputs, assumptions and techniques used for estimating impairment:**Significant increase in credit risk**

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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3 ADOPTION OF ECL REGULATIONS (continued)

(c) Changes in Accounting Policies and Significant Estimates and Judgements (continued)

Credit risk grades

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

Generating the term structure of Probability of Default (PD)

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

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

i) 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 entails 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). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under the ECL regulations as detailed in Note 2c.

ii) Credit risk grading

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

iii) Credit quality assessments

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

Rating grade	Financing assets	Debt type investments carried at amortised cost	Off balance sheet exposures subject to credit risk	Due from Banks
AAA to AA-	35,823,456	23,391,908	1,097,556	115,071
A+ to A-	8,768,899	582,233	3,523,526	1,386,805
BBB to BBB-	7,324,713	46,808	2,075,963	294,514
BB+ to B-	10,650,502	271,880	1,028,179	131
Unrated	10,350,413	93,744	29,550	275,402
Total	<u>72,917,983</u>	<u>24,386,573</u>	<u>7,754,774</u>	<u>2,071,923</u>

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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 2017.

(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.

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

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

(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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 March 2018 (Reviewed)				
Financial assets				
Shari'a-compliant risk management instruments	-	66,899	-	66,899
Investment securities	116,392	96,821	-	213,213
	<u>116,392</u>	<u>163,720</u>	<u>-</u>	<u>280,112</u>
Financial liabilities				
Shari'a-compliant risk management instruments	-	11,531	-	11,531
	<u>-</u>	<u>11,531</u>	<u>-</u>	<u>11,531</u>

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4 FINANCIAL RISK MANAGEMENT (continued)

(ii) Financial asset and liability classification (continued)

	Level 1	Level 2	Level 3	Total
31 December 2017 (Audited)				
Financial assets				
Shari'a-compliant risk management instruments	-	13,624	-	13,624
Investment securities	136,779	91,146	-	227,925
	<u>136,779</u>	<u>104,770</u>	<u>-</u>	<u>241,549</u>
Financial liabilities				
Shari'a-compliant risk management instruments	-	9,269	-	9,269
	<u>-</u>	<u>9,269</u>	<u>-</u>	<u>9,269</u>

The fair values of financial assets and financial liabilities carried at amortized cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for investment securities for which the fair value amounts to QAR 2,805 million (31 December 2017: QAR 2,567 million), which is derived using Level 1 fair value hierarchy. The details of the Group's classification of financial assets and liabilities are disclosed in Note 6.

Investment securities totalling nil are carried at cost (31 December 2017: QAR 4,456 thousand).

During the reporting periods 31 March 2018 and 31 December 2017, 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) Allowances for credit losses

Policy applicable from 1 January 2018

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to Note 3 for more information.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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6 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

	<i>Fair value through income statement</i>	<i>Fair value through equity</i>	<i>Amortised cost</i>	<i>Total carrying amount</i>	<i>Fair value</i>
31 March 2018 (Reviewed)					
Cash and balances with QCB	-	-	3,067,019	3,067,019	3,067,019
Due from banks	-	-	2,071,368	2,071,368	2,071,368
Financing assets	-	-	72,307,599	72,307,599	72,307,599
Investment securities:					
- Measured at fair value	4,441	208,772	-	213,213	213,213
- Measured at amortised cost	-	-	24,354,867	24,354,867	24,355,118
Other assets	-	-	517,015	517,015	517,015
Shari'a-compliant risk management instruments	66,899	-	-	66,899	66,899
	71,340	208,772	102,317,868	102,597,980	102,598,231
Due to banks	-	-	26,645,000	26,645,000	26,645,000
Customer current accounts	-	-	7,563,015	7,563,015	7,563,015
Other liabilities	-	-	1,426,546	1,426,546	1,426,546
Equity of investment account holders	-	-	55,110,520	55,110,520	55,110,520
Shari'a-compliant risk management instruments	11,531	-	-	11,531	11,531
	11,531	-	90,745,081	90,756,612	90,756,612
	<i>Fair value through income statement</i>	<i>Fair value through equity</i>	<i>Amortised cost</i>	<i>Total carrying amount</i>	<i>Fair value</i>
31 December 2017 (Audited)					
Cash and balances with QCB	-	-	2,799,819	2,799,819	2,799,819
Due from banks	-	-	3,311,900	3,311,900	3,311,900
Financing assets	-	-	72,097,080	72,097,080	72,097,080
Investment securities:					
- Measured at fair value	4,474	227,907	-	232,381	232,381
- Measured at amortised cost	-	-	23,191,088	23,191,088	23,282,183
Other assets	-	-	414,451	414,451	414,451
Shari'a-compliant risk management instruments	13,624	-	-	13,624	13,624
	18,098	227,907	101,814,338	102,060,343	102,151,438
Due to banks	-	-	25,123,319	25,123,319	25,123,319
Customer current accounts	-	-	6,620,840	6,620,840	6,620,840
Other liabilities	-	-	1,206,724	1,206,724	1,206,724
Equity of investment account holders	-	-	55,910,346	55,910,346	55,910,346
Shari'a-compliant risk management instruments	9,269	-	-	9,269	9,269
	9,269	-	88,861,229	88,870,498	88,870,498

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 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.

Information about operating segments

31 March 2018 (Reviewed)	Corporate Banking	Retail Banking	Asset Management	International operations	Unallocated	Total
<i>External revenue:</i>						
Total income from financing and investing activities	779,636	236,799	15,146	73,956	-	1,105,537
Net fee and commission income	60,811	-	3,447	2,509	-	66,767
Foreign exchange gain / (loss)	51,928	-	(1)	16	-	51,943
Share of results of associates	-	-	-	-	8,760	8,760
Other income	-	-	-	-	962	962
Total segment revenue	892,375	236,799	18,592	76,481	9,722	1,233,969
<i>Other material non-cash items:</i>						
Net recoveries and reversals on financing assets	(7,243)	(2,972)	-	(386)	-	(10,601)
Net impairment losses on investment securities	(4,134)	-	(4,660)	-	-	(8,794)
Net reversal of impairment losses on other financial assets	2,909	-	-	-	-	2,909
Reportable segment profit before tax	458,118	168,418	8,659	11,616	(110,772)	536,039
Reportable segment assets	73,790,977	17,669,261	501,644	10,220,061	1,310,079	103,492,022
Reportable segment liabilities	30,088,756	2,645,958	9,648	2,070,261	1,626,432	36,441,055
Reportable segment equity of investment account holders	36,375,279	11,253,957	-	7,481,284	-	55,110,520

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7 OPERATING SEGMENTS (continued)

Information about operating segments (continued)

31 March 2017 (Reviewed)	Corporate Banking	Retail Banking	Asset Management	International operations	Unallocated	Total
<i>External revenue:</i>						
Total income from financing and investing activities	644,516	193,883	9,393	48,968	-	896,760
Net fee and commission income	58,990	-	4,800	4,011	-	67,801
Foreign exchange gain / (loss)	24,742	-	(19)	77	-	24,800
Share of results of associates	-	-	-	-	20,861	20,861
Other income	-	-	-	-	3,446	3,446
Total segment revenue	728,248	193,883	14,174	53,056	24,307	1,013,668
<i>Other material non-cash items:</i>						
Net recoveries and reversals on financing assets	831	-	-	(267)	-	564
Net impairment losses on investment securities	-	-	-	-	-	-
Reportable segment profit before tax	440,938	141,765	8,907	9,180	(87,351)	513,439
Reportable segment assets	70,962,381	15,360,788	483,169	6,702,113	869,628	94,378,079
Reportable segment liabilities	20,191,324	2,232,171	8,992	1,661,713	2,708,391	26,802,591
Reportable segment equity of investment account holders	38,220,766	12,986,852	-	4,481,561	-	55,689,179

8 FINANCING ASSETS

	31 March 2018 (Reviewed)	31 December 2017 (Audited)	31 March 2017 (Reviewed)
(a) By type			
Receivables and balances from financing activities:			
Murabaha	55,769,072	56,148,558	54,599,031
Ijarah	13,651,508	13,502,681	9,770,950
Istisna'a	1,820,479	1,391,659	1,234,072
Musharaka	6,100,197	5,817,142	5,019,352
Others	601,332	562,755	306,477
Total financing assets	77,942,588	77,422,795	70,929,882
Deferred profit	(5,024,605)	(5,160,035)	(3,368,683)
Allowance for impairment and profit in suspense*	(610,384)	(165,680)	(49,950)
Net financing assets	72,307,599	72,097,080	67,511,249

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

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8 FINANCING ASSETS (continued)

The total non-performing financing assets at 31 March 2018 amounted to QAR 386,898 thousand representing 0.50% of the gross financing assets (31 December 2017: QAR 386,062 thousand representing 0.50% of the gross financing assets; 31 March 2017: QAR 110,463 thousand representing 0.16% of the gross financing assets).

Specific impairment of financing assets includes QAR 12,775 thousand of profit in suspense (31 December 2017: QAR 10,020 thousand; 31 March 2017: QAR 1,891 thousand).

9 INVESTMENT SECURITIES

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
<i>Investments classified as fair value through income statement</i>			
Investments classified as held for trading (Quoted)			
• Debt type investments - Fixed profit rate	<u>4,441</u>	<u>4,474</u>	<u>40,965</u>
	<u>4,441</u>	<u>4,474</u>	<u>40,965</u>
<i>Debt-type investments classified as amortised cost</i>			
Fixed profit rate - Quoted	1,501,622	1,131,080	1,274,386
Floating profit rate - Quoted	20,933	20,933	41,866
Government of Qatar Sukuk - Quoted	1,314,018	1,349,599	1,258,955
Government of Qatar Sukuk - Unquoted	21,550,000	20,714,960	12,225,000
Less: Allowance for impairment*	<u>(31,706)</u>	<u>(25,484)</u>	<u>(25,484)</u>
	<u>24,354,867</u>	<u>23,191,088</u>	<u>14,774,723</u>
<i>Investments classified as fair value through equity</i>			
• Equity type investments			
- Quoted	80,652	100,700	89,181
- Unquoted	96,821	95,602	95,750
• Equity type investments - Fixed profit rate	<u>31,299</u>	<u>31,605</u>	<u>32,220</u>
	<u>208,772</u>	<u>227,907</u>	<u>217,151</u>
	<u>24,568,080</u>	<u>23,423,469</u>	<u>15,032,839</u>

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

The Group has recognized impairment loss for certain equity-type investments classified as fair value through equity during the period totalling QAR 5,646 thousand (31 March 2017: QAR nil), 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:

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
<i>Positive fair value:</i>			
Balance at 1 January	5,525	6,538	6,538
Net change in fair value	4,067	(193)	1,639
Transferred to consolidated income statement on sale	(1,228)	(1,823)	(823)
Transferred to consolidated income statement due to impairment	-	-	-
Share of other comprehensive income of associates	(394)	1,003	965
Net fair value movement	2,445	(1,013)	1,781
Balance at 31 March / 31 December	<u>7,970</u>	<u>5,525</u>	<u>8,319</u>
<i>Negative fair value:</i>			
Balance at 1 January	(2,451)	(4,555)	(4,555)
Net change in fair value	(3,904)	(7,598)	(5,502)
Transferred to consolidated income statement on sale	(4,866)	4,081	-
Transferred to consolidated income statement due to impairment	8,794	5,621	-
Net fair value movement	24	2,104	(5,502)
Balance at 31 March / 31 December	<u>(2,427)</u>	<u>(2,451)</u>	<u>(10,057)</u>
Total fair value at 31 March / 31 December	<u>5,543</u>	<u>3,074</u>	<u>(1,738)</u>

10 DUE TO BANKS

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Current accounts	77,280	39,292	1,078,954
Commodity murabaha payable	897,424	933,155	596,269
Short-term Murabaha facilities from banks	767,418	309,807	182,025
Wakala payable	16,585,771	15,473,958	13,332,718
Repurchase agreements	8,317,107	8,367,107	1,274,075
	<u>26,645,000</u>	<u>25,123,319</u>	<u>16,464,041</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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11 EQUITY OF INVESTMENT ACCOUNT HOLDERS

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Saving accounts	6,347,046	3,915,695	5,472,485
Term accounts	44,357,374	47,037,216	46,008,399
Short-term investment accounts	4,118,627	4,612,683	3,995,565
Profit payable to equity of investment account holders	287,247	344,627	212,799
Share in the fair value reserves	226	125	(69)
	<u>55,110,520</u>	<u>55,910,346</u>	<u>55,689,179</u>

12 OWNERS' EQUITY

(a) Share capital

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
<i>Authorised</i> 750,000,000 shares at QAR 10 each	<u>7,500,000</u>	<u>7,500,000</u>	<u>7,500,000</u>

(b) Legal reserve

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Balance at 1 January	2,065,741	1,862,926	1,862,926
Transfer from retained earnings	-	202,815	-
Balance at 31 March / 31 December	<u>2,065,741</u>	<u>2,065,741</u>	<u>1,862,926</u>

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 31 March 2018 as Masraf will transfer the required amount by 31 December 2018.

(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 31 March 2018 as Masraf will transfer the required amount by 31 December 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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12 OWNERS' EQUITY (continued)

(d) Fair value reserves

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

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Balance at 1 January	3,074	1,983	1,983
Net unrealised losses	389	(7,666)	(3,932)
Transferred to consolidated income statement	(6,094)	2,258	(823)
Transferred to consolidated income statement due to impairment	8,794	5,621	-
Share of other comprehensive income of associates	(394)	1,003	965
Share of equity of investment account holders in the fair value reserve	(226)	(125)	69
Net fair value movement	2,469	1,091	(3,721)
Balance at 31 March / 31 December (shareholders' share)	<u>5,543</u>	<u>3,074</u>	<u>(1,738)</u>

Fair value reserves represent 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

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Balance at 1 January	113,001	107,146	107,416
Share of results of associates	-	28,203	-
Dividend from associates transferred to retained earnings	-	(5,418)	-
Other movement	-	(16,930)	-
Balance at 31 March / 31 December	<u>113,001</u>	<u>113,001</u>	<u>107,416</u>

No transfer has been made for the period ended 31 March 2018 as Masraf will transfer the share of results of associates to other reserves by 31 December 2018.

(g) Dividend

On 27 February 2018, the General Assembly approved a cash dividend of 20% of the paid up share capital (2017: 20%) amounting to QAR 1,500 million (2017: QAR 1,500 million).

13 NON-CONTROLLING INTERESTS

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018

14 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:

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Payable not later than 1 year	28,857	26,206	26,211
Payable later than 1 year and not later than 5 years	<u>68,436</u>	<u>74,331</u>	<u>83,855</u>
	<u>97,293</u>	<u>100,537</u>	<u>110,066</u>

(b) Contingent liabilities

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Unutilised credit facilities	2,498,664	2,532,721	2,235,393
Guarantees	11,905,032	12,069,394	13,964,504
Letters of credit	<u>1,456,716</u>	<u>1,784,111</u>	<u>2,790,739</u>
	<u>15,860,412</u>	<u>16,386,226</u>	<u>18,990,636</u>

(c) Other undertakings and commitments

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Profit rate swap	4,187,003	4,052,993	3,793,099
Unilateral promise to buy/sell currencies	<u>12,995,625</u>	<u>27,399,712</u>	<u>29,335,149</u>
	<u>17,182,628</u>	<u>31,452,705</u>	<u>33,128,248</u>

15 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.

	<i>For the Three-Month Period Ended 31 March</i>	
	<i>2018 (Reviewed)</i>	<i>2017 (Reviewed)</i>
Profit for the period attributable to equity holders of the Bank	<u>531,065</u>	<u>510,252</u>
Weighted average number of shares outstanding during the period	<u>750,000</u>	<u>750,000</u>
Basic earnings per share (QAR)	<u>0.708</u>	<u>0.680</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018

16 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:

	<i>31 March 2018 (Reviewed)</i>	<i>31 March 2017 (Reviewed)</i>
Cash on hand and balances with QCB excluding cash reserve	702,880	545,118
Due from banks	<u>1,707,318</u>	<u>7,142,953</u>
	<u>2,410,198</u>	<u>7,688,071</u>

17 RELATED PARTIES

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

Transactions with related parties

(a) Condensed consolidated statement of financial position items

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Liabilities			
Equity of investment account holders - customer	<u>3,044,182</u>	<u>3,301,475</u>	<u>1,003,840</u>

(b) Condensed consolidated income statement items

	<i>For the Three-Month Period Ended 31 March</i>	
	<i>2018 (Reviewed)</i>	<i>2017 (Reviewed)</i>
Return on equity of investment account holders - customer	<u>7,512</u>	<u>4,102</u>

(c) Transactions with key management personnel

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

	<i>31 March 2018 (Reviewed)</i>	<i>31 December 2017 (Audited)</i>	<i>31 March 2017 (Reviewed)</i>
Financing	<u>814</u>	<u>837</u>	<u>1,082</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2018

17 RELATED PARTIES (continued)

(c) Transactions with key management personnel (continued)

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

	For the Three-Month Period Ended 31 March	
	2018 (Reviewed)	2017 (Reviewed)
Remuneration to Board of Directors including meeting allowances	<u>6,725</u>	<u>5,632</u>
Salaries and other benefits	<u>4,837</u>	<u>3,807</u>

18 CAPITAL ADEQUACY RATIO

As per Qatar Central Bank regulations, the Group has calculated the above ratios in accordance with Basel III guidelines. The Group's minimum QCB regulatory limit, including the Capital Conservation Buffer and the applicable Domestically Systemically Important Bank ("DSIB") Buffer, is 1% for 2018.

The table below summarises the composition of prevailing regulatory capital and the ratios of the Group. The Group and the individual entities within it complied with the externally imposed capital requirements to which they are subject to:

	31 March 2018 (Reviewed)	31 December 2017 (Audited)	31 March 2017 (Reviewed)
Common Equity Tier (CET) 1 capital/Tier 1	11,382,354	11,854,806	11,326,475
Additional Tier 1 capital	43,121	38,573	29,265
Additional Tier 2 capital	<u>551,747</u>	<u>38,573</u>	<u>29,265</u>
Total eligible capital	11,977,222	11,931,952	11,385,005
Total risk weighted assets	<u>63,529,695</u>	<u>61,764,273</u>	<u>58,519,105</u>
CET1/Tier 1 Ratio	<u>17.92%</u>	19.19%	19.36%
Total Capital Ratio*	<u>18.85%</u>	<u>19.32%</u>	<u>19.46%</u>

Minimum required:

CET1/Tier 1 Ratio	9.50%	9.25%	9.25%
Total Capital Ratio	13.50%	13.25%	13.25%

*Had the Group not adopted the ECL regulations, total Capital Adequacy Ratio and Common Equity Tier 1 (CET 1) Capital Adequacy Ratio would have been as follows:

	31 March 2018 (Reviewed)
CET1/Tier 1 Ratio	<u>18.77%</u>
Total Capital Ratio*	<u>18.84%</u>

19 COMPARATIVE FIGURES

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