



Qatar Islamic Bank (Q.P.S.C)

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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31 December 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Qatar Islamic Bank (Q.P.S.C.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Qatar Islamic Bank (Q.P.S.C.) (the 'Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the applicable provisions of Qatar Central Bank regulations ('QCB regulations').

Basis for Opinion

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

Key Audit Matters

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



INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

<p><u>Impairment of financing assets</u> - refer to notes 3(f), 4(b)(iii), 5(a)(i) and 10 in the consolidated financial statements</p>	<p><u>How the matter was addressed in our audit</u></p>
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • Financing assets are QAR 102,613 million, representing 68 % of the Group's total assets as at 31 December 2017, hence a material portion of the consolidated statement of financial position. The net impairment charge on financing assets during the year was QAR 474.7 million. • The Group makes complex and subjective judgments over both the timing of recognition of impairment and the estimation of the amount of such impairment. 	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • Our team used their local knowledge to assess the trends in their local credit environment and considered the likely impact on the Group's financing assets portfolio to focus their testing on key risk areas. • For the corporate portfolio: <ul style="list-style-type: none"> - we tested the key controls over the credit grading and monitoring process; - we tested the governance controls over the impairment processes, including the continuous re-assessment by the Group that impairment policies remain appropriate for the risks within the Group's financing assets portfolio; - we performed detailed credit assessments of a sample of performing and non-performing financing assets in line with QCB regulations; - as part of our credit assessments for these selected financing assets, we critically challenged the reasonableness of the forecast of recoverable cash flows, realization of collateral and other possible sources of repayment. We tested the consistency of key assumptions and compared them to progress against business plans and our own understanding of the relevant industries and business environments. We also agreed them where possible to externally derived evidence. • For the retail portfolio, the impairment process is based on historical payment performance of each segment within the portfolio, adjusted for current market conditions. We tested the accuracy of key variables relevant for the retail loans portfolio (e.g. year-end balances, repayment history, past-due status) and we assessed the appropriateness of the impairment calculation methodology. We evaluated whether the output is consistent with historical payment performance, and we challenged the appropriateness of the Group's adjustments to reflect current market and economic conditions.



INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

<p><u>Impairment of financing assets</u> - refer to notes 3(f), 4(b)(iii), 5(a)(i) and 10 in the consolidated financial statements</p>	<p><u>How the matter was addressed in our audit</u></p>
	<ul style="list-style-type: none"> • For the collective impairment calculation, our work included testing controls over the appropriateness of the methodology and models used to calculate the charge, the process of determining key assumptions and the identification of financing assets to be included within the calculation. • We assessed the adequacy of the Group's disclosure in relation to impairment of financing assets by reference to the requirements of the relevant accounting standards and QCB regulations.
<p><u>Valuation of investment securities</u> - refer to notes 3(c), 5(b)(i) and 11 in the consolidated financial statements</p>	<p><u>How the matter was addressed in our audit</u></p>
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • Investment securities are QAR 30,402 million or 20% of the Group's total assets as at 31 December 2017, hence a material portion of the consolidated statement of financial position. • of the total investment securities, 5.9% comprise unquoted equity securities at fair value, the measurement of which requires use of estimates and judgements. 	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • Testing controls over the process of valuation of investment securities. • Agreeing the valuation of the quoted equity and debt securities to externally quoted prices. • For unquoted equity securities, assessing the appropriateness of the valuation methodology and challenging the key underlying assumptions, such as pricing inputs and discount factors. • Testing, for a selection of pricing inputs used, that they were externally sourced and were correctly input into the pricing models; • We assessed the adequacy of the Group's disclosure in relation to the valuation of investment securities by reference to the requirements of the relevant accounting standards and QCB regulations.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Bank's annual report (Annual Report), but does not include the Bank's consolidated financial statements and our auditor's report thereon.



INDEPENDENT AUDITOR'S REPORT (continued)

Other Information (continued)

Prior to the date of this auditor's report, we obtained the report of Board of Directors, which forms part of the Annual Report, and the remaining sections of the Annual Report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.



INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We have read the report of the Board of Directors to be included in the Annual Report, and the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the applicable provisions of the Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Articles of Association and the amendments thereto having occurred during the year which might have had a material effect on the Bank's consolidated financial position or performance as at and for the year ended 31 December 2017.

17 January 2018
Doha
State of Qatar


Gopal Balasubramaniam
Qatar Auditors Registry Number 251
KPMG
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Qatar Islamic Bank (Q.P.S.C)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December



	Notes	2017 QAR'000	2016 QAR'000
Assets			
Cash and balances with central banks	8	5,546,386	5,447,183
Due from banks	9	4,875,690	10,149,896
Financing assets	10	102,613,499	98,170,520
Investment securities	11	30,402,263	19,958,717
Investment in associates	12	668,512	875,034
Investment properties	13	1,943,937	929,826
Assets held for sale	14	245,686	-
Fixed assets	15	511,302	517,257
Intangible assets	16	411,314	431,923
Other assets	17	3,156,287	3,353,772
Total assets		150,374,876	139,834,128
Liabilities, equity of unrestricted investment account holders and equity			
Liabilities			
Due to banks	18	17,191,126	13,606,908
Customers' current accounts	19	16,600,080	14,055,114
Sukuk financing	20	7,057,282	6,791,178
Other liabilities	21	3,431,752	4,040,625
Total liabilities		44,280,240	38,493,825
Equity of unrestricted investment account holders	22	85,214,471	81,341,642
Equity			
Share capital	23(a)	2,362,932	2,362,932
Legal reserve	23(b)	6,370,016	6,370,016
Risk reserve	23(c)	2,263,736	2,170,280
General reserve	23(d)	81,935	81,935
Fair value reserve	23(e)	170,173	195,089
Foreign currency translation reserve	23(f)	(137,224)	(194,335)
Other reserves	23(g)	216,820	216,820
Proposed cash dividends	23(h)	1,181,466	1,122,393
Share-based payment reserve	23(i)	11,185	10,223
Retained earnings		2,768,147	1,902,780
Total equity attributable to equity holders of the bank		15,289,186	14,238,133
Non-controlling interests	24	1,590,979	1,760,528
Sukuk eligible as additional capital	25	4,000,000	4,000,000
Total equity		20,880,165	19,998,661
Total liabilities, equity of unrestricted investment account holders and equity		150,374,876	139,834,128

These consolidated financial statements were approved by the Board of Directors on 17 January 2018 and were signed on its behalf by:


 Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani
 Chairman


 Basel Gamal
 Group Chief Executive Officer

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

		2017	2016
	<i>Note</i>	<i>QAR'000</i>	<i>QAR'000</i>
Continuing operations			
Net income from financing activities	26	4,887,159	4,016,100
Net income from investing activities	27	575,320	741,003
Total net income from financing and investing activities		5,462,479	4,757,103
Fee and commission income		658,459	642,313
Fee and commission expense		(140,925)	(123,452)
Net fee and commission income	28	517,534	518,861
Net foreign exchange gain	29	139,061	176,138
Share of results of associates	12	36,383	10,864
Other income		43,872	25,259
Total income		6,199,329	5,488,225
Staff costs	30	(622,432)	(629,366)
Depreciation and amortisation	15,16	(91,353)	(87,921)
Sukuk holders' share of profit		(218,370)	(156,351)
Other expenses	31	(391,935)	(371,863)
Total expenses		(1,324,090)	(1,245,501)
Net impairment losses on investment securities	11	(305,691)	(225,725)
Net impairment losses on financing assets	10	(474,685)	(221,339)
Other impairment losses		(4,955)	(728)
Net profit for the year from continuing operations before tax and return to unrestricted investment account holders		4,089,908	3,794,932
Less: Return to unrestricted investment account holders	22	(1,818,627)	(1,679,400)
Profit from continuing operations before tax		2,271,281	2,115,532
Discontinued operations			
(Loss) / profit from assets held for sale		(2,490)	5,266
Net profit for the year before tax		2,268,791	2,120,798
Tax expense	32	(18,270)	(10,074)
Net profit for the year		2,250,521	2,110,724
Net profit for the year attributable to:			
Equity holders of the Bank		2,405,425	2,155,104
Non-controlling interests	24	(154,904)	(44,380)
Net profit for the year		2,250,521	2,110,724
Earnings per share			
Basic / diluted earnings per share (QAR per share)	35	9.31	8.55

Qatar Islamic Bank (Q.P.S.C)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December



QAR '000

	<i>Share capital</i>	<i>Legal Reserve</i>	<i>Risk reserve</i>	<i>General reserve</i>	<i>Fair value reserve</i>	<i>Foreign currency translation reserve</i>	<i>Other reserves</i>	<i>Proposed cash dividends</i>	<i>Share - based payment reserve</i>	<i>Retained earnings</i>	<i>Total equity attributable to equity holders of the Bank</i>	<i>Non-controlling interests</i>	<i>Sukuk eligible as additional capital</i>	<i>Total equity</i>
Balance at 1 January 2017	2,362,932	6,370,016	2,170,280	81,935	195,089	(194,335)	216,820	1,122,393	10,223	1,902,780	14,238,133	1,760,528	4,000,000	19,998,661
Foreign currency translation reserve movement	-	-	-	-	-	57,111	-	-	-	-	57,111	-	-	57,111
Fair value reserve movement	-	-	-	-	(24,916)	-	-	-	-	-	(24,916)	-	-	(24,916)
Net profit for the year	-	-	-	-	-	-	-	-	-	2,405,425	2,405,425	(154,904)	-	2,250,521
Total recognised income and expense for the year	-	-	-	-	(24,916)	57,111	-	-	-	2,405,425	2,437,620	(154,904)	-	2,282,716
Cash dividends paid to shareholders (Note 23)	-	-	-	-	-	-	-	(1,122,393)	-	-	(1,122,393)	-	-	(1,122,393)
Transfer to risk reserve (Note 23)	-	-	93,456	-	-	-	-	-	-	(93,456)	-	-	-	-
Proposed cash dividends (Note 23)	-	-	-	-	-	-	-	1,181,466	-	(1,181,466)	-	-	-	-
Social and Sports Fund appropriation (Note 40)	-	-	-	-	-	-	-	-	-	(60,136)	(60,136)	-	-	(60,136)
Profit on Sukuk eligible as additional capital (Note 25)	-	-	-	-	-	-	-	-	-	(205,000)	(205,000)	-	-	(205,000)
Share-based payment reserve (Note 23)	-	-	-	-	-	-	-	-	962	-	962	957	-	1,919
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(15,602)	-	(15,602)
Balance at 31 December 2017	2,362,932	6,370,016	2,263,736	81,935	170,173	(137,224)	216,820	1,181,466	11,185	2,768,147	15,289,186	1,590,979	4,000,000	20,880,165

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

Qatar Islamic Bank (Q.P.S.C)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 31 December



QAR '000

	Share capital	Legal Reserve	Risk reserve	General reserve	Fair value reserve	Foreign currency translation reserve	Other reserves	Proposed cash dividends	Share - based payment reserve	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Sukuk eligible as additional capital	Total equity
Balance at 1 January 2016	2,362,932	6,370,016	1,993,090	81,935	134,013	(28,964)	216,820	1,004,246	6,216	1,236,137	13,376,441	1,798,323	2,000,000	17,174,764
Foreign currency translation reserve movement	-	-	-	-	-	(165,371)	-	-	-	-	(165,371)	-	-	(165,371)
Sukuk eligible as additional capital (note 25)	-	-	-	-	-	-	-	-	-	-	-	-	2,000,000	2,000,000
Fair value reserve movement	-	-	-	-	61,076	-	-	-	-	-	61,076	-	-	61,076
Net profit for the year	-	-	-	-	-	-	-	-	-	2,155,104	2,155,104	(44,380)	-	2,110,724
Total recognised income and expense for the year	-	-	-	-	61,076	(165,371)	-	-	-	2,155,104	2,050,809	(44,380)	2,000,000	4,006,429
Cash dividends paid to shareholders (Note 23)	-	-	-	-	-	-	-	(1,004,246)	-	-	(1,004,246)	-	-	(1,004,246)
Transfer to risk reserve (Note 23)	-	-	177,190	-	-	-	-	-	-	(177,190)	-	-	-	-
Proposed cash dividends (Note 23)	-	-	-	-	-	-	-	1,122,393	-	(1,122,393)	-	-	-	-
Social and Sports Fund appropriation (Note 40)	-	-	-	-	-	-	-	-	-	(53,878)	(53,878)	-	-	(53,878)
Profit on Sukuk eligible as additional capital (Note 25)	-	-	-	-	-	-	-	-	-	(135,000)	(135,000)	-	-	(135,000)
Share-based payment reserve (Note 23)	-	-	-	-	-	-	-	-	4,007	-	4,007	3,982	-	7,989
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	2,603	-	2,603
Balance at 31 December 2016	2,362,932	6,370,016	2,170,280	81,935	195,089	(194,335)	216,820	1,122,393	10,223	1,902,780	14,238,133	1,760,528	4,000,000	19,998,661

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

QATAR ISLAMIC BANK (Q.P.S.C.)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December



QAR '000

		2017	2016
Cash flows from operating activities	Notes		
Net profit for the year before tax		2,268,791	2,120,798
<i>Adjustments for:</i>			
Net impairment losses on financing assets	10	474,685	221,339
Net impairment losses on investment securities	11	305,691	225,725
Other impairment losses		4,955	728
Depreciation and amortisation	15,16	91,353	87,921
Net gain on sale of investment securities	27	(1,113)	(10,896)
Share of results of associates	12	(36,383)	(10,864)
Amortization of premium on Sukuk		9,463	9,729
Fair value gain on investment securities carried as fair value through income statement	27	(103,464)	(33,246)
Net (loss) / gain on properties	27	153,671	(130,686)
Employees end of service benefits charge	21	24,962	32,276
Share based payment expense	23(i)	1,918	7,989
<i>Profit before changes in operating assets and liabilities</i>		<u>3,194,529</u>	<u>2,520,813</u>
Change in reserve balances with central banks		(130,997)	(389,073)
Change in due from banks		278,992	772,950
Change in financing assets		(16,049,891)	(10,876,472)
Change in other assets		(1,026,097)	28,545
Change in due to banks		3,584,218	2,408,081
Change in customers' current accounts		2,544,966	(138,812)
Change in other liabilities		(793,965)	1,911,178
Taxes paid		(18,270)	(10,075)
Employees' end of service benefits paid	21	(5,212)	(18,086)
Net cash used in operating activities		<u>(8,421,727)</u>	<u>(3,790,951)</u>
Cash flows from investing activities			
Acquisition of investment securities		(8,264,174)	(5,526,603)
Proceed from sale / redemption of investment securities		8,841,019	4,188,871
Acquisition of fixed assets		(65,707)	(105,115)
Acquisition of investment in associates		(17,411)	-
Movement in investment properties		(28,374)	319,998
Dividends received from associate companies		12,489	11,100
Net cash from / (used in) investing activities		<u>477,842</u>	<u>(1,111,749)</u>
Cash flows from financing activities			
Change in equity of unrestricted investment accountholders		3,872,829	4,015,055
Net movement in non-controlling interest		(15,602)	2,603
Cash dividends paid to shareholders	23(h)	(1,122,393)	(1,004,246)
Profit paid on sukuk eligible as additional capital		(85,000)	(50,000)
Net proceeds from sukuk financing		267,045	1,340,358
Proceeds from issuance of sukuk eligible as additional capital		-	2,000,000
Net cash from financing activities		<u>2,916,879</u>	<u>6,303,770</u>
Net (decrease) / increase in cash and cash equivalents		<u>(5,027,006)</u>	<u>1,401,070</u>
Cash and cash equivalents at 1 January		10,656,507	9,255,437
Cash and cash equivalents at 31 December	36	<u>5,629,501</u>	<u>10,656,507</u>

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

<i>Investment</i>	<i>At 1 January 2017</i>	<i>Movements during the year</i>					<i>At 31 December 2017</i>
		<i>Investment (withdrawals)</i>	<i>Revaluation</i>	<i>Gross income</i>	<i>Dividends paid</i>	<i>Admin expense</i>	
Real Estate Portfolio	73,164	-	-	-	-	-	73,164
Equity Securities Portfolio	892,856	626	(24,928)	18,035	(400)	-	883,592
	966,020	626	(24,928)	18,035	(400)	-	956,756

<i>Investment</i>	<i>At 1 January 2016</i>	<i>Movements during the year</i>					<i>At 31 December 2016</i>
		<i>Investment (withdrawals)</i>	<i>Revaluation</i>	<i>Gross income</i>	<i>Dividends paid</i>	<i>Admin expense</i>	
Real Estate Portfolio	73,164	-	-	-	-	-	73,164
Equity Securities Portfolio	578,183	307,648	(853)	10,165	(437)	(43)	892,856
	651,347	307,648	(853)	10,165	(437)	(43)	966,020

	2017	2016
Source of charity fund		
Earnings prohibited by Sharia'a during the year	<u>651</u>	<u>366</u>
Use of charity fund		
Researches, donations and other uses during the year	<u>(2,640)</u>	<u>(4,060)</u>
Decrease of sources over uses	<u><u>(1,989)</u></u>	<u><u>(3,694)</u></u>

1. REPORTING ENTITY

Qatar Islamic Bank Q.P.S.C (“QIB” or the “Bank”) is an entity domiciled in the State of Qatar and was incorporated on 8 July 1982 as a Qatari Public Shareholding Company under Emiri Decree no. 45 of 1982. The commercial registration number of the Bank is 8338. The address of the Bank’s registered office is P.O. Box 559 Doha, State of Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2017 comprise the Bank and its subsidiaries (together referred to as “the Group”). The Bank is primarily involved in corporate, retail and investment banking in accordance with Islamic sharia rules as determined by sharia supervisory board of the Bank, and has 29 branches in Qatar and one branch in Sudan. The Parent Company of the Group is Qatar Islamic Bank (Q.P.S.C). The Bank’s shares are listed for trading on the Qatar Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 17 January 2018.

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

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries and special purpose entities:

	Country of Incorporation	Principal Business Activity	Effective Percentage of Ownership	
			31 December 2017	31 December 2016
Arab Finance House	Lebanon	Banking	99.99%	99.99%
Aqar Real Estate Development and Investment Company W.L.L.(“Aqar”) (i)	Qatar	Investment in real estate	49%	49%
Durat Al Doha Real Estate Investment and Development W.L.L. (ii)	Qatar	Investment in real estate	39.87%	39.87%
QIB Sukuk Ltd (iii)	Cayman Island	Sukuk issuance	-	-
QIB Sukuk Funding Limited	Qatar	Financing company	100%	100%
QIB (UK)	United Kingdom	Investment banking	99.71%	99.66%
QInvest LLC	Qatar	Investment banking	50.13%	50.13%
Verdi Luxembourg SARL (iv)	Luxembourg	Investment in real estate	50.13%	50.13%
Q Business Services (iv)	Cayman Island	Investment holding company	50.13%	50.13%
Q Liquidity Limited (iv)	Cayman Island	Placements	50.13%	50.13%
QInvest Holding Mauritius (iv)	Mauritius	Investment holding company	50.13%	50.13%
Q Exhibit (iv)	Mauritius	Investment holding company	50.13%	50.13%
QInvest Luxembourg S.a.r.l. (iv)	Luxembourg	Investments	50.13%	50.13%
QI St Edmund’s Terrace 2 Limited (iv)	Cayman Island	To provide financing facility	50.13%	50.13%
QInvest IBFin LLC (Previously known as QInvest Comms Holding LLC) (iv)	Qatar	Investment holding company	50.13%	50.13%
QI One Wall Street Invest Co. (iv)	Cayman Island	Investment holding company	50.13%	50.13%
QEthika 1 (iv)	Cayman Island	Investment holding company	50.13%	50.13%
QNGPV1 (iv)	Cayman Island	Investment holding company	50.13%	50.13%
QInvest Euro PE QFC LLC (iv)	Qatar	Investment holding company	50.13%	50.13%
QInvest Rio LLC (iv)	Qatar	Investment holding company	31.6%	31.6%
Rio income s.a.r.l. (iv)	Luxembourg	Investment in lease	45.12%	45.12%
Q Tomahawk LLC (iv)	Cayman Island	Investment holding company	50.13%	50.13%
QInvest Refin LLC (iv)	Qatar	To provide financing facility	50.13%	50.13%
Q Alloy S.a.r.l (iv)	Luxembourg	To provide financing facility	50.13%	50.13%
QSeven 1 LP (iv)	Cayman Island	Investment in real estate	45.62%	45.62%
Q Lake (iv)	Cayman Island	To provide financing facility	-	50.13%
Q Anthem (iv)	Cayman Island	To provide financing facility	-	50.13%
Q Magnolia LLC (iv)	Cayman Island	Investment in real estate	50.13%	-
Qinvest Portfoy Yonetimi A.S. (iv)	Turkey	Asset Management	50.13%	50.13%
BOH LLC (iv)	Qatar	Holding company	50.13%	-

1. REPORTING ENTITY (continued)

Notes:

- i) The Bank has the power to cast majority of the votes in the Board of Directors meetings of Aqar by virtue of representing the highest number of members in the Board.
- ii) Effective from 1 January 2013, the Group has obtained control to govern the financial and operating policies of the entity, previously an associate, through management agreement with other shareholders in the Company.
- iii) QIB Sukuk Ltd was incorporated in the Cayman Islands as an exempted company with limited liability for the sole purpose of Sukuk issuance for the benefit of QIB.
- iv) The Group has the power to control these entities, indirectly through QInvest LLC and accordingly these entities have been considered as subsidiaries of the Group.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and the applicable provisions of Qatar Central Bank ("QCB") regulations. For matters, for which no AAOIFI standards or related guidance exist, the Group applies the relevant International Financial Reporting Standards ("IFRSs").

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for investment securities classified as "Investments at fair value through equity", "Investments at fair value through income statement", "derivative financial instruments" and "investment properties" (measured at fair value).

c) Functional and presentational currency

These consolidated financial statements are presented in Qatari Riyals ("QAR"), which is the Bank's functional and presentational currency. Except as otherwise indicated, financial information presented in QAR has been rounded to the nearest thousands.

d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a) Basis of consolidation

i. Business combinations

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

ii. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of consolidation (continued)

ii. Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

iii. Associates

An Associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of the investee, but not to control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associate). The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income; its share of post-acquisition movements in reserve is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the consolidated statement of income.

Intergroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation of these consolidated financial statements, same accounting policies for similar transactions and other events in similar circumstances are used. Gains and losses on decline of shareholding are recognised in the consolidated statement of income.

The Group's share of the results of associates is based on financial statements available up to a date not earlier than three months before the date of the consolidated statement of financial position, adjusted to conform to the accounting policies of the Group.

iv. Funds management

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Foreign currency

i. Foreign currency transactions and balances

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

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

The gains and losses on revaluation of foreign currency non-monetary fair value through equity investments are recognised in the consolidated statement of changes in equity.

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

ii. Foreign operations

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

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

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

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

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

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

c) Investment securities

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

i. Classification

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

Debt-type instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment securities (continued)

i. Classification (continued)

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

Equity-type instruments

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

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

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

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

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

ii. Recognition and derecognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

iii. Measurement

Initial recognition

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

Subsequent measurement

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment securities (continued)

iv. Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed and willing parties (seller and buyer) in an arm's length transaction. The Group measures the fair value of quoted investments using the market bid price for that instrument at the close of business on the consolidated statement of financial position date. For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by discounting future cash flows at current profit rates for contracts with similar term and risk characteristics.

d) Financing assets

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

Murabaha and Musawama

Murabaha and Musawama receivables are sales on deferred terms. The Group arranges a Murabaha and Musawama transaction by buying a commodity (which represents the object of the Murabaha) and selling it to the Murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period. Murabaha and Musawama receivables are stated net of deferred profits and impairment allowance (if any). Based on QCB regulations, the Group applies the rule of binding the purchase orderer to its promise in the Murabaha sale, and does not enter into any Murabaha transaction in which the purchase orderer does not undertake to accept the goods if they meet the specifications.

Mudaraba

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

Musharaka

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

Ijarah

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

Istisna'a

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

Wakala

Wakala contracts represent agency agreements between two parties. One party, the provider of funds (Muwakkil) appoints the other party as an agent (Wakeel) with respect to the investment of the Muwakkil funds in a Shari'a compliant transaction. The Wakeel uses the funds based on the nature of the contract and offer an anticipated return to the Muwakkil. Wakala contracts are stated at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Other financial assets and liabilities

i. Recognition and initial measurement

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

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

After initial measurement, other financial assets and liabilities are subsequently measured at amortised cost using the effective profit rate method net of any amounts written off and provision for impairment.

ii. De-recognition of financial assets and financial liabilities

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

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

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

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

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

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iii. Offsetting

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Impairment of financial assets

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

Equity-type investments classified as fair value through equity

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

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

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated statement of income and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income, to the extent of previously recognised impairment losses.

The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Financial assets that are not individually significant are collectively assessed for impairment by grouping assets together with similar risk characteristics.

g) Cash and cash equivalents

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

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

h) Investment properties

Investment property held for rental or capital appreciation is measured at fair value with the resulting unrealised gains being recognised in the statement of changes in equity under fair value reserve. Any unrealized losses resulting from re-measurement at fair value is recognized in the consolidated statement of financial position under fair value reserve to the extent of available balance. In case such losses exceed the available balance, the unrealized losses are recognized in the consolidated statement of income under unrealized re-measurement gains or losses on investment property. In case there are unrealized losses that have been recognized in the consolidated statement of income in a previous financial year, the unrealized gains related to the current financial year is recognized to the extent of crediting back such previous losses in the consolidated statement of income. Any excess of such gains over such prior-year losses is added to the fair value reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Risk management instruments

The Group enters into certain Islamic derivative financial instruments to manage the exposure to foreign exchange rate risks, including unilateral promise to buy/sell currencies. These transactions are translated at prevailing spot exchange rates.

j) Fixed assets

Recognition and measurement

Items of fixed assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the assets and restoring the site on which they are located and capitalised borrowing costs.

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

When parts of an item of fixed asset have different useful lives, they are accounted for as separate items (major components) of fixed assets.

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

Subsequent costs

The cost of replacing a component of fixed asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in consolidated statement of income as incurred.

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

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

	<i>Years</i>
Buildings	20
IT equipment	3-5
Fixtures and fittings	5-7
Motor vehicles	5

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

k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Intangible assets (continued)

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the nature of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

A summary of the useful lives and amortisation methods of Group's intangible assets are as follows:

	Goodwill	Trade mark	Software
Useful lives	Indefinite	Finite (10 years)	Finite (3 – 5 years)
Amortization method used	Tested for impairment either individually or at cash generating unit level	Amortized on a straight line basis over the periods of availability	Amortized on a straight line basis over the periods of availability
Internally generated or acquired	Acquired	Acquired	Acquired

l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Customer current accounts

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

n) Equity of unrestricted investment account holders

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

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

o) Distribution of profit between equity of unrestricted investment account holders and shareholders

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

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

p) Restricted investment accounts

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

q) Sukuk financing

Sukuk financing represents common shares in the ownership of assets or benefits or services which bears fixed semi-annual profit and mature after 5 years from issuance date. Profits are recognised periodically till maturity. Sukuks are recognised at amortised cost. Sukuks are disclosed as a separate line in the consolidated financial statements as "Sukuk financing".

r) Provisions

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Employee benefits

i. Defined contribution plans

The Group provides for its contribution to the State administered retirement fund for Qatari employees in accordance with the retirement law, and the resulting charge is included within the staff costs in the consolidated statement of income. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised when they are due.

ii. Employees' end of service benefits

The Group provides a provision for all end of service benefits payable to employees in accordance with the Group's policies, calculated on the basis of individual employee's salary and period of service at the reporting date.

iii. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv. Share-based payment transactions

Employees (selected key employees) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transaction for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. Where an award is cancelled by the Group or by the counterparty, any remaining element of the fair value of the award is expensed immediately through income statement.

t) Share capital and reserves

Dividends on ordinary shares

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Revenue recognition

Murabaha and Musawama

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

Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas losses are charged to the consolidated statement of income on declaration by the Mudarib. In case Mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Group. In case of termination or liquidation, unpaid portion by Mudarib is recognized as receivable due from Mudarib.

Musharaka

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

Ijara

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

Istisna'a

Revenue and the associated profit margin are recognised in the Group's consolidated statement of income according to the percentage of completion method by taking in account the difference between total revenue (cash price to purchaser) and Group's estimated cost. The Group's recognises anticipated losses on Istisna'a contract as soon as they are anticipated.

Wakala

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

Income from investment banking services

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

Fees and commission income

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

Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

w) Earnings per share

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

x) Segment reporting

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

y) Fiduciary activities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Repossessed collateral

Repossession collaterals against settlement of financing assets are stated within the consolidated statement of financial position under "Other assets" at their acquisition value net of allowance for impairment, if any, as required by the QCB.

Unrealised losses due to the reduction in the fair value of such assets in relation to the acquisition cost as at reporting date are included in the consolidated statement of income. In the case of an increase in the fair value of such properties in the future, unrealised gain is recognised in the consolidated statement of income to the extent of unrealised losses previously recognised.

aa) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable purposes as defined by the Sharia Supervisory Board.

bb) Assets and liabilities held for sale

Assets (or disposal groups or subsidiary held for sale) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.

Assets (or disposal groups or subsidiary held for sale) classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell. If the criteria for held for sale is no longer met, the Group shall cease to classify the asset (or disposal group or subsidiary held for sale) as held for sale and shall measure the assets at the lower of its carrying amount before the asset (or disposal group or subsidiary held for sale) was classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset (or disposal group or subsidiary held for sale) not been classified as held for sale and its recoverable amount at the date of subsequent decision not to sell. An extension of the period required to complete a sale does not preclude an asset (or disposal group or subsidiary held for sale) from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group or subsidiary held for sale).

cc) Wakala payables

The Group accepts deposits from customers under wakala arrangement under which return payable to customers is agreed in the wakala agreement. There is no restriction on the Group for the use of funds received under wakala agreements. Wakala payables are carried at cost plus accrued profit.

dd) Financial guarantees

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

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

ee) Contingent liabilities

Contingent liabilities include guarantees, letter of credit, the Group's obligations with respect to unilateral promise to buy/sell currencies and others. Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ff) Comparatives

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

gg) Shari'a-compliant risk management instruments

Derivatives held for risk management purposes and hedge accounting

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

Fair value hedges

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

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to the consolidated statement of income as a reclassification adjustment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

hh) New standards and interpretations

i. New standards, amendments and interpretations effective from 1 January 2017

There are no new accounting standards and interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that have been issued during the year.

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

FAS 30 Impairment, Credit losses and onerous commitments

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

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

Expected credit losses ('ECL')

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

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

The standard is effective from financial periods beginning on or after 1 January 2020 with early adoption permitted. The Bank is currently awaiting guidance from Qatar Central Bank ("QCB") in this regard.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

hh) New standards and interpretations (continued)

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

FAS 30 Impairment, Credit losses and onerous commitments (continued)

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

	Retained earnings	Non- controlling interest
	<i>QAR'000</i>	<i>QAR'000</i>
Closing balance as at 31 December 2017	2,768,147	1,590,979
 <u>Impact on recognition of Expected Credit Losses</u>		
Expected credit losses for due from banks	297	-
Expected credit losses for debt type securities at amortized cost	90	-
Expected credit losses for financing assets including fair value adjustment	828,019	46,264
Expected credit losses for off balance sheet exposures subject to credit risk	102,346	2
	930,752	46,266
 Estimated adjusted opening balance on date of initial application of 1 January 2018	 1,837,395	 1,544,713

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

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

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

Financial instruments

Financial instruments comprises of all financial assets and liabilities of the Group. Financial assets include cash and balances with central banks, due from banks, investment securities, financing assets, derivative financial assets and certain other assets. Financial liabilities include customers' current accounts, due to banks, Sukuk financing and certain other liabilities. Financial instruments also include equity of unrestricted investment account holders, contingent liabilities and commitments included in off balance sheet items.

Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risk
- Other risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital.

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

4. FINANCIAL RISK MANAGEMENT (continued)

a) Introduction and overview (continued)

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board has established various specialized committees that report directly to it and perform functions on its behalf to support efficient management practice which mainly include Board Executive Committee, Audit and Risk Committee, Policies and Procedures Committee, Compensation and Benefits Committee and Zakat Committee.

The Board Executive Committee is represented by Board Members with the Group Chief Executive Officer participation, and senior executives of the Bank who bear the responsibility of information under discussion. The Board has appointed the Executive Committee to assist it in discharging its responsibilities in two capacities: Deputising between Board meetings on urgent matters normally reserved for the Board's own decision; and discharging responsibilities delegated by the Board, including credit, market and operational risk matters. While the Board has ultimate credit authority, the Executive Committee, under the Board's current mandate, is responsible for the application of the Credit and Investment Policy in implementing the strategic goals of the Board.

The Executive Committee serves as a tool to coordinate the business. It has, as its primary tasks and responsibilities, the provision of ongoing information to the Board on business developments, regular review of business segments, consultation with and furnishing advice to the Board on strategic decisions and preparation of credit decisions, within its delegated authorities. The Board Executive Committee works to develop the Group's business plan to be presented to the Board.

The primary objective of Policies and Procedures Committee is to study, prepare and develop strategies, objectives, policies, systems, plans, and procedures manuals. The Committee ensures that the Group policies and practices are conducted in accordance with the established and approved business operating standards. The Committee reviews the operating efficiency of the respective functions, and measures the alignment of functional procedures with corporate objectives and business processes. The Committee is also responsible for the review and consolidation of business development, product alignment and resources distribution across Group. The Committee highlights deviations of policies and procedures from laid down standards to the management for necessary corrective action from time to time and reviews compliance of the same. The Committee is also responsible to develop Group's corporate social responsibility strategy in light of Group's brand values.

Nomination and Remuneration Committee is responsible to develop a remuneration policy to attract, retain and motivate staff, management of the highest caliber who have the skills needed to achieve the Bank's objectives year on year. The Committee is responsible to ensure that it balances the interests of the shareholders, the Bank and its employees. The Committee meets several times during the year to perform and comply with its mandate.

Zakat Committee is responsible to promote interdependence and integration among members of the Muslim community by channelling contributions of Zakat. The Committee identifies key players in the field of humanitarian aid, general development and other channels that can be used to distribute Zakat proceeds. The Committee is responsible to develop good relationships with charitable, humanitarian aid groups and institutions that provide assistance in general development in order to evaluate recipients who would receive Zakat proceeds. . It also, develops a Zakat collection and disbursement policy of the Bank for monitoring the result of the Zakat contributions and introducing accountability. The Committee also ensures that Zakat is calculated and distributed as per Shari'a rules and standards.

Audit and Risk Committee's objective is to assist the Board to fulfill its corporate governance and oversight responsibilities related to the Group. This risk management, financial reports, systems of internal control, the internal and external audit functions and the process of monitoring compliance with laws and regulations and the Group's code of business conduct. The Committee role is to report to the Board and provide appropriate advice and recommendations on matters relevant to the Audit and Risk Committee charter in order to facilitate decision making to the Board.

4. FINANCIAL RISK MANAGEMENT (continued)

a) Introduction and overview (continued)

Risk management framework (continued)

The Audit and Risk Committee is assisted in these functions by the Internal Audit and Compliance Departments.

In addition to the above mentioned committees, the management has also established a number of multi-functional internal committees such as the Management Committee, Credit & Investment Committee, Assets and Liabilities Committee (ALCO) and, Special Assets Committee which are responsible for developing and monitoring Group's risk management policies in their specified areas.

A separate Risk Management Group, reporting to the Group Chief Executive Officer and the Audit and Risk Committee, assists in carrying out the oversight responsibility of the Board.

Risk Group function operates within a Board approved Risk Appetite framework. The framework identifies key risks faced by the Bank and sets accordingly appropriate risk limits and controls. The group monitors risks and adherence to limits. The Group Risk appetite framework, policies and systems are reviewed regularly, to reflect changes in market conditions, products and services offered.

The Bank's risk appetite statement defines the risk tolerance that translated into a framework of risk limits, targets or measures for major risk categories through the Bank and Banking Group. The setting of the risk appetite thus ensures that risk is proactively managed to the Framework.

The Board as well as Management reviews and approves the Risk Appetite & Framework on an annual basis to ensure that it is consistent with the Bank's business environment, stakeholder requirements and strategy. The risk appetite tolerance levels are set at different trigger levels, with clearly defined escalation and action schemes

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's financing assets, due from banks, investment securities, contingent exposures and certain other assets.

The Group's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of financing assets;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of financing assets are subject to the same review process;
- Diversification of financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

A comprehensive framework of credit risk limits is in place that monitors the overall quality of the Bank's credit portfolio as well as the underlying portfolios. In addition, specific concentration risk appetites are defined on product, geographical and counterparty level that are cascaded down into the organization.

The Credit and Investment Committee (CIC) has day to day responsibility for all matters relating to credit risk, including Credit and Investment Policy interpretation and application, exposure portfolio monitoring and country limits. The CIC reviews and manages risk asset policies, approvals, exposures and recoveries related to credit, operational and compliance risks. It acts as a general forum for discussions of any aspect of risk facing or which could potentially face QIB resulting in reputational or financial loss to the bank. It also oversees the operations of the Operational Risk Management committee (ORMC) and the Special Assets Committee (SAC).

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by Internal/External Audit and Compliance Divisions.

4. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(i) Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2017	2016
Credit risk exposures relating to financial assets recorded on the consolidated statement of financial position are as follows:		
Balances with central banks	4,889,109	4,854,203
Due from banks	4,875,690	10,149,896
Financing assets	102,613,499	98,170,520
Investment securities - debt	28,300,482	18,461,089
Other assets	974,325	684,574
	<u>141,653,105</u>	<u>132,320,282</u>
Other credit risk exposures		
Guarantees	11,043,258	10,187,579
Unutilised financing facilities	5,894,185	5,539,823
Letters of credit	1,379,262	3,105,980
	<u>18,316,705</u>	<u>18,833,382</u>

The above tables represents a worse-case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For assets recorded on the consolidated statement of financial position, the exposures set out above are based on net carrying amounts as reported on the consolidated statement of financial position.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a financing commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the consolidated statement of financial position.

(ii) Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit enhancements attached), as categorised by geographical region and based on the country of domicile of its counterparties:

31 December 2017

Assets recorded on the consolidated statement of financial position:	Other				Total
	Qatar	GCC	Middle East	Others	
Balances with central banks	4,576,357	-	193,428	119,324	4,889,109
Due from banks	4,057,277	30,325	153,793	634,295	4,875,690
Financing assets	91,644,853	1,623,796	208,540	9,136,310	102,613,499
Investment securities - debt	27,729,444	330,818	207,806	32,414	28,300,482
Other assets	809,736	15,764	35,170	113,655	974,325
	<u>128,817,667</u>	<u>2,000,703</u>	<u>798,737</u>	<u>10,035,998</u>	<u>141,653,105</u>

4. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

Geographical sectors (continued)

31 December 2016

Assets recorded on the consolidated statement of financial position:	Qatar	Other GCC	Other Middle East	Others	Total
Balances with central banks	4,664,649	-	189,554	-	4,854,203
Due from banks	4,269,174	3,161,691	391,927	2,327,104	10,149,896
Financing assets	84,428,154	4,864,925	365,481	8,511,960	98,170,520
Investment securities - debt	16,538,184	962,795	231,163	728,947	18,461,089
Other assets	445,872	34,926	53,404	150,372	684,574
	110,346,033	9,024,337	1,231,529	11,718,383	132,320,282

Off balance sheet items

31 December 2017

	Qatar	Other GCC	Other Middle East	Others	Total
Guarantees	10,209,417	135,752	123,348	574,741	11,043,258
Unutilised financing facilities	5,785,610	-	1,999	106,576	5,894,185
Letters of credit	769,057	36,518	460	573,227	1,379,262
	16,764,084	172,270	125,807	1,254,544	18,316,705

31 December 2016

	Qatar	Other GCC	Other Middle East	Others	Total
Guarantees	9,151,585	235,212	147,918	652,864	10,187,579
Unutilised financing facilities	5,403,057	-	7,176	129,590	5,539,823
Letters of credit	731,706	1,220,975	36,228	1,117,071	3,105,980
	15,286,348	1,456,187	191,322	1,899,525	18,833,382

4. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

Industry sectors

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

	<i>Net exposure 2017</i>	<i>Net exposure 2016</i>
Funded and unfunded:		
Government	44,836,814	26,630,258
Non-banking financial institutions	9,158,908	7,610,897
Industry	5,625,102	6,691,524
Commercial	14,406,054	14,490,017
Services	13,200,697	25,922,141
Contracting	4,407,097	4,609,898
Real estate	23,690,786	21,594,891
Personal	23,869,364	22,710,317
Others	2,458,281	2,060,338
Contingent liabilities	18,316,707	18,833,383
Total	<u>159,969,810</u>	<u>151,153,664</u>

Credit risk exposure

The tables below presents an analysis of counterparties by rating agency designation:

	<i>2017</i>	<i>2016</i>
Equivalent grades		
AAA to AA-	41,439,994	28,250,567
A+ to A-	5,200,227	9,028,649
BBB to BBB-	2,747,013	1,223,545
BB+ to B-	267,289	298,765
Unrated	110,315,287	112,352,138
Total	<u>159,969,810</u>	<u>151,153,664</u>

4. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(iii) Credit quality

The following table provides the details for the credit quality:

	Financing assets		Due from banks		Investment in debt - type securities	
	2017	2016	2017	2016	2017	2016
Neither past due nor impaired:						
Gross amount	107,625,879	103,610,122	4,876,222	10,158,182	-	-
Deferred profit	(6,848,417)	(7,149,002)	(532)	(8,286)	-	-
Carrying amount	100,777,462	96,461,120	4,875,690	10,149,896	-	-
Past due but not impaired:						
Carrying amount	1,886,632	1,558,765	-	-	-	-
Impaired						
Substandard (overdue > 3 months)	117,372	519,474	-	-	-	-
Doubtful (overdue > 6 months)	473,878	42,941	-	-	-	-
Loss (overdue > 9 months)	648,890	452,444	-	-	-	-
	1,240,140	1,014,859	-	-	-	-
Specific impairment allowance	(1,164,419)	(735,947)	-	-	-	-
Collective impairment allowance	(34,079)	(63,335)	-	-	-	-
Suspended profit	(92,237)	(64,942)	-	-	-	-
	(1,290,735)	(864,224)	-	-	-	-
Carrying amount (net)	(50,595)	150,635	-	-	-	-
Investment securities						
At fair value through income statement	-	-	-	-	37,075	46,507
At amortised cost	-	-	-	-	28,273,730	18,427,309
	-	-	-	-	28,310,805	18,473,816
Impairment					(10,323)	(12,727)
Carrying amount (net)					28,300,482	18,461,089
Total carrying amount	102,613,499	98,170,520	4,875,690	10,149,896	28,300,482	18,461,089

Impaired financing assets and investment in debt-type securities

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

Investment in debt-type securities carried at fair value through income statement are not assessed for impairment.

4. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(iii) Credit quality (continued)

Financing assets past due but not impaired

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

	2017	2016
Up to 30 days	1,499,618	1,325,132
30 to 60 days	216,586	171,260
60 – 90 days	170,428	62,373
Gross	1,886,632	1,558,765

Renegotiated financing assets

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated financing assets as at 31 December 2017 amounted to QAR 107.8 million (2016: QAR 20.6 million). These mainly represent Ijarah and Istisna' financing that have been restructured upon completion of underlying assets and based on the expected future cash flows.

(iv) Collateral

The determination of eligible collateral and the value of collateral are based on QCB regulations and are assessed by reference to market price or indexes of similar assets.

The Group has collateral in the form of blocked deposits, pledge of shares, mortgage interests over properties, and guarantees or legal mortgage against the past dues financing assets. The aggregate collateral is QAR 1,141 million (2016: QAR 1,171 million).

(v) Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the consolidated statement of financial position within other assets.

(vi) Write-off policy

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

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

4. FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk

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

(i) Management of liquidity risk

The Group maintains a portfolio of high quality liquid assets, largely made up of QCB sukuk, short-term liquid trading investments, and inter-bank placements in addition to maintaining the statutory reserves with QCB and other regulators. The Market Risk Department monitors the liquidity risk of the Bank on a daily basis through a Liquidity Management dashboard which captures many liquidity parameters both under normal and stressed market conditions. The dashboard includes threshold points which will help proactively identify any liquidity constraints, the remedial actions that will be taken under each situation along with the responsible persons. All liquidity policies and procedures are subject to review and approval by ALCO and the Board of Directors.

The Group monitor its liquidity risk according to QCB's guidelines on Basel III through two key ratios, the Liquidity Coverage Ratio (LCR) to monitor the short term (30 days) resilience of the bank's liquidity and non-risk based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements.

(ii) Exposure to liquidity risk

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

4. FINANCIAL RISK MANAGEMENT (continued)**c) Liquidity risk (continued)****(iii) Maturity analysis**

Maturity analysis of Group's assets, liabilities and equity of unrestricted investment account holders are prepared on the basis of the remaining period at 31 December to the contractual maturity date. For assets, liabilities and equity of unrestricted investment account holders where there is no contractually agreed maturity date, the maturity analysis is done based on the statistical maturity.

2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Cash and balances with central banks	848,736	2,958	338,870	29,224	4,326,598	5,546,386
Due from banks	4,841,499	34,191	-	-	-	4,875,690
Financing assets	27,650,882	20,439,446	7,136,703	19,222,693	28,163,775	102,613,499
Investment securities	1,297,754	1,435,000	990,853	4,030,000	22,648,656	30,402,263
Investment in associates	-	-	-	-	668,512	668,512
Investment properties	-	-	-	-	1,943,937	1,943,937
Assets held for sale	245,686	-	-	-	-	245,686
Fixed assets	5,050	323	79,268	14,491	412,170	511,302
Intangible assets	-	65	5,544	12,159	393,546	411,314
Other assets	513,682	50,221	70,712	123,477	2,398,195	3,156,287
Total assets	35,403,289	21,962,204	8,621,950	23,432,044	60,955,389	150,374,876

Liabilities and equity of unrestricted investment account holders**Liabilities**

Due to banks	11,890,811	1,207,120	946,926	3,109,186	37,083	17,191,126
Customers' current accounts	16,600,080	-	-	-	-	16,600,080
Sukuk financing	-	-	-	4,327,282	2,730,000	7,057,282
Other liabilities	1,516,790	1,262,617	330,030	73,598	248,717	3,431,752
Total liabilities	30,007,681	2,469,737	1,276,956	7,510,066	3,015,800	44,280,240

Equity of unrestricted investment account holders

Total liabilities and equity of unrestricted investment account holders	85,251,829	14,762,427	15,960,850	9,945,826	3,573,779	129,494,711
Maturity gap	(49,848,540)	7,199,777	(7,338,900)	13,486,218	57,381,610	20,880,165

4. FINANCIAL RISK MANAGEMENT (continued)**c) Liquidity risk (continued)****(iii) Maturity analysis (continued)**

2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Cash and balances with central banks	985,675	1,462	-	-	4,460,046	5,447,183
Due from banks	9,670,832	87,683	391,381	-	-	10,149,896
Financing assets	24,536,477	17,344,454	6,311,588	20,591,302	29,386,699	98,170,520
Investment securities	3,603,172	1,064,067	234,830	7,127,835	7,928,813	19,958,717
Investment in associates	-	-	-	-	875,034	875,034
Investment properties	-	-	-	-	929,826	929,826
Fixed assets	145	436	73,293	19,609	423,774	517,257
Intangible assets	38	69	1,327	25,468	405,021	431,923
Other assets	310,377	124,309	239,932	439,510	2,239,644	3,353,772
Total assets	39,106,716	18,622,480	7,252,351	28,203,724	46,648,857	139,834,128

Liabilities and equity of unrestricted investment account holders

Liabilities

Due to banks	10,298,018	1,670,513	958,757	679,620	-	13,606,908
Customers' current accounts	14,055,114	-	-	-	-	14,055,114
Sukuk financing	-	-	2,721,658	1,339,520	2,730,000	6,791,178
Other liabilities	1,391,069	2,053,480	291,342	144,917	159,817	4,040,625
Total liabilities	25,744,201	3,723,993	3,971,757	2,164,057	2,889,817	38,493,825

Equity of unrestricted investment account holders

Total liabilities and equity of unrestricted investment account holders	83,885,416	14,783,723	12,945,772	4,193,164	4,027,392	119,835,467
Maturity gap	(44,778,700)	3,838,757	(5,693,421)	28,470,606	38,161,419	19,998,661

4. FINANCIAL RISK MANAGEMENT (continued)

d) Market risks

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The market risks arising from trading and non-trading activities are concentrated in Group Treasury and monitored by the Group's Market Risk Department on a daily basis. Regular reports are submitted to the ALCO and heads of each business unit.

Non-trading portfolios primarily arise from the profit rate and management of the Group's retail and corporate banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's debt-type and equity-type investments.

(i) Management of market risks

Overall authority for market risk is vested in ALCO. Group Market Risk Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO/BoD) and for the day-to-day management of all market risks. The main objective of the Market Risk Management is identification, classification measurement, assessment and controlling the market risk in a prudent way to ensure safeguarding interests of all shareholders. The Group views market risk management as a core competency and its purpose is not to neutralise market risks, but rather maximize risk/return tradeoffs within clearly defined limits. The existence of market risk requires the measurement of the magnitude of the exposure. This measure is an essential precursor to the management of the risk that takes the form of either reducing the exposure through hedging or maintaining sufficient capital to protect the Group from the risk of operational capacity impairment.

(ii) Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous three years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

4. FINANCIAL RISK MANAGEMENT (continued)

d) Market risks (continued)

The Group uses VaR limits for total market risk and specific foreign exchange, profit rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily and more regularly for more actively traded portfolios. Daily reports of utilisation of VaR limits are submitted to Group Market Risk and regular summaries are submitted to ALCO.

A summary of the VaR position of the Group's trading portfolios at 31 December and during the year is as follows:

	At 31 December	Average	Maximum	Minimum
2017				
Equity price risk 10-day VaR @99%	24,596	17,177	27,255	10,337
2016				
Equity price risk 10-day VaR @99%	14,725	17,414	21,166	10,092

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios, such as periods of prolonged market illiquidity, on individual trading portfolios and the Group's overall position.

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

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

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

	Repricing in:						Effective profit rate
	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-profit sensitive	
2017							
Cash and balances with central banks	5,546,386	530,332	2,958	63,662	54,670	4,894,764	-
Due from banks	4,875,690	4,422,610	34,190	-	-	418,890	2.05%
Financing assets	102,613,499	58,893,737	30,922,190	10,294,790	929,357	1,573,425	4.88%
Investment securities	30,402,263	679,010	13,592,318	6,385,251	7,223,123	2,101,781	3.66%
	143,437,838	64,525,689	44,551,656	16,743,703	8,207,150	8,988,860	-
Due to banks	17,191,126	13,768,442	1,574,771	1,752,784	-	95,129	2.62%
Sukuk financing	7,057,282	1,339,522	-	5,717,760	-	-	2.97%
	24,248,408	15,107,964	1,574,771	7,470,544	-	95,129	-
Equity of unrestricted investment account holders	85,214,471	55,244,148	26,064,854	2,946,140	-	959,329	2.30%
	109,462,879	70,352,112	27,639,625	10,416,684	-	1,054,458	-
Profit rate sensitivity gap	33,974,959	(5,826,423)	16,912,031	6,327,019	8,207,150	7,934,402	-
Cumulative profit rate sensitivity gap	-	33,554,179	39,380,602	22,468,571	16,141,552	7,934,402	-

4. FINANCIAL RISK MANAGEMENT (continued)

d) Market risks (continued)

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

	Carrying amount	Repricing in:			Non-profit sensitive	Effective profit rate
		Less than 3 months	3-12 months	1-5 years		
2016						
Cash and balances with central banks	5,447,183	930,156	1,462	50,441	-	4,465,124
Due from banks	10,149,896	8,665,686	668,777	-	-	815,433
Financing assets	98,170,520	50,141,522	31,689,203	12,685,530	1,326,152	2,328,113
Investment securities	19,958,717	3,096,850	1,363,564	10,032,677	4,053,260	1,412,366
	133,726,316	62,834,214	33,723,006	22,768,648	5,379,412	9,021,036
Due to banks	13,606,908	10,131,453	2,629,270	679,619	1,444	165,122
Sukuk financing	6,791,178	1,339,520	2,721,658	2,730,000	-	-
	20,398,086	11,470,973	5,350,928	3,409,619	1,444	165,122
Equity of unrestricted investment account holders	81,341,642	58,959,407	20,031,198	1,625,290	-	725,747
	101,739,728	70,430,380	25,382,126	5,034,909	1,444	890,869
Profit rate sensitivity gap	31,986,588	(7,596,166)	8,340,880	17,733,739	5,377,968	8,130,167
Cumulative profit rate sensitivity gap	-	31,986,588	39,582,754	31,241,874	13,508,135	8,130,167

Sensitivity analysis

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non - standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

Sensitivity of net profit	100 bp parallel increase	100 bp parallel decrease
2017		
At 31 December	74.91 million	(74.91 million)
2016		
At 31 December	19.62 million	(19.62 million)

4. FINANCIAL RISK MANAGEMENT (continued)

d) Market risks (continued)

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

Sensitivity analysis (continued)

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

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

Foreign currency transactions

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

**Net Open currency exposure as at 31 December
 2017 in QAR '000**

	2017	2016
Net foreign currency exposure:		
Sterling Pounds	(493)	(5,439)
USD	(3,996,333)	(3,414,219)
Euro	5,276	12,107
Other currencies	(24,072)	159,567

The exchange rate of QAR against US Dollar has been pegged and the Group's exposure to currency risk is limited to that extent. The Group uses Shari'a compliant forward contracts to mitigate the other currency risks.

The table below indicates the effect of a reasonably possible movement of the currency rate against the QAR on the net profit for the year, with all other variables held constant:

	Increase / (decrease)	
	2017	2016
5% change in currency exchange rate		
Sterling Pound	(25)	(272)
USD	(199,817)	(170,711)
Euro	264	605
Other currencies	(1,204)	7,978

4. FINANCIAL RISK MANAGEMENT (continued)

d) Market risks (continued)

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

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as fair value through income statement and fair value through equity.

The Group is also exposed to equity price risk and the sensitivity analysis thereof is as follows:

Market Indices	Change in equity price %	Effect on equity		Effect on profit and loss	
		2017	2016	2017	2016
Qatar Exchange	+/- 10%	26,436	14,293	1,448	572
Bahrain Stock Exchange	+/- 10%	2,383	955	-	-

The above analysis has been prepared on the assumption that all other variables such as profit rate, foreign exchange rate, etc are held constant and is based on historical correlation of the equity securities to the relevant index. Actual movement may be different from the one stated above.

e) Operational risks

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, which includes but is not limited to, legal risk and Shari'ah compliance risk; however, it does not cover reputational risk & strategic risk

The Group's objective is to structure a robust, dynamic and sustainable operational risk management framework (ORMF) for identification, assessment, measurement, monitoring/control and reporting

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

- Regular operational risk identification, assessment and control evaluation
- Incident and risk event management, issue remediation and consistent risk reporting across the bank.
- Early warning of increasing risk exposures through KRI monitoring
- segregation of duties and dual of control
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- Proper Policies and procedures;
- Development of Disaster Recovery and Business continuity plans;
- Protection of information security Assets.
- Training and professional development;
- Ethical and business standards; and
- Risk Transfer, including insurance and outsourcing where this is effective.

4. FINANCIAL RISK MANAGEMENT (continued)

f) Capital management

Regulatory capital

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

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

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

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

	<u>2017</u>	<u>2016</u>
	Basel III	Basel III
Tier 1 capital	18,613,403	17,060,991
Tier 2 capital	440,829	514,347
Total regulatory capital	<u>19,054,232</u>	<u>17,575,338</u>
Risk weighted assets		
	<u>2017</u>	<u>2016</u>
	Basel III	Basel III
Risk weighted assets for credit risk	102,210,132	97,915,186
Risk weighted assets for market risk	447,681	748,427
Risk weighted assets for operational risk	7,348,834	6,448,871
Total risk weighted assets	<u>110,006,647</u>	<u>105,112,484</u>
Regulatory capital	<u>19,054,232</u>	<u>17,575,338</u>
Risk weighted assets as a percentage of regulatory capital (capital ratio)	<u>17.3%</u>	<u>16.7%</u>

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

The capital adequacy ratio has been calculated as per Basel III guidelines in accordance with QCB regulations. The minimum capital adequacy requirement are as follows:

- Minimum limit without capital conservation buffer is 10%;
- Minimum limit including capital conservation buffer is 12.5%;
- Minimum total capital including capital conservation buffer and domestic systematic important bank buffer is 13%;
- Minimum total capital including capital conservation buffer, domestic systematic important bank buffer and ICAAP Pillar II capital charge is 14%.

5. USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

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

5. USE OF ESTIMATES AND JUDGMENTS (continued)

(a) Key sources of estimation uncertainty (continued)

i. Allowance for credit losses

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

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

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

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.

Fair value is determined for each investment individually in accordance with the general valuation policies as set out below;

- i) For quoted investments, the fair value is determined by reference to quoted market bid prices at close of business on the reporting date.
- ii) For unquoted investments, the fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation method.
- iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- iv) Investments, which cannot be measured to fair value using any of the above techniques, are carried at cost less impairment.

5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

i. Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist 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, sukuk 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 that would have been determined by market participants acting at arm's length.

ii. Financial asset classification

The table below analyses financial instruments measured at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurements categorised:

2017	Total QR'000	Fair value measurement using		
		Quoted prices in active markets (Level 1) QR'000	Significant observable inputs (Level 2) QR'000	Significant unobservable inputs (Level 3) QR'000
Shari'a compliant risk management instruments (assets)	381,677	-	381,677	-
Investments securities				
Quoted equity-type investments classified as fair value through income statement	14,482	14,482	-	-
Quoted debt-type investments classified as fair value through income statement	29,642	29,642	-	-
Unquoted debt-type investments classified as fair value through income statement	7,433	-	-	7,433
Unquoted equity-type investments classified as fair value through income statement	1,531,573	-	391,099	1,140,474
Quoted equity-type investments classified as fair value through equity	288,192	288,192	-	-
Unquoted equity-type investments classified as fair value through equity	267,534	-	-	267,534
Shari'a compliant risk management instruments (liabilities)	174,587	-	174,587	-

5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

ii. Financial asset classification (continued)

31 December 2016 (Audited)	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	QR'000	QR'000	QR'000	QR'000
Shari'a compliant risk management instruments (assets)	731,141	-	731,141	-
Investments securities :				
Quoted equity-type investments classified as fair value through income statement	5,719	5,719	-	-
Quoted debt-type investments classified as fair value through income statement	46,507	46,507	-	-
Unquoted equity-type investments classified as fair value through income statement	972,889	-	222,796	750,093
Quoted equity-type investments classified as fair value through equity	166,759	166,759	-	-
Unquoted equity-type investments classified as fair value through equity	352,261	-	-	352,261
Shari'a compliant risk management instruments (liabilities)	130,261	-	130,261	-

The fair value of financial assets and liabilities carried at amortised cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for investment securities carried at amortised cost for which the fair value amounts to QAR 2,341 million (2016: QAR 4,146 million), which is derived using level 1 fair value hierarchy. The details of the Group's classification of financial assets and liabilities are disclosed in note 7.

During the years ended 2017 and 2016, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurement.

The following table shows the reconciliation of the opening and closing amounts of level 3 investments which are recorded at fair value:

	At 1 January 2017	Total gain recorded in consolidated income statement	Purchases	Sales/ transfers	At 31 December 2017
Equity investments					
at fair value through equity	352,261	523	185,753	(271,003)	267,534
at fair value through income statement	750,093	48,817	378,913	(37,351)	1,140,472
Debt investments					
at fair value through income statement	-	-	7,433	-	7,433
	1,102,354	49,340	572,099	(308,354)	1,415,439

5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

ii. Financial asset classification (continued)

	At 1 January 2016	Total gain recorded in consolidated income statement	Purchases	Sales/ transfers	At 31 December 2016
Equity investments					
at fair value through equity	410,756	-	4,368	(62,863)	352,261
at fair value through income statement	527,072	26,143	187,780	9,098	750,093
	937,828	26,143	192,148	(53,765)	1,102,354

6. OPERATING SEGMENTS

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

Corporate banking	Includes services offered to institutional investors, corporates, small and medium enterprises, financial institutions and investment vehicles.
Personal banking	Includes services that are offered to individual customers through local branches of the bank which includes checking and savings accounts, credit cards, personal lines of credit, mortgages, and so forth.
Group function	Treasury, investment, finance and other central functions.
Local & international subsidiaries	Local and international subsidiaries include the Groups local and international subsidiaries all of which are consolidated in the Group financial statements

Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Chief Executive Officer. 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 regarding the results, assets and liabilities of each reportable segment is included below.

6. OPERATING SEGMENTS (continued)

Information about operating segments

2017	Corporate banking	Personal banking	Group function	Local & international subsidiaries	Total
External revenue:					
Total net income from financing and investing activities	3,670,905	1,184,148	314,888	292,538	5,462,479
Net fee and commission income	261,618	159,447	40,717	55,752	517,534
Net foreign exchange gain	-	-	94,921	44,140	139,061
Share of results of associates	-	-	21,019	15,364	36,383
Other income	-	-	27,000	16,872	43,872
Inter segment revenue	(1,022,973)	291,909	731,064	-	-
Loss from assets held for sale	-	-	(2,490)	-	(2,490)
Total segment income	2,909,550	1,635,504	1,227,119	424,666	6,196,839
Staff costs, other expenses, depreciation and amortisation					
	(232,335)	(405,396)	(165,927)	(302,062)	(1,105,720)
Sukuk holders' share of profit	-	-	(218,370)	-	(218,370)
Return to unrestricted investment account holders	(998,555)	(310,116)	(413,136)	(96,820)	(1,818,627)
Other material non-cash items:					
Net impairment losses on investment securities	-	-	(236,280)	(69,411)	(305,691)
Net impairment losses on financing assets	(216,293)	(96,249)	(112,531)	(49,612)	(474,685)
Other impairment losses	-	-	-	(4,955)	(4,955)
Reportable segment net profit before tax	1,462,367	823,743	80,875	(98,194)	2,268,791
Tax expense	-	-	-	(18,270)	(18,270)
Reportable segment net profit after tax	1,462,367	823,743	80,875	(116,464)	2,250,521
Reportable segment assets	91,833,574	18,762,338	34,547,416	5,231,548	150,374,876
Reportable segment liabilities and equity of unrestricted investments account holders	58,520,527	32,893,803	33,957,204	4,123,177	129,494,711

6. OPERATING SEGMENTS (continued)**Information about operating segments (continued)**

2016	Corporate banking	Personal banking	Group function	Local & international subsidiaries	Total
External revenue:					
Total net income from financing and investing activities	2,811,991	1,104,946	488,190	351,976	4,757,103
Net fee and commission income	237,891	152,155	34,144	94,671	518,861
Net foreign exchange gain	-	-	152,932	23,206	176,138
Share of results of associates	-	-	7,308	3,556	10,864
Other income	-	-	-	25,259	25,259
Inter segment revenue	(793,526)	239,812	553,714	-	-
Profit from assets held for sale	-	-	-	5,266	5,266
Total segment income	2,256,356	1,496,913	1,236,288	503,934	5,493,491
Staff costs, other expenses and depreciation and amortisation					
	(241,890)	(408,682)	(145,417)	(293,161)	(1,089,150)
Sukuk holders' share of profit	-	-	(156,351)	-	(156,351)
Return to unrestricted investment account holders	(829,207)	(234,956)	(508,586)	(106,651)	(1,679,400)
Other material non-cash items:					
Net impairment losses on investment securities	-	-	(215,401)	(10,324)	(225,725)
Net impairment losses on financing assets	(3,382)	(5,501)	(84,231)	(128,225)	(221,339)
Other impairment losses	-	-	-	(728)	(728)
Reportable segment net profit before tax	1,181,877	847,774	126,302	(35,155)	2,120,798
Tax expense	-	-	-	(10,074)	(10,074)
Reportable segment net profit after tax	1,181,877	847,774	126,302	(45,229)	2,110,724
Reportable segment assets	76,131,585	17,895,901	40,704,007	5,102,635	139,834,128
Reportable segment liabilities and equity of unrestricted investments account holders	41,145,223	30,367,726	44,720,953	3,601,565	119,835,467

7. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
2017					
Cash and balances with central banks	-	-	5,546,386	5,546,386	5,546,386
Due from banks	-	-	4,875,690	4,875,690	4,875,690
Financing assets	-	-	102,613,499	102,613,499	102,613,499
Investment securities:					
- Measured at fair value	555,726	1,583,130	-	2,138,856	2,138,856
- Measured at amortised cost	-	-	28,263,407	28,263,407	28,202,221
Other assets	-	-	974,325	974,325	974,325
	555,726	1,583,130	142,273,307	144,412,163	144,350,977
Due to banks	-	-	17,191,126	17,191,126	17,191,126
Customers' current accounts	-	-	16,600,080	16,600,080	16,600,080
Sukuk financing	-	-	7,057,282	7,057,282	7,057,282
Other liabilities	-	-	3,431,752	3,431,752	3,431,752
Equity of unrestricted investment account holders	-	-	85,214,471	85,214,471	85,214,471
	-	-	129,494,711	129,494,711	129,494,711
	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
2016					
Cash and balances with central banks	-	-	5,447,183	5,447,183	5,447,183
Due from banks	-	-	10,149,896	10,149,896	10,149,896
Financing assets	-	-	98,170,520	98,170,520	98,170,520
Investment securities:					
- Measured at fair value	519,020	1,025,115	-	1,544,135	1,544,135
- Measured at amortised cost	-	-	18,414,582	18,414,582	18,027,867
Other assets	-	-	684,574	684,574	684,574
	519,020	1,025,115	132,866,755	134,410,890	134,024,175
Due to banks	-	-	13,606,908	13,606,908	13,606,908
Customers' current accounts	-	-	14,055,114	14,055,114	14,055,114
Sukuk financing	-	-	6,791,178	6,791,178	6,791,178
Other liabilities	-	-	4,040,625	4,040,625	4,040,625
Equity of unrestricted investment account holders	-	-	81,341,642	81,341,642	81,341,642
	-	-	119,835,467	119,835,467	119,835,467

8. CASH AND BALANCES WITH CENTRAL BANKS

	2017	2016
Cash in hand	657,277	592,980
Cash reserve with QCB (i)	4,237,487	4,409,600
Other balances with QCB	338,870	255,048
Balances with other central banks	312,752	189,555
	<u>5,546,386</u>	<u>5,447,183</u>

(i) Cash reserve with QCB represents a mandatory reserve not available for use in the Group's day to day operations.

9. DUE FROM BANKS

	2017	2016
Commodity murabaha receivable	737,844	4,927,832
Wakala placements	3,709,004	4,330,834
Mudaraba placements	9,952	75,797
Current accounts	418,890	815,433
	<u>4,875,690</u>	<u>10,149,896</u>

10. FINANCING ASSETS**(a) By type**

	2017	2016
Receivables and balances from financing activities:		
Murabaha	72,232,021	66,323,646
Musawama	15,592,120	15,474,002
Ijarah Muntahia Bittamleek	19,765,231	20,733,166
Istisna'a	766,379	445,736
Mudaraba	571,250	631,700
Others	1,825,650	2,575,496
Total financing assets	<u>110,752,651</u>	<u>106,183,746</u>
Less: Deferred profit	6,848,417	7,149,002
Specific impairment of financing assets	1,164,419	735,947
Collective impairment of financing assets	34,079	63,335
	<u>1,198,498</u>	<u>799,282</u>
Suspended profit	92,237	64,942
Net financing assets	<u>102,613,499</u>	<u>98,170,520</u>

The impaired financing assets net of deferred profit amounted to QAR 1,209 million as at 31 December 2017 representing 1.2% of the total financing assets net of deferred profit (31 December 2016: QAR 996 million, representing 1% of the total financing assets net of deferred profit).

Impairment distribution by nature of the customer is as follow:

	2017	2016
Corporate	649,214	355,396
Retail and others	549,284	443,886
	<u>1,198,498</u>	<u>799,282</u>

10. FINANCING ASSETS (continued)**(b) Movement in impairment of financing assets is as follows:**

	2017	2016
Balance at 1 January	799,282	579,953
Charge for the year	582,591	349,014
Recoveries during the year	(107,906)	(127,675)
Net impairment losses during the year	474,685	221,339
Written off during the year	(23,284)	(3,155)
Adjustments	(52,185)	1,145
Balance at 31 December	1,198,498	799,282

(c) Movement in the impairment of financing assets - sector wise:

	Corporates	SMEs	Retail	Real estate mortgages	Total
Balance at 1 January 2017	355,396	1,330	403,486	39,070	799,282
Charge for the year	384,435	13,042	146,496	38,618	582,591
Recoveries during the year	(35,493)	(529)	(63,208)	(8,676)	(107,906)
Written off during the year	(11,844)	(4,588)	(6,852)	-	(23,284)
Adjustments	(43,280)	-	-	(8,905)	(52,185)
Balance at 31 December 2017	649,214	9,255	479,922	60,107	1,198,498

	Corporates	SMEs	Retail	Real estate mortgages	Total
Balance at 1 January 2016	146,203	5,375	392,079	36,296	579,953
Charge for the year	235,852	379	103,754	9,029	349,014
Recoveries during the year	(25,022)	(4,424)	(91,974)	(6,255)	(127,675)
Written off during the year	-	-	(3,155)	-	(3,155)
Adjustments	(1,637)	-	2,782	-	1,145
Balance at 31 December 2016	355,396	1,330	403,486	39,070	799,282

10. FINANCING ASSETS (continued)

(d) By sector

2017	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
Government and related entities	9,948,036	2,297	2,410,781	-	-	178	12,361,292
Non-banking financial institutions	9,259,900	-	-	-	-	25	9,259,925
Industry	5,269,162	61,143	1,605	1,565	-	64,351	5,397,826
Commercial	11,895,395	333,252	2,164,893	169,352	244,971	431,422	15,239,285
Services	6,969,696	116,259	232,424	870	13,692	1,065,518	8,398,459
Contracting	3,898,208	117,650	299,353	5,217	307,802	51,755	4,679,985
Real estate	12,470,311	35,419	14,333,408	568,740	4,785	8,103	27,420,766
Personal	11,133,743	14,905,680	46,270	20,635	-	199,637	26,305,965
Others	1,387,570	20,420	276,497	-	-	4,661	1,689,148
Total financing assets	72,232,021	15,592,120	19,765,231	766,379	571,250	1,825,650	110,752,651
Less: Deferred profit							6,848,417
Specific impairment of financing assets							1,164,419
Collective impairment of financing assets							34,079
Suspended profit							92,237
Net financing assets							102,613,499

Note:

Details of financing assets related to Sukuk backed assets as at 31 December 2017 are disclosed in Note 20 to the consolidated financial statements.

10. FINANCING ASSETS (continued)

(d) By sector (continued)

2016	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
Government and related entities	7,683,036	850	2,664,033	7,325	-	266	10,355,510
Non-banking financial institutions	7,742,232	-	6,898	-	-	45	7,749,175
Industry	5,081,413	11,112	1,293,837	1,977	500	16,505	6,405,344
Commercial	11,914,571	347,845	2,071,383	98,261	14,111	113,204	14,559,375
Services	8,048,671	52,065	187,554	1,593	50,000	2,216,895	10,556,778
Contracting	3,642,200	230,723	328,383	9,445	562,715	29,011	4,802,477
Real estate	11,154,665	199,909	13,257,352	298,524	-	37,503	24,947,953
Personal	9,659,975	14,588,304	624,502	28,410	-	149,916	25,051,107
Others	1,396,883	43,194	299,224	201	4,374	12,151	1,756,027
Total financing assets	66,323,646	15,474,002	20,733,166	445,736	631,700	2,575,496	106,183,746
Less: Deferred profit							7,149,002
Specific impairment of financing assets							735,947
Collective impairment of financing assets							63,335
Suspended profit							64,942
Net financing assets							<u>98,170,520</u>

11. INVESTMENT SECURITIES

	2017			2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
<i>Investments classified as fair value through income statement</i>						
• equity-type investments	14,482	1,531,573	1,546,055	5,719	972,889	978,608
• debt-type investments						
- Fixed rate	29,642	7,433	37,075	46,507	-	46,507
	44,124	1,539,006	1,583,130	52,226	972,889	1,025,115
<i>Debt-type investments classified at amortised cost</i>						
(i)						
- State of Qatar Sukuk and QCB Murabaha	2,065,815	25,627,227	27,693,042	2,051,196	13,722,650	15,773,846
- Fixed rate	310,947	223,018	533,965	2,481,418	14,851	2,496,269
- Floating rate	-	36,400	36,400	-	144,467	144,467
	2,376,762	25,886,645	28,263,407	4,532,614	13,881,968	18,414,582
<i>Equity-type investments classified as fair value through equity</i>						
	288,192	267,534	555,726	166,759	352,261	519,020
	2,709,078	27,693,185	30,402,263	4,751,599	15,207,118	19,958,717

Notes:

- (i) The fair value of the investments carried at amortised cost as at 31 December 2017 amounted to QAR 28,202 million (2016: QAR 18,027 million).
- (ii) The fair value hierarchy and the transfers between categories of fair value hierarchy are disclosed in Note 5 (b).

The movement in impairment of debt-type securities carried at amortised cost and equity-type securities carried at fair value through equity is as follows:

	2017	2016
Balance at 1 January	919,046	929,869
Charge during the year	305,691	225,725
Write off / reversals / transfers during the year	(158,078)	(236,548)
Balance at 31 December	1,066,659	919,046

Note:

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant (where market value has declined by a minimum of 20%) or prolonged (where market value has declined for 9 months at least) decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired.

12. INVESTMENT IN ASSOCIATES

Associates' movement during the year is as follows:

	2017	2016
Balance at 1 January	875,034	1,047,869
Foreign currency translation and other movements	(19,432)	(114,173)
Investments (transferred) / acquired during the year - net	(210,984)	(58,426)
Share of results	36,383	10,864
Cash dividend	(12,489)	(11,100)
Balance at 31 December	668,512	875,034

Name of the Company	Country of Incorporation	Company's Activities	Ownership %	
			2017	2016
Al Jazeera Finance Company (Q.P.S.C)	Qatar	Financing	30.00%	30.00%
Al Daman Islamic Insurance	Qatar	Insurance	30.01%	30.01%
Retaj Marketing and Project Management	Qatar	Real Estate	20.00%	20.00%
Retaj Hotels and Hospitality W.L.L	Qatar	Real Estate	20.00%	20.00%
Retaj Real Estate W.L.L.	Qatar	Real Estate	20.00%	20.00%
Retaj Hotels and Hospitality W.L.L Istanbul	Qatar	Real Estate	20.00%	20.00%
Ellsworthy (previously known as Panmure Gordon & Co. PLC)	United Kingdom	Brokerage	43.70%	43.70%
Ambit Corporate Finance	India	Financial Service	30.77%	30.77%
Asian Finance Bank Berhad(i)	Malaysia	Banking	-	60%

Note:

(i) Asian Finance Bank Berhad has been reclassified as held for sale during the year as disclosed in Note 14.

The financial position, revenue and result of associates based on its financial statements, as at and for the year ended 31 December 2017 and 2016 are as follows:

31 December 2017	Al Jazeera	Al Daman	Retaj	Ellsworthy	Ambit Corporate Finance
Total assets	1,343,978	1,011,421	264,647	402,655	477,246
Total liabilities	401,219	700,499	121,842	310,352	97,159
Total revenue	125,120	51,621	246,399	128,335	50,224
Net profit / (loss)	17,746	30,921	(330)	(355)	3,309
Share of profit / (loss)	10,261	14,878	5,515	(193)	5,922

12. INVESTMENT IN ASSOCIATES (CONTINUED)

31 December 2016	Al Jazeera	Al Daman	Retaj	Panmure Gordon	Ambit Corporate Finance	Asian Finance Bank
Total assets	1,449,114	418,425	251,433	224,854	429,670	2,244,845
Total liabilities	504,619	116,621	92,775	144,284	98,348	1,802,918
Total revenue	93,293	52,818	149,985	119,554	77,015	29,635
Net profit	39,899	31,864	6,568	1,430	38,832	4,037
Share of profit / (loss)	15,794	11,999	512	624	11,946	(30,011)

Notes:

- During the year 2017, Panmure Gordon & Co. PLC was delisted from Alternative Investment market (AIM) and its entire share capital was transferred to Ellsworth Limited, a company incorporated in UK. The Bank has same ownership stake in Ellsworth Limited as it had in Panmure Gordon before delisting.
- The financial statements for the four entities of Retaj have been presented together.

13. INVESTMENT PROPERTIES

	2017	2016
Balance at 1 January	929,826	1,055,181
Disposals	-	(332,709)
Addition	28,374	218,177
Transfer from other assets	880,690	-
Changes in fair value	18,900	19,524
Exchange rate revaluation	86,147	(30,347)
Balance at 31 December	1,943,937	929,826

Note:

The investment properties are held either to earn rental income or for capital appreciation.

14. ASSETS HELD FOR SALE

On 6 November 2017, the management of Bank signed a sale and purchase agreement (SPA) with Malaysia Building Society Bhd to sell its full stake of 60% in its associate, Asian Finance Bank (AFB). Accordingly, the Bank's investment in AFB has been classified as held for sale. The sale process is expected to be completed within a period of six months from the date of the SPA.

15. FIXED ASSETS

	Land and buildings	IT equipment	Fixtures and fittings	Motor vehicles	Work in Progress	Total
Cost:						
Balance at 1 January 2017	418,905	169,521	313,625	6,561	33,710	942,322
Additions	-	6,491	27,969	342	13,815	48,617
Disposals	-	(3,134)	(9,421)	-	(2,088)	(14,643)
Foreign currency translation	6,018	200	1,659	-	-	7,877
Transfers	-	-	-	-	(11,335)	(11,335)
Balance at 31 December 2017	424,923	173,078	333,832	6,903	34,102	972,838
Balance at 1 January 2016	469,897	158,251	275,365	6,591	58,927	969,031
Additions	12,656	11,774	42,121	-	17,702	84,253
Disposals	(50,916)	(149)	(508)	(30)	(42,919)	(94,522)
Foreign currency translation	(12,732)	(355)	(3,353)	-	-	(16,440)
Balance at 31 December 2016	418,905	169,521	313,625	6,561	33,710	942,322
Accumulated depreciation:						
Balance at 1 January 2017	73,948	141,257	204,097	5,763	-	425,065
Depreciation charged during the year	5,729	13,284	28,470	345	-	47,828
Disposals	-	(3,120)	(9,407)	-	-	(12,527)
Foreign Currency Translation	241	160	769	-	-	1,170
Balance at 31 December 2017	79,918	151,581	223,929	6,108	-	461,536
Balance at 1 January 2016	79,696	127,375	181,178	5,380	-	393,629
Depreciation charged during the year	6,388	14,228	24,718	383	-	45,717
Disposals	(11,882)	(27)	(432)	-	-	(12,341)
Foreign Currency Translation	(254)	(319)	(1,367)	-	-	(1,940)
Balance at 31 December 2016	73,948	141,257	204,097	5,763	-	425,065
Carrying amounts:						
Balance at 1 January 2016	390,201	30,876	94,187	1,211	58,927	575,402
Balance at 31 December 2016	344,957	28,264	109,528	798	33,710	517,257
Balance at 31 December 2017	345,005	21,497	109,903	795	34,102	511,302

16. INTANGIBLE ASSETS

	Goodwill	Trade marks	Software	Work in Progress	Total
Balance at 1 January 2017	240,784	1,131	190,008	-	431,923
Additions	-	-	15,733	10,410	26,143
Transfer	-	-	-	(3,318)	(3,318)
Foreign currency translation	-	-	91	-	91
Amortisation during the year	-	(79)	(43,446)	-	(43,525)
Balance at 31 December 2017	240,784	1,052	162,386	7,092	411,314
Balance at 1 January 2016	239,026	1,875	52,568	117,141	410,610
Additions	1,758	219	178,946	44,982	225,905
Transfer	-	-	-	(162,123)	(162,123)
Foreign currency translation	-	(239)	(26)	-	(265)
Amortisation during the year	-	(724)	(41,480)	-	(42,204)
Balance at 31 December 2016	240,784	1,131	190,008	-	431,923

QInvest

Goodwill acquired through the acquisition of QInvest L.L.C has been allocated to one CGU. An impairment testing of the goodwill was undertaken by management as at 31 December 2017. The recoverable amount of the investment in QInvest was determined using the dividend discount method.

Key assumptions used in the valuation

- QInvest plans to grow its fee income over the next five years.
- QInvest plans to deploy capital from low yield short term to higher yielding investments.
- QInvest plans to continue with its success in real estate investments and growth in its asset management business.
- QInvest plans to earn income from churning of its FVTE listed equity portfolio during the forecast period.
- QInvest plans to fund its financial position growth through borrowings and partly through customer deposits.
- QInvest is planning on maintaining stability and controlling its cost base over the next five years.

The equity value based on the valuation is higher than the carrying value of the investment in QIB books.

Arab Finance House

Goodwill acquired through the step acquisition of Arab Finance House (AFH) has been allocated to its CGU, which is retail banking and corporate banking. An impairment testing of the goodwill was undertaken by management as at 31 December 2017. The recoverable amount of the investment in AFH was determined using the dividend discount method.

Key assumptions used in the valuation

- The average of the publicly listed commercial banks listed in Lebanon and small MENA banks have been considered.
- The growth rate has been estimated conservatively.
- AFH plans to fund its financial position growth primarily through customer deposits.
- AFH plans to grow its financing book and its fiduciary business over the next five years.
- AFH plans will continue to control its cost base over the next five years and manage its cost to income ratio effectively.
- The equity value based on an implied price to book ratio compares favorably to the carrying value of the investment in QIB books.

17. OTHER ASSETS

	<i>Note</i>	2017	2016
Accrued profit		366,733	288,265
Projects under development		41,304	32,829
Repossessed collateral (i)		1,059,550	63,343
Derivative financial instruments (net)	17.1	207,090	600,880
Deferred tax assets		10,869	14,904
Prepayments and advances		74,411	60,473
Ijarah Muntahia Bittamleek		193,632	-
Others (ii)		1,202,698	2,293,078
		<u>3,156,287</u>	<u>3,353,772</u>

Notes:

- (i) This represents the net value of the property acquired in settlement of financing assets which is stated at its acquisition value less impairment allowance. The estimated market values of this property as at 31 December 2017 amounted to QAR 1,442 million (2016: QAR 92 million).
- (ii) Others include properties of a subsidiary company amounting to QAR 714 million (2016: QAR 1,852 million).

17.1 Shari'a compliant risk management instruments

The table below shows the positive and negative fair values of Shari'a compliant risk management instruments. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of the Group's exposure to credit risk, which is generally limited to the positive or negative fair value of the instruments. These contracts are Shari'a compliant and were approved by the Shari'a Supervisory Board of the Group.

	<u>2017</u>			<u>2016</u>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Notional amount</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Notional amount</i>
a) Held for trading						
Forward foreign exchange contracts	182,421	33,518	3,610,755	351,037	7,316	2,314,904
b) Held as cash flow hedges:						
Forward foreign exchange contracts	63,729	1,621	7,604,595	103,216	122,578	18,067,262
Profit rate swaps	23,793	275	1,847,896	17,475	-	1,339,520
Cross currency swaps	10,539	-	-*	22,465	-	-*
c) Held as hedge of net investment in foreign operation						
Forward foreign exchange contracts	2,446	28,515	1,069,406	41,236	367	773,510
d) Held as fair value hedges						
Cross currency swaps	98,717	109,637	1,318,108	195,096	-	1,098,495
Forward foreign exchange contracts	32	1,021	50,560	616	-	68,468
	<u>381,677</u>	<u>174,587</u>	<u>15,501,320</u>	<u>731,141</u>	<u>130,261</u>	<u>23,662,159</u>

*Notional amount disclosed under fair value hedges QAR 1,194 million (2016: QAR 1,098 million).

18. DUE TO BANKS

	2017	2016
Wakala payable	3,220,682	7,965,302
Commodity murabaha payable	8,876,375	5,476,484
Current accounts	95,129	165,122
Repurchase agreements	4,998,940	-
	<u>17,191,126</u>	<u>13,606,908</u>

Wakala payables include various facilities with maturities up to four months and carries a profit rate of 0.25% to 2.5% (2016: maturities up to two months and carrying profit rate of 0.25% to 1.75%).

19. CUSTOMERS' CURRENT ACCOUNTS

	2017	2016
<i>Current accounts by sector:</i>		
- Government	2,978,366	1,045,136
- Non-banking financial institutions	157,584	289,338
- Corporate	4,001,619	3,384,392
- Individuals	9,462,511	9,336,248
	<u>16,600,080</u>	<u>14,055,114</u>

20. SUKUK FINANCING

Instrument	Issuer	Issued amount	Issued on	Maturity	Profit rate
Sukuk	QIB Sukuk Limited	QAR 2,725 million	October 2015	October 2020	Annual fixed profit rate of 2.754% payable semi-annually
Sukuk	QIB Sukuk Limited	QAR 1,339 million	August 2016	August 2019	Floating profit rate (3 month LIBOR plus 1.5%) payable on a quarterly basis
Sukuk	QIB Sukuk Limited	QAR 2,730 million	May 2017	May 2022	Annual fixed profit rate of 3.251% payable semi-annually
Sukuk	QIB Sukuk Limited	QAR 65 million	August 2017	August 2019	Annual fixed profit rate of 1% payable semi-annually (Japanese Yen)
Sukuk	QIB Sukuk Limited	QAR 57 million	August 2017	August 2019	Annual fixed profit rate of 3.61% payable semi-annually (Australian dollar)
Sukuk	QIB Sukuk Limited	QAR 146 million	November 2017	November 2020	Floating profit rate (3 month LIBOR plus 1.55%) payable quarterly basis

The terms of the above sukuk's arrangement include transfer of certain identified assets including original leased and Musharaka assets and Sharia'a compliant authorised investments of the Group to QIB Sukuk Funding Limited and QIB Sukuk Ltd, both are subsidiaries of the Group.

The Group controls the assets which will continue to be serviced by the Bank. Upon maturity of the Sukuks, the Bank has undertaken to repurchase the assets at the same issuance price.

The details of financing assets backing the Sukuk as at 31 December are as follows:

At 31 December	2017	2016
Murabaha	2,920,384	3,201,980
Ijarah	4,885,975	4,494,612
Total financing assets to the Sukuk	<u>7,806,359</u>	<u>7,696,592</u>

21. OTHER LIABILITIES

	Note	2017	2016
Accrued expenses		334,573	349,691
Manager cheques		135,334	248,873
Customers advances		32,120	38,188
Provision for employees' end of service benefits (i)		155,580	135,830
Naps and visa settlements		175,242	294,122
Cash margins		164,933	137,550
Accrued profit to Sukuk holders		28,593	32,896
Contribution to Social and Sports fund		60,136	53,778
Dividend payable		13,850	14,322
Clearing cheques		4,874	3,601
Pension fund		553	410
Others (ii)		2,325,964	2,731,364
		<u>3,431,752</u>	<u>4,040,625</u>

Notes:

(i) Movement in provision for employees' end of service benefits is as follows:

	2017	2016
Balance at 1 January	135,830	121,640
Charge for the year (Note 30)	24,962	32,276
Payments made during the year	(5,212)	(18,086)
Balance at 31 December	<u>155,580</u>	<u>135,830</u>

(ii) Others include acceptances amounting to QAR 1,569 million (2016: QAR 2,328 million).

22. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2017	2016
Unrestricted investment account holders balance before share of profit	84,822,512	80,821,405
Add: Profits for unrestricted investment account holders for the year (a)	1,818,627	1,679,400
Less: Profit paid during the year	(1,474,681)	(1,193,814)
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	<u>85,166,458</u>	<u>81,306,991</u>

By type:

	2017	2016
Term accounts	70,147,196	66,370,039
Saving accounts	12,670,889	12,294,132
Call accounts	2,348,373	2,642,820
Total (b)	<u>85,166,458</u>	<u>81,306,991</u>

By sector:

Retail	28,193,133	22,362,918
Corporate	20,754,767	23,647,449
Non-banking financial institution	6,015,842	14,303,463
Government	27,291,256	18,218,503
Banks	2,911,460	2,774,658
Total (b)	<u>85,166,458</u>	<u>81,306,991</u>

22. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (continued)

	2017	2016
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	85,166,458	81,306,991
Share in fair value reserve	48,013	34,651
Total unrestricted investment account holders balance	<u>85,214,471</u>	<u>81,341,642</u>
	2017	2016
Share of unrestricted investment account holders' of the profit for the year	4,479,041	3,247,251
Less: Mudarib share	(2,660,414)	(1,567,851)
Total profit distributed to investment account holders for the year (a)	<u>1,818,627</u>	<u>1,679,400</u>

23. EQUITY

(a) Share capital

	2017	2016
At 1 January	<u>2,362,932</u>	<u>2,362,932</u>
At 31 December	<u>2,362,932</u>	<u>2,362,932</u>

At 31 December 2017 the authorised and issued share capital comprised of 236 million ordinary shares (2016: 236 million), having a par value of QAR 10 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings of the Bank.

(b) Legal reserve

In accordance with QCB Law No. 13 of 2012 as amended, 10% of net profit attributable to the owners of the Bank for the year is required to be transferred to the reserve until the legal reserve equals 100% of the paid up share capital. This reserve is not available for distribution except in circumstances specified in Qatar Commercial Companies Law No. 11 of 2016 and after QCB approval. No appropriation was made in the current year as the legal reserve exceeds 100% of the paid up share capital.

(c) Risk reserve

In accordance with QCB circular 102/2011, a risk reserve should be created to cover contingencies on both the public and private sector financing assets, with a minimum requirement of 2.5% of the total private sector exposure inside and outside Qatar after the exclusion of the specific provisions and profit in suspense, to be appropriated from shareholders' profit. The finance provided to / or secured by the Ministry of Finance – Qatar or finance against cash guarantees is excluded from the gross direct finance. The total amount transferred to the risk reserve amounted to **QAR 93.4 million** (2016: QAR 177.2 million).

23. EQUITY (continued)

(d) General reserve

In accordance with the Articles of Association of the Bank, the General Assembly may transfer a portion of the net profits to the general reserve which could be based on the General Assembly Resolution as per recommendation from Board of Directors and after the approval from Qatar Central Bank.

(e) Fair value reserve

	Net movement during the year
2017	
Opening balance	195,089
Changes in fair value of cash flow hedges	(16,632)
Share of other comprehensive income of associates	(6,682)
Investments carried as fair value through equity:	
Movement in fair value through fair value reserve	(11,323)
Plus: Share of equity of unrestricted investment account holders	6,592
Revaluation of investment properties:	
Movement in investment property fair value	5,071
Less: Share of equity to unrestricted investment account holders	(1,942)
	170,173
2016	Net movement during the year
Opening balance	134,013
Changes in fair value of cash flow hedges	72,343
Share of other comprehensive income of associates	(1,136)
Investments carried as fair value through equity:	
Movement in fair value through fair value reserve	(14,512)
Plus: Share of equity of unrestricted investment account holders	(7,855)
Revaluation of investment properties:	
Movement in investment property fair value	22,447
Less: Share of equity to unrestricted investment account holders	(10,211)
	195,089

(f) 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 risk management instruments that hedge the Group's net investment in foreign operations.

(g) Other reserves

Other reserves represent the Group's share in the undistributed profit from investments in associate companies after deducting the received dividends. During the year QAR Nil was transferred to other reserves from retained earnings (2016: QAR Nil was transferred to other reserves from retained earnings).

23. EQUITY (continued)

(h) Proposed cash dividends

The Board of Directors in its meeting dated 17 January 2018 has proposed a cash dividend of 50% of the paid up share capital amounting to **QAR 1,181 million** – QAR 5 per share (2016: 47.5% of the paid up share capital amounting to QAR 1,122 million – QAR 4.75 per share) which is subject to approval at the Annual General Meeting of the shareholders of the Bank.

(i) Share-based payment reserve

During 2015, “Employee Share Option Plan” (ESOP) was approved by QInvest LLC, subsidiary of the Bank, for its key employees. Under the plan, 37.5 million share options were approved with ratio of 1 option: 1 share. The exercise price of the option will be US\$ 1 (QAR 3.64) per share. The options vest as per following schedule:

- 50% of options immediately prior to listing date
- 25% of options 12 months after listing date
- 25% of options 24 months after listing date

Options must be exercised within 24 months of vesting date (or will otherwise lapse). Options will expire 5 years after the grant date if no listing has happened.

For the year ended 2017, the Group has recognised QAR 1.9 million as share-based payment expense in the statement of income (2016: QAR 8 million).

24. NON-CONTROLLING INTERESTS

This represents the Group’s non-controlling interests in QInvest LLC (49.87%), QIB (UK) (0.29%), Aqar Real Estate Development & Investment (51%), Arab Finance House (0.007%) and Durat Al Doha Real Estate Investment & Development Company (60.13%).

25. SUKUK ELIGIBLE AS ADDITIONAL CAPITAL

The Group issued perpetual sukuk eligible as additional tier 1 capital for an amount of QR 2 billion in the year 2015. The sukuk is unsecured and the profit distributions are discretionary, non-cumulative and payable annually at an agreed expected profit rate of 5% to be reset every sixth year. The Group has the right not to pay profit and the sukuk holders has no right to claim profit on the sukuk. The sukuk does not have a maturity date and have been classified as equity. The Group raised additional tier 1 capital in the year 2016 by issuing a perpetual sukuk for an amount of QR 2 billion at an agreed expected profit rate of 5.25% to be reset every sixth year.

26. NET INCOME FROM FINANCING ACTIVITIES

	2017	2016
Income from:		
Murabaha	3,110,416	2,297,458
Musawama	916,277	890,684
Ijarah Muntahia Bittamleek	810,386	767,532
Istisna'a	29,430	37,220
Mudaraba	19,483	22,999
Others	1,167	207
	<u>4,887,159</u>	<u>4,016,100</u>

27. NET INCOME FROM INVESTING ACTIVITIES

	2017	2016
Income from investment in debt-type instruments	780,096	543,335
Gain on sale of equity-type investments	11,846	530
Net cost of inter-bank with / from Islamic banks	(230,591)	(57,333)
Net (loss) / gain on sale of debt-type investments	(10,733)	10,366
Net (loss) / gain on properties	(153,671)	130,686
Fair value gain on investment securities carried as fair value through income statement	103,464	33,246
Rental income from investment properties	46,016	49,613
Dividend income	28,893	30,560
	<u>575,320</u>	<u>741,003</u>

28. NET FEE AND COMMISSION INCOME

	2017	2016
Feasibility study /management fees	207,582	185,227
Fees on letters of credit and guarantees	72,927	72,727
Banking services fees	280,922	251,199
Advisory fees	20,441	35,763
Others	76,587	97,397
	<u>658,459</u>	<u>642,313</u>
Fee and commission expense	(140,925)	(123,452)
Net fee and commission income	<u>517,534</u>	<u>518,861</u>

29. NET FOREIGN EXCHANGE GAIN

	2017	2016
Dealing in foreign currencies	79,220	17,331
Foreign exchange swap income	30,089	103,266
Revaluation of assets and liabilities	29,752	55,541
	<u>139,061</u>	<u>176,138</u>

30. STAFF COSTS

	2017	2016
Salaries and other benefits	589,579	589,292
Staff pension fund costs	7,891	7,798
Staff indemnity costs (Note 21)	24,962	32,276
	<u>622,432</u>	<u>629,366</u>

31. OTHER EXPENSES

	2017	2016
Legal and professional fees	42,496	53,529
Rent	54,015	49,406
Service expenses	45,130	49,385
Board of Directors' remuneration	18,000	18,000
IT expenses	62,626	61,076
Advertising and marketing expenses	36,023	31,221
Communication and utilities	41,831	36,830
Subscription fees	5,582	5,006
Repairs and maintenance	16,598	6,591
Insurance costs	3,376	4,020
Other expenses	66,258	56,799
	<u>391,935</u>	<u>371,863</u>

32. TAX EXPENSE

	2017	2016
Current tax expense		
Current year	<u>18,270</u>	<u>10,074</u>
Total tax expense	<u>18,270</u>	<u>10,074</u>

33. CONTINGENT LIABILITIES AND COMMITMENTS

	2017	2016
a) Contingent liabilities		
Unutilised financing facilities	5,894,185	5,539,823
Guarantees	11,043,258	10,187,579
Letters of credit	1,379,262	3,105,980
	<u>18,316,705</u>	<u>18,833,382</u>
b) Commitments		
Investment commitment	301,879	254,420
Forward foreign exchange contracts	12,335,315	21,224,144
Cross currency swaps and profit rate swaps	3,166,004	2,438,015
	<u>15,803,198</u>	<u>23,916,579</u>
Total	<u>34,119,903</u>	<u>42,749,961</u>

Unutilised financing facilities

Commitments to extend credit represent contractual commitments to make financings and revolving financing. The majority of these will expire in the next year. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash requirements.

Guarantees and Letters of Credit

Guarantees and letters of credit commit the Group to make payments on behalf of customers in case of a specific event. Guarantees and standby letters of credit carry the same credit risk as financing.

c) Lease commitments

Operating lease rentals are payable as follows:

	2017	2016
Within one year	13,952	20,731
After one year but not more than five years	70,485	51,995
	<u>84,437</u>	<u>72,726</u>

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

Geographical sector

Following is the concentration of assets, liabilities and equity of unrestricted investment account holders into geographical sectors regions:

2017	Qatar	Other GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central banks	5,209,828	-	2,167	-	334,391	5,546,386
Due from banks	4,057,277	30,325	593,058	134,033	60,997	4,875,690
Financing assets	91,644,853	1,623,796	8,326,800	325,391	692,659	102,613,499
Investment securities	27,776,313	658,984	568,648	977,113	421,205	30,402,263
Investment in associates	443,176	-	86,115	-	139,221	668,512
Investment properties	1,137,340	-	806,597	-	-	1,943,937
Assets held for sale	-	-	-	-	245,686	245,686
Fixed assets	416,735	-	75,466	-	19,101	511,302
Intangible assets	405,709	-	398	-	5,207	411,314
Other assets	2,299,564	375,214	348,793	28,662	104,054	3,156,287
Total assets	133,390,795	2,688,319	10,808,042	1,465,199	2,022,521	150,374,876

Liabilities and equity of unrestricted investment account holders

Liabilities

Due to banks	9,267,372	4,653,554	2,893,920	2,193	374,087	17,191,126
Customers' current accounts	15,884,434	104,733	275,064	23,391	312,458	16,600,080
Sukuk financing	6,935,837	-	-	-	121,445	7,057,282
Other liabilities	2,056,318	34,710	1,201,923	-	138,801	3,431,752
Total liabilities	34,143,961	4,792,997	4,370,907	25,584	946,791	44,280,240

Equity of unrestricted investment account holders

Total liabilities and equity of unrestricted investment account holders	72,763,533	9,762,602	2,579,249	180	108,907	85,214,472
Total liabilities and equity of unrestricted investment account holders	106,907,494	14,555,599	6,950,156	25,764	1,055,698	129,494,712

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

Geographical sector (continued)

2016	Qatar	Other GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central banks	5,235,709	-	2,089	-	209,385	5,447,183
Due from banks	4,922,552	3,161,691	1,069,982	23,072	972,599	10,149,896
Financing assets	84,460,043	4,864,925	7,481,213	780,348	583,991	98,170,520
Investment securities	16,429,150	1,285,160	510,445	626,564	1,107,398	19,958,717
Investment in associates	456,815	-	62,968	-	355,251	875,034
Investment properties	258,039	-	671,787	-	-	929,826
Fixed assets	425,211	-	71,116	-	20,930	517,257
Intangible assets	406,309	-	901	-	24,713	431,923
Other assets	2,223,110	122,108	915,916	19,508	73,130	3,353,772
Total assets	114,816,938	9,433,884	10,786,417	1,449,492	3,347,397	139,834,128

Liabilities and equity of unrestricted investment account holders

Liabilities						
Due to banks	5,961,350	5,539,083	1,882,276	14,553	209,646	13,606,908
Customers' current accounts	13,628,911	67,060	80,833	-	278,310	14,055,114
Sukuk financing	6,791,178	-	-	-	-	6,791,178
Other liabilities	1,530,131	4,873	2,420,555	5,219	79,847	4,040,625
Total liabilities	27,911,570	5,611,016	4,383,664	19,772	567,803	38,493,825
Equity of unrestricted investment account holders	54,639,404	22,726,879	3,663,404	246,525	65,430	81,341,642
Total liabilities and equity of unrestricted investment account holders	82,550,974	28,337,895	8,047,068	266,297	633,233	119,835,467

35. EARNINGS PER SHARE

Earnings per share of the Bank is calculated by dividing profit for the year attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit for the year attributable to equity holders of the Bank	2,405,425	2,155,104
Less: profit attributable to sukuk eligible as additional capital	<u>(205,000)</u>	<u>(135,000)</u>
Profit for EPS computation	<u>2,200,425</u>	<u>2,020,104</u>
Weighted average number of shares outstanding during the year	236,293	236,293
Basic / diluted earnings per share (QAR)	<u>9.31</u>	<u>8.55</u>

36. CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash and balances with central banks (excluding restricted QCB and other central banks reserve account)	953,882	985,675
Due from banks	<u>4,675,619</u>	<u>9,670,832</u>
	<u>5,629,501</u>	<u>10,656,507</u>

37. 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 major shareholders and entities over which the Group and the shareholders' exercise significant influence, directors and executive management of the Group.

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

	2017			2016		
	Associate companies	Board of Directors	Others	Associate Companies	Board of Directors	Others
Assets:						
Financing assets	105,275	1,332,770	1,593,545	351,840	1,166,128	1,590,533
Equity of unrestricted investment account holders	104,548	1,093,389	246	12,643	561,695	87,813
Off balance sheet items:						
Contingent liabilities, guarantees and other commitments	-	355,931	-	-	121,696	2,129
Consolidated statement of income items:						
Financing income	8,842	71,868	79,985	14,737	49,890	60,223
Profit paid on deposits	1,570	15,519	243	640	7,178	3,397
Net income from investing activities	-	-	-	-	(72,106)	-
Others	223	2,396	-	-	-	-

Key management personnel compensation for the year comprised:

	2017	2016
Short term employee benefits	75,749	77,947
Other long term benefits	6,352	12,320
	82,101	90,267

38. ZAKAH

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

39. SHARI'A SUPERVISORY BOARD

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

40. SOCIAL AND SPORTS FUNDS APPROPRIATION

The Group discharges its social responsibilities through donations to charitable causes and organizations when profits are reported. The Group has created provisions during the year of 2017 by **QAR 60.1 million** (2016: QAR 53.8 million) which represents 2.5% of net profit as per law No.13 for year 2008 and explanatory notes issued for 2010.

41. COMPARATIVE FIGURES

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

FINANCIAL STATEMENT OF THE PARENT BANK

A. STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

As at 31 December	2017	2016
ASSETS		
Cash and balances with central banks	5,209,828	5,235,708
Due from banks	4,990,047	9,678,597
Financing assets	101,045,569	96,645,860
Investment securities	30,506,699	20,536,004
Investment in associates	363,787	587,148
Investment properties	531,547	470,414
Assets held for sale	245,686	-
Fixed assets	405,316	416,232
Intangible assets	165,654	188,743
Other assets	1,679,194	972,787
TOTAL ASSETS	145,143,327	134,731,493
Liabilities, equity of unrestricted investment account holders and equity		
LIABILITIES		
Due to banks	15,569,635	12,859,501
Customers' current accounts	15,933,409	13,680,294
Sukuk financing	7,057,282	6,791,178
Other liabilities	3,164,858	3,801,272
TOTAL LIABILITIES	41,725,184	37,132,245
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS		
	83,911,486	79,101,655
SHAREHOLDERS' EQUITY		
Share capital	2,362,932	2,362,932
Legal reserve	6,353,459	6,353,459
Risk reserve	2,263,736	2,170,280
General reserve	79,485	79,485
Fair value reserve	99,053	129,861
Foreign currency translation reserve	(127,162)	(187,578)
Other reserves	212,058	212,058
Proposed cash dividends	1,181,466	1,122,393
Retained earnings	3,081,630	2,254,703
TOTAL SHAREHOLDERS' EQUITY	15,506,657	14,497,593
Sukuk eligible as additional capital	4,000,000	4,000,000
Total equity	19,506,657	18,497,593
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND EQUITY	145,143,327	134,731,493

B. STATEMENT OF INCOME OF THE PARENT BANK

For the year ended 31 December	2017	2016
Net income from financing activities	4,657,924	3,765,323
Net income from investing activities	512,017	639,804
Total net income from financing and investing activities	5,169,941	4,405,127
Fee and commission income	598,761	547,492
Fee and commission expense	(136,979)	(123,302)
Net fee and commission income	461,782	424,190
Net foreign exchange gain	94,921	152,932
Share of results of associates	21,019	7,308
Other Income	27,000	-
Loss from asset held for sale	(2,490)	-
Total income	5,772,173	4,989,557
Staff costs	(437,072)	(442,114)
Depreciation and amortization	(80,666)	(76,920)
Sukuk holder's share of profit	(218,370)	(156,351)
Other expenses	(285,920)	(276,955)
Total expenses	(1,022,028)	(952,340)
Net impairment loss on investment securities	(236,280)	(215,401)
Net impairment loss on financing assets	(425,073)	(93,114)
Profit for the year before return to unrestricted investment account holders	4,088,792	3,728,702
Less: Return to unrestricted investment account holders	(1,721,807)	(1,572,749)
Profit for the year	2,366,985	2,155,953