

Annual Report 2018



QIIB



الدولي
الإسلامي



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

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Stability and development of civilizations have always been linked to land and agriculture, as agriculture provided the various communities with the advantage of food self-sufficiency, enabling them to reinforce their strength and consolidate their independence from external pressures. In Qatar we are deeply rooted in history and have many well-established cultural centers, agriculture has always been on our agenda. We have always tried to tame our desert environment in order to obtain various agricultural products with the highest standards. Qatar's experience in the field of agriculture and the success it achieved over the years is a story worthy of being told in our annual report whilst highlighting some key aspects, namely, how we exploited our strengths and the goods of our land, to win over those who tried to besiege us and undermine the will of our people. We hope that shedding light on this topic will modestly contribute to recognizing the great efforts made towards the development of our country, which only knows glory and pride under the leadership of H.H The Emir Sheikh Tamim bin Hamad Al Thani.

Solely for the Sake of Allah

THE HISTORY OF AGRICULTURE IN QATAR



The history of agriculture in Qatar is as old as that of the humans who populated this region thousands of years ago. Excavations, inscriptions, spearheads and well-made pottery found in various parts of the country by various European Missions (including the Danish Mission in 1965, the English Mission in 1973 and the French Mission in 1976) indicate that Qatar has been inhabited since the fourth millennium BC and that the Canaanite tribes were the first to inhabit Qatar at the beginning of its history in the period of 825-484 BC, which reflects the historical roots of this country.

The writings of Ancient Greeks make reference to Qatar. Their historian, Herodotus (fifth century BC), stated that the first residents of Qatar were the Canaanite tribes, famous for navigation and

maritime trade. Agriculture in Qatar has been important for centuries despite the desert climate, not only dependent on by people, but by cattle for grazing, pearl diving and fishing.

TYPES OF SOIL IN QATAR



The desert environment inflicts a shadow on the overall agricultural production. Agriculture in such environments requires special efforts to help various crops flourish successfully. However, the progress of science in the agricultural field and the great governmental efforts aided Qatar to overcome the desert environmental conditions. In general figures highlight that "The State of Qatar has an agricultural area of 45 thousand hectares with a total arable area of about 65 thousand hectares"

A recent soil exploratory survey, conducted by the Department of Agricultural and Water Research at the Ministry of Municipality and Environment, to identify the nature and characteristics of the Qatar soil, revealed that Qatari soil is characterized by the presence of sand dunes, sabkhas and shallow

sand depressions containing salt, clay, gravel, limestone, sand dunes and granular sand.

The survey also indicated that there are four types of soil (Rawdhas soil, Sabkhas soil, Rocky soil and Sandy soil). According to the definition of desertification and based on the level of precipitation in Qatar, which is less than 100 millimeters, the lands of Qatar are all desert lands. However, with the great scientific progress and development, new solutions have been found to overcome the soil and environment problems.

AGRICULTURAL METHODS IN QATAR



In order to overcome the challenges brought by its climate, Qatar benefited from the scientific and technological achievements made in the field of agriculture and resorted to modern agricultural methods in order to reach its goal of self-sufficiency.

Aquaculture:

This type of agriculture can help overcome the issue of high or low temperatures. An aquaculture system is a technique for growing plants in non-organic or organic environments instead of conventional soils to accurately control the irrigation and fertilization. It also helps overcome soil problems such as diseases and accumulation of salts. Aquaculture is distinguished by its high water efficiency and early access to production. It allows the cultivation of various crops in one season and the provision of high quality products, free from soil contaminants. Qatar has all the potentials to expand this type of agriculture in the upcoming period, whether in terms of areas, capabilities and labor force or in terms of the support provided by the Ministry of Municipality and Environment, the Ministry of Economy and Commerce and Qatar Development Bank to all investors.

Greenhouse Agriculture:

This method is used for growing vegetables and fruits throughout the year, where temperature can be controlled and adapted to various crops and their needs. It is ideal for dry and desert environments. There are pilot projects in the State of Qatar to adopt this method in order to achieve the goal of self-sufficiency in various agricultural products.

Traditional agriculture:

It is the most widespread agricultural method. This method relies on the appropriate type of crops for the season, while taking into consideration the heat, the cold and the rain. Considerable efforts have been made to develop irrigation systems to help improve productivity in this type of agriculture, thus leading to a significant increase in production and an increase in the quality of agricultural self-sufficiency projects.

OUR VISION

To be the most efficient Islamic financial institution serving the communities where we have presence, and be the first choice for customers.



CHAIRMAN / MANAGING DIRECTOR



H.E. Sheikh Dr. Khalid Thani Abdullah Al-Thani
Chairman and Managing Director

BOARD OF DIRECTORS



H.E. Sheikh Abdullah Thani A. Al-Thani
Board Member



H.E. Sheikh Turki Khalid Thani Al-Thani
Board Member



Mr. Rashid Nasser Al-Kaabi
Vice Chairman



Hassan Abdulla Hassan Al Thawadi
Board Member



Mr. Ali Abdulrahman Al-Hashemi
Board Member



Dr. Yahya Hamad Al-Jafali Al-Nuaimi
Board Member



Mr. Walid Ahmad Al Saadi
Board Member



Mr. Hesham Mustafa El-Sehtery
Board Member

GOVERNMENT ATTENTION TO PROMOTE AGRICULTURE

The State of Qatar, under the guidance of H.H Sheikh Tamim bin Hamad Al Thani, The Emir of Qatar, is giving great importance to the agricultural sector as it is responsible for achieving food security and is one of the State's top priority sectors during the current and upcoming period. As a result of this increasing attention, the agricultural sector, vegetal and animal together, have made great strides towards sustainable development and self-sufficiency. The country's capacity to face the blockade is due primarily to its own strengths, which helped confront the blockaders and cause their goals to fail.

On March 11, 2019, H.E The Minister of Municipality and Environment revealed that the country seeks to "double the number of farms so as to cover 8% of Qatar's surface area". He explained that the number of farms now covers 4% of the country's surface area, which is sufficient for domestic consumption if fully invested. There is a plan to double this figure following the growth of animals and livestock farms to achieve self-sufficiency in all kinds of fresh food.

A study titled: "Sustainable Development Programs in the Agricultural Sector to preserve natural and agricultural resources" was issued by the Ministry of Municipality and Environment in 2018. The study revealed that the total number of registered farms in Qatar reached 1438 farms instead of 833 farms, including 902 active farms, of which 364 are vegetable producing farms, resulting in a total increase of 30% in productive farms compared to the period preceding the blockade on Qatar. The study clarified that the total area of active farms is 40 thousand hectares, including 27 thousand hectares of arable land and 13 thousand hectares of crop areas, which are cultivated with various crops per year.

In terms of crop intensification, the study confirmed that it reached 54%. The surface area of the cultivated green fodder is approximately 6 thousand hectares, representing approximately 55% of the cropped area and the total amount of water consumed annually for fodder cultivation is 130 million cubic meters.



BOARD COMMITTEES

Executive Committee

H.E. Sheikh Dr. Khalid Thani Abdullah Al-Thani
Chairman

H.E. Sheikh Abdullah Thani A. Al-Thani
Member

Mr. Ali Abdulrahman Al-Hashemi
Member

Dr. Abdulbasit Ahmad Al-Shaibei
CEO

Risks Committee

H.E. Sheikh Abdullah Thani A. Al-Thani
Chairman

Mr. Hesham Mustafa Mohammed Al-Sehtery
Member

Dr. Abdulbasit Ahmad Al-Shaibei
CEO

Audit Committee

Mr. Rashid Nasser Al-Kaabi
Chairman of the Committee

Mr. Hassan Abdulla Al Thawadi
Member

Mr. Walid Ahmad Al Saadi
Member



Remuneration and Compensation Committee

H.E. Sheikh Abdullah Thani A. Al-Thani
Chairman of the Committee

H.E. Sheikh Turki Khalid Thani Al-Thani
Member

Dr. Yahya Hamad Al-Jafali Al-Nuaimi
Member

Nominations and Governance Committee

H.E. Sheikh Turki Khalid Thani Al-Thani
Chairman of the Committee

Dr. Yahya Hamad Al-Jafali Al-Nuaimi
Member

Mr. Ali Abdulrahman Al-Hashemi
Member



OUR MISSION

QIIB as a national public shareholding company aims to be consistent with the latest proper governance and administrative laws and instructions at the GCC and Middle East level.

IMPORTANT ROLE OF THE MINISTRY OF MUNICIPALITY AND ENVIRONMENT IN SUPPORTING AGRICULTURE



The Ministry of Municipality and Environment is keen to plan and organize local and international agricultural events. These are too include exhibitions, seminars and conferences, to highlight the latest innovations in agricultural techniques, as well as establish a roadmap for food security, sustainable development, expansion of investment opportunities in the agricultural field and other related matters. These events provide an ideal platform for specialists in the field to explore a wide range of agricultural equipment, techniques and products. In addition, the events will provide an opportunity to meet senior decision makers to discuss the best ways to maximize and expand agriculture, and provide support to farmers through equipment, seeds and pesticides

according to their needs. As part of the country's efforts to achieve self-sufficiency in agricultural products and commodities, the Ministry has adopted several initiatives, for example the launching of strategic projects to achieve food security by providing opportunities for private investors in the agricultural field. These efforts have been fruitful. Despite the unjust blockade and thanks to the growing interest of the government, the Qatari agricultural sector made great strides to meet the local market requirements in terms of vegetation, animals and fish, achieving high levels of self-sufficiency.

MAJOR ACHIEVEMENTS IN AGRICULTURE



As every challenge brings an opportunity, agriculture in Qatar witnessed, after the unjust embargo on the country, a qualitative and quantitative development that helped meet the needs of a large segment of the local market. Statistics reflected the great growth in agricultural production in Qatar, including the increase of the refrigerated greenhouses' area from 49 hectares in 2017 to 73 hectares in 2018 and the increase of their vegetable production from 4814 tons to 6500 tons. The non-refrigerated greenhouses' area increased from 200 hectares in 2017 to 220 hectares in 2018, which in turn led to an increase in production from 17 to 20 thousand tons, while the production of

vegetables in open field increased from 33 thousand tons in 2017 to 36 thousand tons in 2018. One of the embargo' benefits was the rehabilitation of a large number of Qatari farms, which in 2018 exceeded 105 farms capable of supplying high quality vegetables to the consumer complexes on a daily basis. These achievements had a positive impact on several economic indicators such as the GDP growth rate, the consumer confidence index and the inflation rates.

MAIN OFFICE & BRANCHES



1. Grand Hamad Street
(Main Branch)
2. Corporate Branch
(Grand Hamad Street)
3. Al Rayyan Branch
(Al Shafi Street)
4. Gharafa Branch
5. Al Wakra Branch
6. Salwa Road Branch
7. The Mall Branch
8. Al-Ahli Hospital Branch
9. Al Sadd Branch
10. Bin Omran Branch
11. Al-Emadi Hospital Branch
12. Muaither Branch
13. Ezdan Mall Branch
14. Al-Khor Branch
15. Mall of Qatar Branch
16. Ezdan Mall of Al Wakra Branch
17. Doha Festival City Branch
18. City Center Branch
19. Al Wakra Market Office
20. Public Prosecution Branch

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Fax: +974 4444 4101
Call Center: +974 4484 0000

Email: contactus@qiib.com.qa
Website: www.qiib.com.qa

OUR STRATEGY

Developing a model Islamic financial institution based on effective business contributions in accordance with Shari'a principles.

Exploring opportunities in local and potential markets with the purpose of maximizing returns for shareholders on a sustainable basis.



MESSAGE OF THE CHAIRMAN AND MANAGING DIRECTOR

In the name of God and May Prayers and Peace be upon his Messenger Mohammed, his family and his companions

**Dear Shareholders,
May the Peace, Mercy and Blessings of God be Upon You**



On behalf of my fellow members of the Board, I am pleased to present to you QIIB's Annual Report for the fiscal year 2018.

In QIIB, we managed to overcome the difficulties and obstacles we faced and to take advantage of every opportunity that came our way so as to accomplish the best results for the Bank. We continued to work hard with the Executive Management to achieve our objectives. We worked closely with the various economic sectors in the country and were keen to diversify our investment and financing portfolios as much as possible in order to disseminate any potential risks, which strengthened the position of QIIB as a leading bank that managed to maintain stable growth, achieve the best returns for its shareholders, provide the best services and benefits for its clients and maintain a good rating from the international rating agencies. We also strive to work wisely in order to achieve our goals and keep up with them while relying on the support, vision and guidance of H.H Sheikh Tamim bin Hamad Al Thani, The Emir of The State of Qatar.

2018 was the year of merits and strength for the Qatari economy, which was able to overcome all factors and circumstances and make great strides in terms of achieving self-sufficiency in most products and services sectors. At QIIB, we are proud of the growth we achieved as it reflects our involvement in the Qatari economy proven to be founded on strength and rigidity.

QIIB continued to focus on the local market given the significant opportunities provided by the Qatari economy. We consider that our contribution to development plans is a duty, and we will continue to contribute as much as possible through the financing of various projects in all sectors, in particular infrastructure projects as an important driving force in the growth of the national economy.

We also paid particular attention to SMEs, which enhanced our fruitful partnership with Qatar Development Bank, a leading partnership that we are proud of, as it positively reflects on the segment of entrepreneurs representing the future.

In terms of our expansion abroad, we always seek to seize available opportunities that meet the conditions of economic feasibility, especially in terms of low risks.

QIIB was able to maintain its strong financial position and stable growth. It also built partnerships with different investment dimensions abroad based on its reputation and the reputation of the country's leading economy.

During the previous year, the Bank continued to achieve growth in the most important financial indicators such as assets, revenues, net profits, etc. This growth helped the Bank maintain high rankings given to it by international rating agencies during 2018, reflecting the bank's ability to execute its interim and strategic plans and benefit from the strength of the Qatari economy, which, with the testimony of experts and specialists, has the strongest and best performance in the region and is the most capable of facing market fluctuations and challenges posed by external developments.

With regard to the Banks' final results for 2018, they clearly reflect its harmony with the strong Qatari Economy that achieved and is still achieving a lot prosperity and strength.

Despite the exceptional circumstances witnessed by Qatar, the figures presented to you show that QIIB total assets by the end of 2018 amounted to QAR 50.3 billion compared to QAR 46.6 billion by the end of 2017 with a growth rate of 7.8% whereas the bank's operating revenues amounted to QAR 2.1 billion compared to QAR 1.9 billion at the end of the previous year, with a growth rate of 11.9%.

Customers' deposits amounted to QAR 31.1 billion compared to QAR 32.5 billion at the end of 2017. Total shareholders' equity increased to QAR 6.8 billion while the Bank's capital adequacy ratio under Basel III stood at 16.42%, reflecting the strength and rigidity of QIIB financial position namely towards the various potential risks.

QIIB net profits for 2018 amounted to (882,144) thousand Qatari Riyals only, eight hundred eighty two million one hundred forty four thousand Riyals compared to (832,209) thousand Qatari Riyals only, eight hundred thirty two million two hundred nine thousand Riyals, with a growth rate of 6%, whereas the rate of return was 5.46 Riyals per share for year 2018 compared to 5.35 Riyals per share for 2017.

The Board of Directors recommended that the General Assembly distributes a cash dividend to shareholders equal to 40% of the company's capital, at QAR 4 per share.

As we strive to continuously improve our performance, QIIB relied on strategic planning to keep abreast of the local, regional and international changes in order to reach the desired results which will positively reflect on the level of the services provided by the Bank in line with Qatar's Second National Development Strategy 2018-2022 and aspirations of Qatar National Vision 2030 (Building the Nation and the Citizen). This plan comprised of numerous procedures, activities and programs that the Bank is keen to implement.

Thus, the Bank adopted this strategic plan according to the latest data in order to keep pace with the global developments.

Pursuing its local policy to expand its customer base through many methods, such as increasing innovation in services and products, approaching customers and modernizing the technological environment in the bank, both in terms of technology and software or in terms of facilitating customers' access to banking services, the Bank encouraged Qatari talents to engage in the banking business while providing them with all necessary incentives.

Keen to meet the requirements of the regulatory and supervisory authorities, QIIB reviewed and issued all necessary policies and procedures, in line with the laws, legislations and regulations, in particular the good governance and sound management policy, as per the requirements of Qatar Central Bank and Qatar Financial Markets Authority, the latest of which was QFMA Governance Code for companies listed on the financial market. We have already amended the Bank's Articles of Association in line with this Code and adjusted our policy in line with these amendments. Moreover, the Bank is making continuous efforts to meet all governance and sound management requirements, as finally manifested in the annual corporate governance report presented to the shareholders as prepared by the Bank's governance unit, which operates independently and reports directly to the Board of Directors.

Finally, I would like to extend our most sincere gratitude and appreciation to H.H Sheikh Tamim Bin Hamad Al Thani, The Emir of The State of Qatar, for encouraging, supporting and generously sponsoring the private sector. I would also like to thank the financial and monetary authorities in the State for their continuous support of the banking sector as well as Messrs. Chairman and members of the Banks' Shari'a Supervisory Board.

Our thanks and appreciation also go out to the Bank's shareholders for their support, our clients for their trust and our employees for their great performance, efforts, devotion and dedication, which contributed to the achievement of these results.

May the Peace, Mercy and Blessings of God be Upon You

Dr. Khalid Thani A. Al-Thani
Chairman and Managing Director

MESSAGE OF THE CHIEF EXECUTIVE OFFICER



Dear Sirs / Shareholders,

May the peace, mercy and blessings of Allah be with you,

When we talk about 2018, we should keep in mind that it was an exceptional year not only for QIIB but for the entire Qatari Economy. It was the year of merit, victory and success during which the Qatari economy proved to be stronger than all challenges and stronger than the embargo. It was capable of achieving its target growth rates thanks to the vision of our wise leadership and the unlimited support of H.H. The Emir Sheikh Tamim bin Hamad Al Thani.

Thanks to God Almighty, we were able, at QIIB, to cope with the strength and high solvency of the Qatari economy. We achieved a growth rate of 6% compared to the previous year 2017. The bank's net profit reached 882.1 million riyals, while its total assets amounted to 50.3 billion riyals by the end of 2018, compared to 46.6 billion riyals at the end of 2017, with a growth rate of 7.8%. The Bank's operating income amounted to 2.1 billion riyals compared to 1.9 billion riyals at the end of the previous year, which was a growth rate of 11.9%.

We are proud to be part of our country's remarkable success, through the implementation of our planned strategic and interim programs. We believed that behind every challenge is an opportunity. The unjust embargo on our country prompted us to search for new markets and new partnerships. We believe that our choices and efforts have borne fruit, and we are counting on more positive results in this area in the future. Our encouraging experience with the inauguration of Umnia Bank in Morocco and its ability in a record time to gain a good reputation encourages us to do more. We now have more than 20 branches in different Moroccan cities and we have an expansion plan in place that will cover all important cities during the coming period.

The past year witnessed a qualitative step forward in upgrading QIIB outlook to "stable" by credit rating companies. This is a natural result of the strength of the Qatari economy and its ability to overcome the challenges. Credit rating companies affirmed that the change in QIIB outlook stems from the strength of the Bank's financial position, good performance and capacity to maintain the quality of its assets, its solid capital base and high solvency ratio".

QIIB pursued its local policy and responded to the expansion of its customer base through many ways, such as increasing innovation in services and products, approaching customers and facilitating their access to the banking services to which they aspire. The Bank also implemented an important plan to reengineer its branches and focused on increasing its presence in large commercial centers thus providing integrated banking services to customers for the longest hours possible.

In line with the global trend to enhance technology in the banking sector, the bank invested heavily in the improvement of its technological structures, both in terms of technologies and software and in terms of facilitating customers' access to its banking services. In 2018, QIIB made significant strides in the development of its banking services through alternative channels, which increased the number of mobile banking users significantly. The bank also focused on the development of its services via telephone banking and internet banking as well as its call center so as to best meet its customers' requirements. The bank also expanded its ATM network to provide further convenience to its customers.

As a result of its outstanding performance in 2018, QIIB gained a remarkable recognition for its efforts and achievements at the local and international levels. It also received prestigious awards affirming its leading position and adoption of the best global standards in the banking sector.

In the field of human resources, the Bank pursued its policy consisting in encouraging Qatari talents to engage in the banking sector, providing them with all necessary incentives such as training, qualification and career advancement to ensure their effective participation in the development of the national banking sector.

With regard to the Bank's Corporate Social Responsibility, QIIB continued to support various activities that serve the community and provide added value thereto, such as sports, social, educational or charitable activities among others, which promote the values of belonging, strengthen social bonds and provide quality services to the largest segment of the society.

Dr. Abdulbasit Ahmed Abdulrahman Al-Shaibei
Chief Executive Officer

Alhamdulillah, all praise and peace upon Allah's Prophet and upon his family and companions and whoever follows them.

The Shari'a Supervisory Board of Qatar International Islamic Bank has reviewed the presented services and transactions, and looked into the financial statements, account profits and the losses of the financial year 2018, and realises that they don't conflict with the Islamic Shari'a law.

May Allah grant everyone what he loves and satisfies him



SH. / DR. WALID BIN HADY
HEAD OF THE SHARIAA SUPERVISORY
COMMITTEE



SH. / DR. AHMAD AHMIN
MEMBER



SH. / DR. ABDUL SATTAR ABU GODA
MEMBER

CORE PRINCIPLES

- 1- Identity
- 2- Excellence
- 3- Commitment
- 4- Team Work
- 5- Integrity
- 6- Responsibility
- 7- Appreciation
- 8- Customer Service
- 9- Professionalism
- 10- Personal Development

OUR TARGETS

- Maximizing returns for shareholders on a sustainable basis
- Maintaining high capital efficiency and liquidity
- Maintaining high standards of corporate governance
- Maintaining highest level of compliance with international standards
- Providing an impartial and motivating work environment for employees
- Contributing to the development and advancement of the society

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF QATAR INTERNATIONAL ISLAMIC BANK (Q.P.S.C)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated financial statements of Qatar International Islamic Bank (Q.P.S.C.) ("QIIB" or the "Bank") and its subsidiary (together the "Group") present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 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").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies, and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Qatar. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

We were appointed as auditors of the Group for the year ended 31 December 2018. When we are engaged to audit consolidated financial statements for the first time, including where the consolidated financial statements for the prior period were audited by another firm of auditors, we will not have previously obtained audit evidence in relation to the opening balances. Therefore, we are required by International Standards on Auditing to perform certain procedures on the opening balances in order to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's consolidated financial statements.

Our audit approach (continued)

To fulfil this responsibility, we reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, and to understand the evidence they obtained over key judgements.



As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

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.

Key audit matter	How our audit addressed the key audit matter
<p>Early adoption of FAS 30 "Impairment, Credit losses and Onerous commitments" and impairment of financing assets</p> <p>Impairment allowances represent the directors' best estimate of the losses within the financial assets subject to credit risk and specially the financing assets. As described in the summary of significant accounting policies to the consolidated financial statements, the impairment losses have been determined in accordance with FAS 30 which the Group adopted on 1 January 2018.</p> <p>We focused on this area because FAS 30 introduced new complex accounting requirements which resulted in new estimates and changes to processes, and also because the directors make complex and subjective judgements over both amount and timing of recognition of impairment, such as:</p> <ul style="list-style-type: none"> • Determining criteria for significant increase in credit risk. • Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). 	<p>Our audit procedures in relation to this key audit matter included the following:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the Group's impairment provisioning policy in accordance with the requirements of FAS 30. • Obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation. • Tested a sample of financial assets to determine the appropriateness and application of staging criteria. • Obtained an understanding of the methodology to identify and calculate individual impairment allowance for stage 3 exposures, and tested a sample of such exposure against the methodology. • Assessed and tested the design and operating effectiveness of the relevant key controls around origination and approval of financing assets, loan monitoring, and impairment calculation.

Key audit matter

How our audit addressed the key audit matter

- Establishing the number and relative weighting of forward- looking scenarios for each type of product/ market and the associated ECL.
- Establishing groups of similar assets for the purpose of measuring the ECL.
- Determining disclosure requirements in accordance with the accounting standards.

The adjustment made as of 1 January 2018 upon transition to FAS 30 resulted in decrease of retained earnings by QR 239,463 thousand. Further, the Group's financial assets that are subject to credit risk as well as off balance sheet finance were QR 59,785 million as of 31 December 2018, which is considered very material to the bank's total assets.

Information on the impact of adoption of ECL model on opening balances is provided in note 4, and information on credit risk and the Group's credit risk management is provided in note 5 of the consolidated financial statements.

- Obtained samples of the latest available credit reviews and checked that they include appropriate assessment and documentation of borrower's ability to meet loan repayment obligations (principal, profit, and fees).
- Used our own internal experts to independently review the reasonableness of the ECL methodology developed and applied by management. This includes components such as model risk parameters (PD, LGD, and EAD), forward-looking information, associated weighting, and staging analysis.
- Evaluated the adequacy of the financial statement disclosures to determine if they were in accordance with the requirements of the applicable accounting standards and QCB regulations.

Other information

The management is responsible for the other information. The other information comprises Board of Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the complete annual report, which is 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 and will 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 obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the complete annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 ISAs, we exercise professional judgment 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 the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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, which we considered necessary for the purpose of our audit. The bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We confirm that we were not aware of any contraventions by the Bank of its Articles of Associations, the applicable provisions of Qatar Central Bank Law No.13 of 2012 and of the Qatar Commercial Companies' Law No.11 of 2015, during the financial year that would materially affect its activities or its financial position as at and for the year ended 31 December 2018.

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another firm of auditors who expressed an unqualified audit opinion in their report dated 19 February 2018.

For and on behalf of PricewaterhouseCoopers – Qatar Branch
Qatar Financial Market Authority registration number 120155

Mohamed Elmoataz

Auditor's registration number 281
Doha, State of Qatar
10 February 2019



**CONSOLIDATED STATEMENT
OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2018

	Notes	2018 QR'000	2017 QR'000
Assets			
Cash and balances with Qatar Central Bank	9	2,735,524	2,432,223
Due from banks	10	12,800,681	3,274,025
Financing assets	11	27,463,353	32,500,027
Investment securities	12	4,889,644	6,179,784
Investment in associates	13	387,642	364,965
Investment properties	14	882,142	426,540
Fixed assets	15	279,507	756,501
Intangible assets	16	24,993	18,177
Other assets	17	796,469	666,738
Total assets		50,259,955	46,618,980
Liabilities, equity of investment account holders and equity			
Liabilities			
Due to banks and financial institutions	18	11,553,732	6,605,745
Customers' current accounts	19	6,911,572	6,894,433
Other liabilities	20	746,209	718,022
Total liabilities		19,211,513	14,218,200
Equity of investment account holders	21	24,218,355	25,584,215
Equity			
Share capital	22 (a)	1,513,687	1,513,687
Legal reserve	22 (b)	2,452,360	2,452,360
Risk reserve	22 (c)	623,455	622,454
Fair value reserve	22 (d)	14	1,643
Other reserves	22 (e)	79,947	82,352
Retained earnings		1,160,624	1,144,069
Total equity attributable to shareholders of the Bank		5,830,087	5,816,565
Sukuk eligible as additional capital	23	1,000,000	1,000,000
Total equity		6,830,087	6,816,565
Total liabilities, equity of investment account holders and equity		50,259,955	46,618,980

These consolidated financial statements were approved by the Board of Directors on 27 January 2019 and were signed on its behalf by:



Dr. Khalid bin Thani bin Abdullah Al Thani
Chairman and Managing Director



Abdulbasit Ahmad Abdulrahman Al Shaibei
Chief Executive Officer

**CONSOLIDATED STATEMENT
OF INCOME**

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 QR'000	2017 QR'000
Income from financing activities	24	1,586,158	1,418,995
Net income from investing activities	25	370,181	294,874
Total income from financing and investing activities		1,956,339	1,713,869
Fee and commission income		194,169	169,491
Fee and commission expense		(65,345)	(50,010)
Net fee and commission income	26	128,824	119,481
Net foreign exchange gains	27	11,313	40,821
Share of results of investment in associates	13	(18,890)	(18,211)
Total income		2,077,586	1,855,960
Staff costs	28	(161,572)	(161,448)
Depreciation and amortisation	15&16	(31,865)	(24,932)
Finance expenses		(201,817)	(161,978)
Other expenses	29	(132,058)	(139,288)
Total expenses		(527,312)	(487,646)
Net impairment losses on due from banks	5b(iv)	(2,796)	-
Net impairment losses on investment securities		(6,127)	(35,497)
Net impairment losses on financing assets	11	(71,135)	(28,000)
Net impairment losses on off balance sheet exposures subject to credit risk	5b(iv)	(17,261)	-
Net profit for the year before return to investment account holders		1,452,955	1,304,817
Investment account holders' share of profit	21	(570,811)	(472,608)
Net profit for the year		882,144	832,209
Earnings per share			
Basic and diluted earnings per share (QR per share)	32	5.46	5.35

The attached notes from 1 to 38 form an integral part of these consolidated financial statements

The attached notes from 1 to 38 form an integral part of these consolidated financial statements

	Share capital QR'000	Legal reserve QR'000	Risk reserve QR'000	Fair value reserve QR'000	Other reserves QR'000	Retained earnings QR'000	Total equity attributable to shareholders of the Bank QR'000	Sukuk eligible as additional capital QR'000	Total QR'000
Balance at 31 December 2017	1,513,687	2,452,360	622,454	1,643	82,352	1,144,069	5,816,565	1,000,000	6,816,565
Adoption of ECL regulations	-	-	-	-	-	(239,463)	(239,463)	-	(239,463)
Restated balance as at 1 January 2018	1,513,687	2,452,360	622,454	1,643	82,352	904,606	5,577,102	1,000,000	6,577,102
Fair value reserve movement	-	-	-	(1,629)	-	-	(1,629)	-	(1,629)
Net profit for the year	-	-	-	-	-	882,144	882,144	-	882,144
Total recognized income and expenses for the year	-	-	-	(1,629)	-	882,144	880,515	-	880,515
Cash dividends paid to shareholders	-	-	-	-	-	(605,476)	(605,476)	-	(605,476)
Social and Sports Fund appropriation	-	-	-	-	-	(22,054)	(22,054)	-	(22,054)
Transfer to risk reserve	-	-	1,001	-	-	(1,001)	-	-	-
Net movement in other reserves	-	-	-	-	(2,405)	2,405	-	-	-
Balance at 31 December 2018	1,513,687	2,452,360	623,455	14	79,947	1,160,624	5,830,087	1,000,000	6,830,087

(38)

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

	Share capital QR'000	Legal reserve QR'000	Risk reserve QR'000	Fair value reserve QR'000	Other reserves QR'000	Retained earnings QR'000	Total equity attributable to shareholders of the Bank QR'000	Sukuk eligible as additional capital QR'000	Total QR'000
Balance at 1 January 2017	1,513,687	2,452,360	572,152	13,036	84,796	1,040,999	5,677,030	1,000,000	6,677,030
Fair value reserve movement	-	-	-	(11,393)	-	-	(11,393)	-	(11,393)
Net profit for the year	-	-	-	-	-	832,209	832,209	-	832,209
Total recognized income and expenses for the year	-	-	-	(11,393)	-	832,209	820,816	-	820,816
Cash dividends paid to shareholders	-	-	-	-	-	(605,476)	(605,476)	-	(605,476)
Net movement in other reserves	-	-	-	-	(2,444)	2,444	-	-	-
Social and Sports Fund appropriation	-	-	-	-	-	(20,805)	(20,805)	-	(20,805)
Transfer to risk reserve	-	-	50,302	-	-	(50,302)	-	-	-
Dividend Appropriation to Sukuk eligible as additional capital	-	-	-	-	-	(55,000)	(55,000)	-	(55,000)
Balance at 31 December 2017	1,513,687	2,452,360	622,454	1,643	82,352	1,144,069	5,816,565	1,000,000	6,816,565

(39)

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

	Notes	2018 QR'000	2017 QR'000
Cash flows from operating activities			
Net profit for the year		882,144	832,209
Adjustments for:			
Impairment losses on financing assets	11	71,135	28,000
Net impairment losses on investment securities		6,127	35,497
Foreign exchange loss (gains) on translation of investment in associates	13	3,013	(2,137)
Depreciation and amortisation	14,15,16	59,915	28,982
Net (gain) loss on sale of investments securities	25	(7,062)	2,113
Dividends income	25	(2,847)	(2,543)
Share of results of associates	13	18,890	18,211
Employees' end of service benefits	20	4,075	4,166
Cash flows before changes in working capital changes		1,035,390	944,498
Working capital changes:			
Cash reserve with Qatar Central Bank		44,482	(191,313)
Due from banks		(4,436,430)	1,256,836
Financing assets		4,750,734	(5,294,701)
Other assets		(129,733)	833
Due to banks and financial institutions		4,947,987	566,435
Customers' current accounts		17,139	674,510
Other liabilities		37,414	(55,201)
		6,266,983	(2,098,103)
Employees' end of service benefits paid	20	(2,950)	(1,145)
Net cash flows generated from / (used in) operating activities		6,264,033	(2,099,248)
Cash flows generated from investing activities			
Acquisition of investment securities		(3,064,474)	(734,059)
Proceeds from sale of investment securities		4,353,516	1,932,583
Acquisition of investment in associates	13	(48,048)	(46,174)
Acquisition of fixed assets	15	(26,470)	(95,767)
Acquisition of intangible assets	16	(14,419)	(4,942)
Dividends received from associate company	13	3,254	1,627
Additions in investments in properties	14	(4,450)	-
Dividends income	25	2,847	2,543
Net cash flows generated from investing activities		1,201,756	1,055,811
Cash flows from financing activities			
Change in equity of investment account holders		(1,365,860)	5,182,068
Settlement of Sukuk financing		-	(2,547,587)
Cash dividends paid to shareholders		(605,476)	(605,476)
Dividend appropriation to sukuk eligible as additional capital	23	(55,000)	(22,917)
Net cash flows (used in) / generated from financing activities		(2,026,336)	2,006,088
Net increase in cash and cash equivalents		5,439,453	962,651
Cash and cash equivalents at 1 January		3,509,864	2,547,213
Cash and cash equivalents at 31 December	33	8,949,317	3,509,864

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Qatar International Islamic Bank (Q.P.S.C) ("QIIB" or "the Bank") was incorporated under Amiri Decree No. 52 of 1990. The Bank operates through its head office located in Grand Hamad Street in Doha and 19 local branches. The Bank is listed, and its shares are traded on the Qatar Exchange.

The commercial registration number of the Bank is 13023. The address of the Bank's registered office is Doha, State of Qatar, P.O. Box 664. The consolidated financial statements of the Bank for the year ended 31 December 2018 comprise the Bank and its following special purpose entity (together "the Group"):

	Country of incorporation	Capital QR'000	Principal Business Activities	Effective percentage of ownership	
				2018	2017
QIIB Sukuk Ltd (i)	Cayman Islands	-	Sukuk issuance	-	-

Note:

(i) QIIB Sukuk Ltd, was incorporated in the Cayman Islands as an exempted company with limited liability for sole purpose of Sukuk issuance for the benefit of QIIB.

The Bank is engaged in banking, financing and investing activities in accordance with its Articles of Incorporation, Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group and regulations of Qatar Central Bank (QCB).

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 27 January 2019.

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 Organization for Islamic Financial Institutions ("AAOIFI"), and the applicable provisions of Qatar Central Bank ("QCB") regulations. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the investment securities classified as Investments at fair value through equity and Investments at fair value through statement of income.

(c) Functional and presentation currency

These consolidated financial statements are presented in Qatari Riyals ("QR"), which is the Bank's functional and presentational currency. Except as otherwise indicated, financial information presented in QR 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 judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 6.

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 the Group except for the effects of the early adoption of FAS 30 as discussed in note 4. Additionally the Group has adopted consequential amendments to IFRS 7 financial instruments: disclosures that are applied to disclosures of 2018, but have not been applied to comparative information.

(a) Basis of consolidation*(i) Special purpose entities*

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

- the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE;
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

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

(b) Investment in associates

Associates are entities 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 recognized 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 recognized in the consolidated statement of income; its share of post-acquisition movements in reserve is recognized 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 equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize 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 recognizes 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, equal accounting policies for similar transactions and other events in similar circumstances are used. Dilution gains and losses in associates are recognized in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(b) Investment in associates (continued)**

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.

The accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

(c) Foreign currency**Foreign currency transactions and balances**

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

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

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

Investments in associate companies are translated into Qatari Riyals at the rates ruling at the reporting date. The income or loss is translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to the foreign exchange loss on translation within the consolidated statement of income.

(d) 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 amortized cost or 2) at fair value through statement of income.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(d) Investment securities (continued)**

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 recognized 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 derecognized 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 recognized 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 re-measured at fair value at the end of each reporting period and the resultant re-measurement gains or losses is recognized in the consolidated statement of income in the period in which they arise. Subsequent to initial recognition, investments classified at amortized cost are measured at amortized cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortization process and those arising on de-recognition or impairment of the investments, are recognized in the consolidated statement of income.

Investments at fair value through equity are re-measured 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 recognized in the consolidated statement of changes in shareholders' 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 recognized 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).

*(iv) Measurement principles**Amortized cost measurement*

The amortized 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 amortization using the effective profit method of any difference between the initial amount recognized 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) 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 Muntahia Bittamleek, Istisn'a and other modes of Islamic financing. Financing assets are stated at their amortized 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 Murabaha (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in installments by the Murabaha 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 ordered to its promise in the Murabaha sale, and not enters into any Murabaha transaction in which the purchase ordered does not undertake to accept the goods if they meet the specifications.

Mudaraba and Musharaka

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

Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek 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 Muntahia Bittamleek receivables are carried at the aggregate of the minimum lease payments, less deferred income (in total forming amortised cost) and impairment allowance (if any).

Istisn'a

Istisn'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 amortized cost.

(f) Other financial assets and liabilities*(i) Recognition and initial measurement*

The Group initially recognizes due from banks, financing assets, customers' current accounts, due to banks and financial institutions, 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 recognized 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 amortized 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 derecognizes 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) Other financial assets and liabilities (continued)***(ii) De-recognition of financial assets and financial liabilities (continued)*

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized 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 recognized in consolidated statement of income.

The Group enters into transactions whereby it transfers assets recognized 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 derecognized.

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 recognize 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 derecognized if it meets the derecognition criteria. An asset or liability is recognized 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 enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

The Group derecognizes a financial liability when they are extinguished (i.e. when the obligation specified in the contract is discharged or cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(iii) Offsetting

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(g) Impairment of financial assets (other than equity type investments classified as fair value through equity)***Policy applicable from 1 January 2018*

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

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

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**g) Impairment of financial assets (other than equity type investments classified as fair value through equity) (continued)****Policy applicable up to 31 December 2017**

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.

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.

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 recognized in the consolidated statement of changes in equity is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

(h) Modification of financial assets and liabilities**Financial Assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value, and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

Policy applicable from 1 January 2018

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

Policy applicable up to 31 December 2017

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the premodification profit rate.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Modification of financial assets and liabilities (continued)****Financial Liabilities**

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of income.

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with Qatar Central Bank 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.

(j) Investment property

Investment property held for rental or capital appreciation is measured at cost including cash equivalent amount paid or fair value of other consideration given to acquire an asset at the time of its acquisition or construction. Depreciation is systematically allocated for the cost of the investment property over its useful life. Investment property is measured at cost less accumulated depreciation and impairment losses.

Major expenditure incurred by the entity related to additions and improvement subsequent to its acquisition will be added to the carrying amount of investment property in the consolidated statement of financial position, provided that the Bank expects that such expenditure will increase the future economic benefits to the Bank from the investment property. However, if such economic benefits are not expected to take place, the entity will recognize this expenditure in the consolidated statement of income in the financial period in which it is incurred, taking into consideration the split between the portion related to owners' equity and the portion related to investment account holders.

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

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

	<i>Years</i>
Buildings	20

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

Repairs and maintenance expenses are charged to the statement of income when incurred.

Investment property is derecognized on disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gain or losses arising from the retirement will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and will be recognized in consolidated statement of income in the period of the retirement or disposal, taking into consideration the split between the portion related owner's equity and the portion related to investment account holders.

(k) Fixed assets**(i) 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 capitalized borrowing costs.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(k) Fixed assets (continued)**

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 recognized in other income/other expenses in the consolidated statement of income.

(ii) Subsequent costs

The cost of replacing a component of fixed asset is recognized 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 derecognized. The costs of the day-to-day servicing of fixed assets are recognized in consolidated statement of income as incurred.

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

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.

Repairs and maintenance expenses are charged to the statement of income when incurred.

(l) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalized 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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at each financial year. 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized 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 amortized 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Intangible Assets (continued)**

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

Useful lives	Software Finite (5 years)
Amortization method used	Amortized on a straight line basis over the periods of availability
Internally generated or acquired	Acquired

(m) 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 recognized 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 utilized 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 recognized in consolidated statement of income. Impairment losses recognized 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 recognized 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 amortization, if no impairment loss had been recognized.

(n) Customer current accounts

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

(o) Equity of unresitricted investment account holders

Equity of unrestricted investment account holders are funds held by the Group, which it can invest at its own discretion. The investment account holders authorize 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) Equity of unresitricted investment account holders (continued)**

The Group charges a management fee (Mudarib fees) to investment account holders of the total income from investment accounts, the income attributable to account holders is allocated to investment accounts after setting aside provisions and deducting the Group's share of income 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 investment accounts.

(p) 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 the yearend 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.

(q) Sukuk eligible as additional capital

During the year 2016, the Group issued perpetual sukuk eligible as additional capital for an amount of QR 1 billion. The sukuk is unsecured and the profit distributions are discretionary, non –cumulative, payable annually, with a fixed profit rate for the first five years which will be revised upon the completion of the initial five years' period. The Group has the right not to pay profit and the sukuk holders have no right to claim profit on the sukuk. The sukuk does not have a maturity date and has been classified as an equity. During 2018 The Group distributed QR 55,000 thousands related to year 2017 profit. Perpetual sukuk issued that are eligible as additional capital are recognized as equity and carried at the amounts received from sukuk holders. Profit distributions on perpetual sukuk are discretionary with non –cumulative feature and are recongised as a deduction in equity after declaration.

(r) Provisions

Provision is recognized 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.

(s) Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly and the restructuring plan will cause losses to the Group. Future operating losses are not provided for.

(t) 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 recognized 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(u) Share capital and reserves****(i) Share issue costs**

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

(ii) Dividends on ordinary shares

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

(v) Revenue recognition**Murabaha and Musawama**

Profit from Murabaha and Musawama transactions is recognized when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognized 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 recognized when the realization is reasonably certain or when actually realized. Income related to non-performing accounts is excluded from the consolidated statement of income.

Mudaraba

Income on Mudaraba financing is recognized 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 recognized when the right to receive payments is established or on distribution.

Ijara Muntahia Bittamleek

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

Wakala

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

Istisna'a

Revenue and the associated profit margin are recognized 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 recognizes anticipated losses on Istisna'a contract as soon as they are anticipated.

Income from investment banking services

Income from investment banking services (presented in fee and commission income), including placement, advisory, marketing and performance fees, is recognized 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 amortized cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognized as the related services are performed.

Dividend income

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(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 period. Diluted EPS is determined by adjusting the profit or loss attributable to owners and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(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 Chief Executive Officer (being the chief operating decision maker) of the Bank to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(y) Earnings prohibited by Shari’a

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

(z) 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.

(aa) Financial guarantees contracts and loan commitments

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

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

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 amortized 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 amount of the loss allowance (calculated as described in note 5 (bii); and
- The premium received on initial recognition less income recognized.

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 amortization of the premium received is recognized in the consolidated statement of income under “commission and fees income”.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 5 (bii)). The Group has not provided any commitment to provide loans at a below-market profit rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ab) 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.

(ac) Comparatives

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

(ad) New standards, amendments and interpretations*(i) New standards, amendments and interpretations effective from 1 January 2018*

There are no new accounting standards, amendments and interpretations that are effective from 1 January 2018 except for the early adoption of FAS 30 and the consequential amendments to IFRS 7 financial instruments: disclosures that are applied to disclosures of 2018, but have not been applied to comparative information.

*(ii) New standards, amendments and interpretations issued but not effective from 1 January 2018**FAS 28 Murabaha and Other Deferred Payment Sales*

AAOIFI has issued FAS 28 Murabaha and Other Deferred Payment Sales in 2017. FAS 28 supersedes the earlier FAS No. 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS No. 20 "Deferred Payment Sale". The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions. This standard shall be effective for the financial periods beginning on or after 1 January 2019 with early adoption permitted.

The Group is currently evaluating the impact of this standard.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Group is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 “Risk Reserves” in 2018. This standard along with FAS 30 ‘Impairment, Credit losses and onerous commitments’ supersede the earlier FAS 11 “Provisions and reserves”.

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Group early adopts FAS 30 “Impairment, Credit losses and onerous commitments”.

The Group is currently evaluating the impact of this standard.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ad) New standards, amendments and interpretations (continued)**

(ii) *New standards, amendments and interpretations issued but not effective from 1 January 2018(continued)*

FAS 30, "Impairment, Credit Losses and Onerous Commitments"

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

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

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. QCB earlier issued ECL regulations ("ECL regulations") via its circular 9 of 2017 as applicable for Islamic banks operating in Qatar. The Group had adopted the ECL regulations, which are similar to FAS 30, with effect from 1 January 2018 and as permitted by those ECL regulations, the Group elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interests of the current period.

Subsequently, QCB issued circular 26 of 2018 for Islamic banks operating in Qatar with respect to early adoption of FAS 30 effective 1 January 2018 and superseding its earlier circular 9 of 2017. Therefore, the Group has early adopted FAS 30 with effect from 1 January 2018. However, the Group did not identify any adjustments while adopting FAS 30 and overriding the ECL regulations. The requirements for restatement of comparative figures and adjustments to transition remains the same as ECL regulations.

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized below:

Impairment of financial assets

FAS 30 replaces the 'incurred loss' model in FAS 11 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under FAS 30, credit losses are recognized earlier than under FAS 11.

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

Stage 1: 12 months ECL - not credit impaired

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since the initial recognition or that have low credit risk. For these assets, ECL are recognized on the gross carrying amount of the asset based on the expected credit losses that result from default events that are possible within 12 months after the reporting date. Profit is computed on the gross carrying amount of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ad) New standards, amendments and interpretations (continued)**

(ii) *New standards, amendments and interpretations issued but not effective from 1 January 2018(continued)*

FAS 30, "Impairment, Credit Losses and Onerous Commitments" (continued)

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk (SICR) since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: Non-performing - credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except as described below:

- As permitted by the transitional provisions of FAS 30, the Group elected not to restate the comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2018 under FAS 30.

4 ADOPTION OF ECL REGULATIONS

The adoption of the ECL regulations has resulted in changes in the accounting policies for impairment of financial assets. Set out below are the ECL regulations transition impact disclosures for the Group.

(a) Impact of adopting the ECL regulations

The impact from the adoption of the ECL regulations as at 1 January 2018 has decreased the retained earnings by QAR 239,463 thousands as follows:

	Retained earnings QR'000
Closing balance (31 December 2017)	1,144,069
<i>Impact on recognition of expected credit losses</i>	
Due from banks	(1,070)
Debt type investments carried at amortized cost.	(491)
Financing assets	(215,094)
Off balance sheet exposures subject to credit risk	(22,808)
	<u>(239,463)</u>
Opening balance under ECL regulations on date of initial application at 1 January 2018	<u>904,606</u>

(b) Expected credit loss / Impairment allowances

The following table reconciles the carrying amounts of financial assets from their previous measurements, in accordance with the existing FAS as at 31 December 2017 to their new measurement determined in accordance with the ECL regulations as at 1 January 2018.

At 31 December 2018

4 ADOPTION OF ECL REGULATIONS (CONTINUED)

The below tables exclude balances with Ministry of Finance.

	31 December 2017 QAR'000	Re-measurement QAR'000	1 January 2018 QAR'000
Due from banks	3,274,025	(1,070)	3,272,955
Debt type investments carried at amortised cost	1,055,022	(491)	1,054,531
Financing assets (Exclude Ministry of Finance)	25,613,375	(215,094)	25,398,281
Off balance sheet exposures subject to credit risk (Exclude Ministry of Finance)	5,642,541	(22,808)	5,619,733
	35,584,963	(239,463)	35,345,500

(c) Expected credit loss / Impairment allowances

	Stage 1 QR'000	Stage 2 QR'000	Non- Performing QR'000	Total QR'000
Closing Balance - as at 31 December 2017				
Due from banks	3,273,093	932	-	3,274,025
Debt type investments carried at amortised cost	1,036,069	18,953	-	1,055,022
Financing assets	24,472,803	1,006,188	134,384	25,613,375
Off balance sheet exposures subject to credit	5,378,906	263,635	-	5,642,541
	34,160,871	1,289,708	134,384	35,584,963

**Opening Balance (Day 1 impact) - as at 1
January 2018**

Due from banks	3,272,027	928	-	3,272,955
Debt type investments carried at amortised cost	1,035,664	18,867	-	1,054,531
Financing assets	24,275,161	988,736	134,384	25,398,281
Off balance sheet exposures subject to credit risk	5,357,626	262,107	-	5,619,733
	33,940,478	1,270,638	134,384	35,345,500

Net transfer between stages

Due from banks	-	-	-	-
Debt type investments carried at amortised cost	-	-	-	-
Financing assets				
Transfer from Stage 1 to Stage 2	(1,089,753)	1,089,753	-	-
Transfer from Stage 1 to Stage 3	(168,944)	-	168,944	-
Transfer from Stage 2 to Stage 3	-	(103,625)	103,625	-
Transfer from Stage 3 to Stage 1	55,342	-	(55,342)	-
Transfer from Stage 3 to Stage 2	-	1,506	(1,506)	-
	(1,203,355)	987,634	215,721	-

Off balance sheet exposures subject to credit risk

Transfer from Stage 1 to Stage 2	(149,176)	149,176	-	-
Transfer from Stage 1 to Stage 3	(7,427)	-	7,427	-
Transfer from Stage 2 to Stage 3	-	(3,726)	3,726	-
Transfer from Stage 3 to Stage 1	1,636	-	(1,636)	-
	(154,967)	145,450	9,517	-

At 31 December 2018

4 ADOPTION OF ECL REGULATIONS (CONTINUED)**(c) Expected credit loss / Impairment allowances (continued)**

	Stage 1 QR'000	Stage 2 QR'000	Non- Performing QR'000	Total QR'000
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Net Movements during the year

Due from banks	9,530,414	108	-	9,530,522
Debt type investments carried at amortised cost	(178,608)	(17)	-	(178,625)
Financing assets	599,886	(339,969)	(117,644)	142,273
Off balance sheet exposures subject to credit risk	2,211,997	124,686	11,317	2,348,000
	12,163,689	(215,192)	(106,327)	11,842,170

Expected credit losses charged for the year (net)

Due from banks	2,795	1	-	2,796
Debt type investments carried at amortised cost	(79)	375	-	296
Financing assets	6,177	(2,425)	67,383	71,135
Off balance sheet exposures subject to credit risk	13,582	3,679	-	17,261
	22,475	1,630	67,383	91,488

Closing Balance - as at 31 December 2018

Due from banks	12,799,646	1,035	-	12,800,681
Debt type investments carried at amortised cost	857,135	18,475	-	875,610
Financing assets	23,665,515	1,638,826	165,078	25,469,419
Off balance sheet exposures subject to credit risk	7,401,074	528,564	20,834	7,950,472
	44,723,370	2,186,900	185,912	47,096,182

5 FINANCIAL RISK MANAGEMENT**(a) Introduction and overview**

Effective risk management is fundamental to the success of the Group, and is recognized as a key in the Group's overall approach to strategy management. The Group has a strong, disciplined risk culture where managing risk is a responsibility shared by all of the Group's employees. The Group has well established risk governance structure, with an active and engaged Board of Directors supported by an experienced executive management team.

The Group's risk management framework is predicated on the three-line-of defence model, within the model;

- The First Line of Defence (typically comprised of the businesslines and most corporate functions)
- The Second Line of Defence (typically comprised of control functions such as Group risk management, Group compliance, and Group finance)
- The Third Line of Defence (typically comprised of Internal audit)

The Group's main assets and liabilities are financial instruments. Financial assets include cash and balances with QCB, due from banks, investments securities, financing assets and other financial assets.

Financial liabilities include customers' current accounts, due to banks, and financial institutions. Financial instruments also include equity of unrestricted investment account holders and contingent liabilities and commitments included into off balance sheet items.

The Group is exposed to the following risks from its use of financial instruments;

- Credit risk
- Liquidity risk
- Market risk
- Operational risk; and
- Capital risk

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk**

Credit risk is the risk of loss resulting from the failure of a borrower or a counterparty to meet its contractual obligations to the Group. It arises principally from the Group's financing assets, due from banks, and debt investment securities.

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

(i) Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures the expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). Refer to note 5 (bii) for more details.

Credit risk grading (excluding balances with Ministry of Finance)

The Group uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and finance specific information collected at the time of application (such as disposable income for personal banking exposures; and turnover and industry type for corporate banking exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means the PD for investment grades is lower than the PD for speculative grades

The following are additional consideration for each type of portfolio held by the Group:

Personal banking

After the date of initial recognition, for personal business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. This score is mapped to a PD.

Corporate banking

For wholesale business, the rating is determined at the borrower level. A relationship manager incorporates any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This determines the updated internal credit rating and PD.

Treasury and investments

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published credit grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group rating method comprises 10 rating levels. The master scale assigned each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)**

	Financing assets QR'000	Debt type investments carried at amortised cost QR'000	Off balance sheet exposures subject to credit risk QR'000	Due from Banks QR'000
Rating grade				
AAA to AA-	8,155	9,297	630,390	4,526,831
A+ to A-	8,115,106	777,855	1,291,029	8,246,334
BBB to BBB-	13,421,379	70,309	2,320,747	18,084
BB+ to B-	3,759,937	18,936	2,570,943	11,852
CCC+ to CCC-	1,514,820	-	824,288	407
Ca	266,046	-	332,312	-
C	239,791	-	9,801	-
D	355,476	-	11,032	-
Unrated	-	-	-	1,040
*Total	27,680,710	876,397	7,990,542	12,804,548

* Excluding Exposure with Ministry of Finance & QCB

The above balances are gross before deducting the ECL.

(ii) Expected credit loss measurement

FAS30 replaces the 'incurred loss' model with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under the ECL model, credit losses are recognised earlier than before.

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Non Performing - credit impaired

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

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)**

A pervasive concept in measuring ECL is that it should consider forward-looking information. Section “*Forward-looking information incorporated in the ECL models*” includes an explanation of how the Group has incorporated this in its ECL models.

Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis (refer to section “*grouping of instruments for losses measured on a collective basis*”).

The following table summarises the impairment requirements under FAS 30 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition		
Stage 1 (Initial recognition)	Stage 2 (Significant increase in credit risk since initial recognition)	Stage 3 (Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

- **Significant increase in credit risk (SICR)**

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

Qualitative criteria:

For personal portfolios, if the borrower meets one or more of the following criteria:

- Direct debit cancellation
- Extension to the terms granted
- In short-term forbearance

For Corporate and Treasury portfolios, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR is performed on a quarterly basis at a portfolio level for all personal loans held by the Group. In relation to Corporate and Treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop

A backstop can be applied when contractual payments are more than 30 days overdue with reasonable information to support the use of longer overdue periods that is not more than 60 days. The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(ii) Expected credit loss measurement (continued)*

- **Definition of default and credit-impaired assets**

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower’s financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group’s expected loss calculations.

An instrument is considered no longer be in default (i.e. to have cured) when it is no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

- **Measuring ECL – Explanation of inputs, assumptions and estimation techniques**

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not repaid or defaulted in an earlier month).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(ii) Expected credit loss measurement (continued)*

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group’s recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to section “*forward-looking information incorporated in the ECL models*” for an explanation of forward looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting year.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the “base economic scenario”) are provided by the Group’s Economics team on a periodic basis and provide the best estimate view of the economy over the next five years.

In addition to the base economic scenario, the Group’s Economics team also provide other possible scenarios along with scenario weightings. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators (see section “*significant increase in credit risk (SICR)*”).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(ii) Expected credit loss measurement (continued)***Economic variable assumptions**

The Bank considers every changing macro-economic factors in order to reflect these factors into the forward looking PD, EAD and LGD, and this all will be based on local macro-economic indicators and Global indicators, as well the subjective approach toward those indicators. The macro-economic factors may also be reflected in the rating system considering the economic sectors and related economic impacts.

Macroeconomic factors are factors that are pertinent to a broad economy at the global and/or national level and in this case, will affect Qatar economy, subsequently, the banking system.

Macroeconomic factors could impact the obligors or payment behaviour to fulfil the obligations. QIIB utilizes management experience judgment in assessing the impact of these macroeconomic factors on different segments, as well the composition of those impacts toward the bank strategy.

More frequent reviews of economic variable assumptions will be conducted in the event of any significant changes in the regulatory requirements, economic conditions, business strategy of the Bank or any other changes in internal as well as external factors that may materially impact the Bank.

The Bank considers the following as most significant macroeconomic variables:

- **GDP (Gross Domestic Product):** Refers to the economy size. Forward looking GDP forecast will provide the predictive information regarding the expected size of the economy as well as indication of the economy expansion or contraction. GDP level can also be used as indicator to forecast the earnings and revenue for Corporate and SME’s customers.
- **Oil Price:** Considering that Qatar economy mainly rely on oil and gas sector, this indicator is a baseline to the Qatar economy.
- **Inflation:** Is the rate at which measure the general price level for goods and services and also reflect the purchasing power. This scenario may lead to an increase in the probability of loan as individuals experience a decrease in their purchasing power and vice versa.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 were Oil Prices and inflation rates for Qatar (Oil price 2019: \$60/Barrel, 2020: \$65/ Barrel) and (inflation 2019: 2%, 2020: 2.2%)

In addition to the base economic scenario, the Group’s Economics team also provide other possible scenarios along with scenario weightings assigned to each macro-economic scenario (60% for base case scenario ,25% for medium case scenarios and 15% for high case scenarios)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(iii) Credit risk exposure*

- Maximum exposure to credit risk financial instruments subject to impairment**

Note 4c and 5bi represent a worst-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 in note (4c) are based on net carrying amounts as reported on the consolidated statement of financial position excluding balances with MoF and QCB, while the exposures in note 5bi are before deducting the loss allowances.

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.

- Collateral and other credit enhancements**

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed regularly. The main types of collaterals obtained are as follows:

- individual credit facilities, secured by salaries.
- For commercial and corporate lending, mortgages over real estate properties, inventory, cash and securities.
- For rental lending, mortgages over residential properties and securities.

Management monitors the market value of collaterals.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally secured by salaries.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting year and there has been no significant change in the overall quality of the collateral held by the Group since the prior year.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired, after excluding deferred profit, and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure QR'000	Impairment allowance QR'000	Carrying amount QR'000	Fair value of collateral held QR'000
Credit-impaired assets				
<i>Loans to individuals</i>				
- Murabaha and Musawama	339,860	242,593	97,267	190,609
- Ijarah Muntahia Bittamleek	266,313	194,933	71,380	85,195
- Others	71,568	46,377	25,191	105,414
- Others	1,979	1,283	696	-
<i>Loans to corporate entities</i>				
- Large corporate	183,689	88,338	95,351	85,435
- Real estate	7,069	3,535	3,534	-
- Real estate	17,400	11,310	6,090	28,325
- Small and medium-sized enterprises (SMEs)	159,220	73,493	55,727	57,110
Total credit-impaired assets	523,549	330,931	192,618	276,044

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)**

- Collateral and other credit enhancements (continued)**

(iv) Loss allowance

The loss allowance recognised in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the year.
- Additional allowances for new financial instruments recognised during the year, as well as releases for financial instruments de-recognised in the year;
- Financial assets derecognised during the year and write-offs of allowances related to assets that were written off during the year.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL QR'000	Stage 2 Lifetime ECL QR'000	Stage 3 Lifetime ECL QR'000	Total QR'000
Due from banks				
Loss allowance as at 1 January 2018	1,066	5	-	1,071
Movements with P&L impact				
Net financial assets originated or purchased	2,795	1	-	2,796
Total net P&L charge during the period	2,795	1	-	2,796
Other movements with no P&L impact				
Loss allowance as at 31 December 2018	3,861	6	-	3,867
Debt type investments carried at amortised cost				
Loss allowance as at 1 January 2018	405	86	-	491
Movements with P&L impact				
Net financial assets originated or purchased	(79)	375	-	296
Total net P&L charge during the period	(79)	375	-	296
Other movements with no P&L impact				
Loss allowance as at 31 December 2018	326	461	-	787
Financing assets				
Loss allowance as at 1 January 2018	197,642	17,452	264,044	479,138
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	5,847	-	5,847
Transfer from Stage 1 to Stage 3	-	-	35,166	35,166
Transfer from Stage 2 to Stage 3	-	-	21,987	21,987
Transfer from Stage 3 to Stage 1	883	-	-	883
Transfer from Stage 3 to Stage 2	-	6	-	6
Net financial assets originated or purchased	5,294	(8,278)	10,230	7,246
Total net P&L charge during the period	6,177	(2,425)	67,383	71,135
Other movements with no P&L impact				
Financial assets derecognised during the period	-	-	(498)	(498)
Write-offs	-	-	(498)	(498)
Loss allowance as at 31 December 2018	203,819	15,027	330,929	549,775

At 31 December 2018

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(iv) Loss allowance (continued)*

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	QR'000	QR'000	QR'000	QR'000
Off balance sheet exposures subject to credit risk				
Loss allowance as at 1 January 2018	21,280	1,528	-	22,808
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	432	-	432
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	4	-	-	4
New financial assets originated or purchased	13,578	3,247	-	16,825
Total net P&L charge during the period	13,582	3,679	-	17,261
Other movements with no P&L impact				
Financial assets derecognised during the period				
Write-offs				
Loss allowance as at 31 December 2018	34,862	5,207	-	40,069

(v) Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term financing assets.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset (refer to note 3 (h) above). The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for 12 consecutive months or more.

*(vi) 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.

2018

Assets recorded on the consolidated statement of financial position:	Qatar	Other	Other	Others	Total
	QR'000	GCC	Middle East		
	QR'000	QR'000	QR'000	QR'000	QR'000
Balances with Qatar Central Bank	2,226,781	-	-	-	2,226,781
Due from banks	12,616,853	11,056	2,459	170,313	12,800,681
Financing assets	27,463,353	-	-	-	27,463,353
Investment securities	4,496,635	149,932	-	165,755	4,812,322
Other assets	722,962	-	-	-	722,962
	47,526,584	160,988	2,459	336,068	48,026,099

At 31 December 2018

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(vi) Concentration of risks of financial assets with credit risk exposure (continued)*

2017

Assets recorded on the consolidated statement of financial position:	Qatar	Other	Other	Others	Total
	QR'000	GCC	Middle East		
	QR'000	QR'000	QR'000	QR'000	QR'000
Balances with Qatar Central Bank	1,885,071	-	-	-	1,885,071
Due from banks	2,884,599	11,375	4,442	373,609	3,274,025
Financing assets	32,500,027	-	-	-	32,500,027
Investment securities	5,578,250	286,586	-	166,423	6,031,259
Other assets	583,361	-	-	-	583,361
	43,431,308	297,961	4,442	540,032	44,273,743

2018

Off balance sheet items	Qatar	Other	Other	Others	Total
	QR'000	GCC	Middle East		
	QR'000	QR'000	QR'000	QR'000	QR'000
Unused financing facilities	7,064,850	-	-	-	7,064,850
Guarantees	4,235,267	-	-	-	4,235,267
Letters of credit	449,048	-	-	-	449,048
Others	9,585	-	-	-	9,585
	11,758,750	-	-	-	11,758,750

2017

Off balance sheet items	Qatar	Other	Other	Others	Total
	QR'000	GCC	Middle East		
	QR'000	QR'000	QR'000	QR'000	QR'000
Unused financing facilities	3,583,902	-	-	-	3,583,902
Guarantees	3,673,166	-	-	-	3,673,166
Letters of credit	472,461	-	-	-	472,461
Others	7,765	-	-	-	7,765
	7,737,294	-	-	-	7,737,294

Industry sectors

The following table breaks down the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements, as categorized by the industry sectors of the Group's counterparties:

	Gross exposure	Gross exposure
	2018	2017
	QR'000	QR'000
Government and related entities	8,628,287	14,576,288
Real estate	8,608,569	9,867,450
Personal	10,783,716	9,522,852
Contingent liabilities	11,758,751	7,737,293
Services	14,786,195	6,349,018
Commercial	3,405,642	1,935,181
Contracting	630,621	928,420
Industry	459,750	509,092
Other	723,318	585,443
	59,784,849	52,011,037

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(viii) Credit quality*

The following table provides the details for the credit quality for 2017:

	Financial assets 2017 QR'000	Due from banks 2017 QR'000	Investments in debt type securities 2017 QR'000
Gross amount:			
Neither past due nor impaired	33,146,196	3,274,025	6,031,259
Past due but not impaired (Special mention)	771,521	-	-
	<u>33,917,717</u>	<u>3,274,025</u>	<u>6,031,259</u>
Less:			
Deferred profit	(1,552,074)	-	-
Allowance -Specific	-	-	-
Carrying amount-Net	<u>32,365,643</u>	<u>-</u>	<u>-</u>
Impaired			
Substandard (overdue > 3 months)	124,632	-	-
Doubtful (overdue > 6 months)	59,222	-	-
Loss (overdue > 9 months)	269,001	-	-
	<u>452,855</u>	<u>-</u>	<u>-</u>
Less:			
Deferred profit	(33,133)	-	-
Allowance -Specific	(264,044)	-	-
Suspended profit amount	(21,294)	-	-
Carrying amount-Net	<u>134,384</u>	<u>-</u>	<u>-</u>
Total carrying amount	<u>32,500,027</u>	<u>3,274,025</u>	<u>6,031,259</u>

Impaired financing assets

Individually impaired financing assets are assets 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.

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 QR'000
Up to 30 days	302,128
31 to 89 days	469,393
Gross	<u>771,521</u>

(ix) 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.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)***(ix) Collateral (continued)*

The aggregate collateral for past due up to 30 days (2017: QR 852 million), for past due from 31 to 89 days (2017: QR 2,600 million) and (2017: QR 523 million) for past due more than 90 days.

(x) Write-off policy

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

This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QR 521 thousand (2017: QR 149 million).

(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 government Sukuk of State of Qatar, short-term liquid trading investments, and inter-bank placements in addition to maintaining the statutory reserves with QCB. The Market Risk Department monitors the liquidity risk of the Bank on a daily basis through liquidity stress testing scenarios and report its results to the Risks Committee for their action if needed. All liquidity policies and procedures are subject to review and approved by Board of Directors.

The Group monitors 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.

The liquidity risk ratio as of 31 December 2018 is 138.8% (2017: 96%).

(ii) Exposure to liquidity risk

A key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers, 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. The Market Risks Department monitors the liquidity risks of the Bank on a daily basis and run liquidity Stress Testing in order to make sure the Bank is in compliance with QCB requirements.

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

	2018 %	2017 %
At December 31		
Average for the year	116	113
Maximum for the year	139	139
Minimum for the year	100	96

(c) Liquidity risk (continued)*(iii) Maturity analysis*

Maturity analysis of the Group's assets, liabilities and equity of investment account holders are prepared on the basis of their remaining contractual maturity.

2018	Carrying amount QR'000	Less than 3 months QR'000	3-6 months QR'000	6 months – 1 year QR'000	1-3 years QR'000	More than 3 years QR'000
Cash and balances with Qatar Central Bank	2,735,524	1,225,602	-	-	-	1,509,922
Due from banks	12,800,681	9,349,970	3,268,636	182,075	-	-
Financing assets	27,463,353	4,702,986	5,053,806	3,558,395	6,607,496	7,540,670
Investment securities	4,889,644	548,271	100,000	205,452	1,317,480	2,718,441
Other assets	722,962	722,934	28	-	-	-
Total assets	48,612,164	16,549,763	8,422,470	3,945,922	7,924,976	11,769,033
Due to banks and financial institutions	11,553,732	8,353,729	2,473,481	546,225	180,297	-
Customers' current accounts	6,911,572	6,911,572	-	-	-	-
Other liabilities	746,209	527,013	45,960	126,253	-	46,983
Total liabilities	19,211,513	15,792,314	2,519,441	672,478	180,297	46,983
Equity of investment account holders	24,218,355	12,984,106	2,243,688	3,051,970	5,938,591	-
Total liabilities and equity of investment account holders	43,429,868	28,776,420	4,763,129	3,724,448	6,118,888	46,983
Maturity gap	5,182,296	(12,226,657)	3,659,341	221,474	1,806,088	11,722,050

(c) Liquidity risk (continued)*(iii) Maturity analysis (continued)*

2017	Carrying amount QR'000	Less than 3 months QR'000	3-6 months QR'000	6 months – 1 year QR'000	1-3 years QR'000	More than 3 years QR'000
Cash and balances with Qatar Central Bank	2,432,223	863,570	-	-	-	1,568,653
Due from banks	3,274,025	3,219,402	54,623	-	-	-
Financing assets	32,500,027	12,422,780	2,196,607	4,276,255	4,225,894	9,378,491
Investment securities	6,179,784	1,477,203	1,361,509	647,280	1,007,389	1,686,403
Other assets	583,361	583,330	31	-	-	-
Total assets	44,969,420	18,566,285	3,612,770	4,923,535	5,233,283	12,633,547
Due to banks and financial institutions	6,605,745	5,397,748	1,207,997	-	-	-
Customers' current accounts	6,894,433	6,894,433	-	-	-	-
Other liabilities	718,022	547,539	14,553	109,971	-	45,959
Total liabilities	14,218,200	12,839,720	1,222,550	109,971	-	45,959
Equity of investment account holders	25,584,215	15,786,310	2,748,873	2,499,377	4,549,655	-
Total liabilities and equity of investment account holders	39,802,415	28,626,030	3,971,423	2,609,348	4,549,655	45,959
Maturity gap	5,167,005	(10,059,745)	(358,653)	2,314,187	683,628	12,587,588

5 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 Risks Committee.

Non-trading portfolios primarily arise from the profit rate management of the Group's personal 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/Investment Committee/ Limits Committee. Group Market Risk Department is responsible for the development of detailed market risk management policies (subject to review and approval by Risks Committee/Board Level) and for the day-to-day management of all market risks. The main objective of the Market Risk Management is identification, classification and management of 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.

The principle tool used to measure and control market risk exposure within the Group's portfolios is Stress Testing Scenarios modelling.

(ii) 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 central Treasury in its day-to-day monitoring activities.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Market risks (continued)****(ii) Exposure to profit rate risk – non-trading portfolios (continued)**

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

2018	Carrying amount QR'000	Less than 3 months QR'000	3 – 6 months QR'000	Repricing in:				Non-profit sensitive QR'000	Effective profit rate
				6 months – 1 year QR'000	1 – 3 years QR'000	More than 3 years QR'000			
Cash and balances with central banks	2,735,524	-	-	-	-	-	-	2,735,524	-
Due from banks	12,800,681	9,166,066	3,268,636	182,075	-	-	183,904	183,904	2.60%
Financing assets	27,463,353	4,702,986	5,053,806	3,558,395	6,607,496	7,540,670	-	-	5.69%
Investment securities	4,889,644	470,950	100,000	205,452	1,317,480	2,718,441	77,321	77,321	3.44%
	47,889,202	14,340,002	8,422,442	3,945,922	7,924,976	10,259,111	2,996,749		
Due to banks and financial institutions	11,553,732	8,138,726	2,473,481	546,225	180,297	-	215,004	215,004	2.65%
Equity of investment account holders	24,218,355	12,984,106	2,243,688	3,051,970	5,938,591	-	-	-	2.44%
Profit rate sensitivity gap	12,117,115	(6,782,830)	3,705,273	347,727	1,806,088	10,259,111	2,781,746	2,781,746	
Cumulative profit rate sensitivity gap	12,117,115	(6,782,830)	(3,077,557)	(2,729,830)	(923,742)	9,335,369	12,117,115		

All customers' current accounts are non-profit bearing (note 19).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Market risks (continued)****(ii) Exposure to profit rate risk – non-trading portfolios (continued)**

2017	Carrying amount QR'000	Repricing in:					Non-profit sensitive QR'000	Effective profit rate
		Less than 3 months QR'000	3 – 6 months QR'000	6 months – 1 year QR'000	1 – 3 years QR'000	More than 3 years QR'000		
Cash and balances with central banks	2,432,223	-	-	-	-	-	2,432,223	
Due from banks	3,274,025	2,829,849	54,623	-	-	389,553		2.08%
Financing assets	32,500,027	12,422,780	2,196,607	4,276,255	4,225,894	9,378,491		4.70%
Investment securities	6,179,784	1,328,677	1,361,509	647,280	1,007,389	148,525		3.52%
	44,386,059	16,581,306	3,612,739	4,923,535	5,233,283	11,064,894	2,970,301	
Due to banks and financial institutions	6,605,745	5,179,748	1,207,997	-	-	218,000		2.17%
Equity of investment account holders	25,584,215	15,786,310	2,748,873	2,499,377	4,549,655	-		2.50%
Profit rate sensitivity gap	12,196,099	(4,384,752)	(344,131)	2,424,158	683,628	11,064,894	2,752,301	
Cumulative profit rate sensitivity gap	12,196,099	(4,384,752)	(4,728,883)	(2,304,725)	(1,621,097)	9,443,797	12,196,098	

All customers' current accounts are non-profit bearing (note 19).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Market risks (continued)****(ii) Exposure to profit rate risk – non-trading portfolios (continued)****Sensitivity analysis**

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non - standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. 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 QR'000	Decrease QR'000
2018		
At 31 December	71,544	(71,544)
2017		
At 31 December	118,717	(118,717)

(iii) Exposure to other market risks – non-trading portfolios**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 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	
		2018	2017	2018	2017
		QR'000	QR'000	QR'000	QR'000
Qatar Exchange	+/- 10	2,101	4,916	44	74
Bahrain Stock Exchange	+/- 10	514	882	-	-

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.

Currency risk

Currency risk is the risk that the value of a financial instruments will fluctuate due to a change in foreign exchange rates. The Group takes an exposure to the effect of fluctuation is prevailing foreign currency exchange rates on its financial position. The Board of Directors have set maximum limits on the level of currency exposure, which are monitored daily.

The table below indicates the effect of a reasonably possible movement of the currency rate against the Qatar Riyal on the income statement, with all other variables held constant:

Currency	Change in currency rate equity price %	Effect on consolidated statement of income	
		2018 QR'000	2017 QR'000
Euro	+/- 10	199	404
Sterling Pounds	+/- 10	272	465
Others	+/- 10	84	23,732

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5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Market risks (continued)***(iii) Exposure to other market risks – non-trading portfolios (continued)*

The Group manages its currency exposures within limits laid down by the Board of Directors. Limits are laid down for each currency individually and in total at the beginning of each year. The Qatar Riyal is pegged to the US Dollar. Although the Group is not exposed to any currency risk due to the peg, limits are set for US Dollar exposure. All other currency exposures are limited and the Group is not significantly exposed to the other currencies' exposures.

(e) Operational risks

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

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

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

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

(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 recognized and the Group recognizes 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:

	2018	2017
	Basel III	Basel III
Tier 1 capital	5,945,104	6,041,567
Tier 2 capital	261,141	-
Total regulatory capital	6,206,245	6,041,567

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5 FINANCIAL RISK MANAGEMENT (CONTINUED)**(f) Capital management (continued)****Risk weighted assets**

	2018	2017
	Basel III	Basel III
Risk weighted assets for credit risk	34,712,598	30,591,262
Risk weighted assets for market risk	534,410	738,919
Risk weighted assets for operational risk	2,552,339	2,476,952
Total risk weighted assets	37,799,347	33,807,133
Regulatory capital	6,206,245	6,041,567
Risk weighted assets as a percentage of regulatory capital (capital ratio)	16.42%	17.87%

The capital adequacy ratio has been calculated as per Basel III guidelines with effect from 1st January 2014 in accordance with QCB regulations. The minimum capital adequacy requirements are as follows:

2018	CET 1 ratio without capital conservation buffer	CET 1 ratio including capital conservation buffer	Tier 1 capital ratio including capital conservation buffer	Tier 1 and 2 capital ratio including capital conservation buffer	Total capital including capital conservation buffer and domestic systematic important bank buffer	Total capital including conservation buffer, domestic systematic important bank buffer and ICAAP Pillar II capital charge
Actual	13.08%	13.08%	15.73%	16.42%	16.42%	16.42%
Minimum limit as per QCB	6%	8.5%	10.5%	12.5%	12.5%	13.5%

Had the Group not adopted FAS 30, total capital adequacy ratio and common equity tier 1 (CET 1) capital adequacy ratio would have been as follows:

	31 December 2018
Common equity tier 1 (CET 1) ratio	13.08%
Total capital adequacy ratio	15.73%

The Group is currently in the process of analyzing new capital requirements for Profit Rate Risk on Banking Book (PRRBB) and will start setting aside capital based on new standard under Pillar II from 2019 onwards.

6 USE OF ESTIMATES AND JUDGMENTS**(a) Key sources of estimation uncertainty**

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

(i) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 5 (bii) section “*measuring ECL – explanation of inputs, assumptions and estimation techniques*”, which also sets out key sensitivities of the ECL to changes in these elements.

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;
- 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 groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 5 (bii).

(a) Key sources of estimation uncertainty (continued)*(ii) Determining fair values*

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

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

- For quoted investments, the fair value is determined by reference to quoted market bid prices at close of business on the reporting date.
- For unquoted investments, the fair value is determined by reference to recent significant buy or sells 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.
- 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.
- Investments which cannot be measured to fair value using any of the above techniques are carried at cost less impairment.

6 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 investment securities measured at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2018	Fair value measurement using			
	Total QR’000	Quoted prices in active markets (Level 1) QR’000	Significant observable inputs (Level 2) QR’000	Significant unobservable inputs (Level 3) QR’000
- Quoted equity-type investments classified as fair value through income statement	437	437	-	-
- Quoted equity-type investments classified as fair value through equity	26,155	26,155	-	-
- Unquoted equity-type investments classified as fair value through equity	50,729	-	-	50,729

6 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)**(b) Critical accounting judgements in applying the Group's accounting policies (continued)***(ii) Financial asset classification (continued)*

2017	Fair value measurement using			
	Total QR'000	Quoted prices inactive markets (Level 1) QR'000	Significant observable inputs (Level 2) QR'000	Significant unobservable inputs (Level 3) QR'000
- Quoted equity-type investments classified as fair value through income statement	741	741	-	-
- Quoted equity-type investments classified as fair value through equity	57,240	57,240	-	-
- Unquoted equity-type investments classified as fair value through equity	90,544	-	-	90,544

There have been no transfers between level 1 and level 2 during the years ended 31 December 2018 and 2017.

Details of the Group's classification of financial assets and liabilities are given in note 8.

(iii) Useful lives of fixed assets

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

(iv) Useful lives of intangible assets

The Group's management determines the estimated useful life of its intangible assets for calculating amortisation. This estimate is determined after considering the expected economic benefits to be received from the use of intangible assets.

(v) Impairment of fair value through equity investments

The Group determines that fair value through equity investments are impaired when there has been a 'significant' or 'prolonged' decline in the fair value below its cost. This determination of what is 'significant' or 'prolonged' requires judgment and is assessed based on qualitative and quantitative factors, for each fair value through equity investment separately. In making a judgment of impairment for fair value through equity investments, the Group evaluates among other factors, evidence of deterioration in the financial health of the entity, impact of delay in execution, industry and sector performance, changes in technology and operational and financing cash flows or whether it becomes probable that the investee will enter bankruptcy or other financial reorganization.

(vi) Going concern

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

7 OPERATING SEGMENTS

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

Corporate Banking	Includes financing, deposits and other transactions and balances with corporate customers, government and semi government institutions and SME customers.
Personal Banking	Includes financing, deposits and other transactions and balances with retail customers.
Treasury & Investments	Undertakes the Group's funding and centralised risk management activities through borrowings, issue of Sukuk, use of risk management instruments for risk management purposes and investing in liquid assets such as short-term deposits and corporate and government Sukuk.
	Investments activities include the Group's trading and corporate finance activities.

Performance is measured based on segment profit, assets and liabilities growth, as included in the internal management reports that are reviewed by the ALCO committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

Information regarding the results, assets and liabilities of each reportable segment is included below.

	Corporate Banking	Personal Banking	Treasury & Investments	Total
	QR'000	QR'000	QR'000	QR'000
2018				
<i>External revenue:</i>				
Total income from financing and investing activities	879,351	706,807	370,181	1,956,339
Net fee and commission income	61,966	66,858	-	128,824
Net foreign exchange gains	-	-	11,313	11,313
Share of results of investment in associates (Note 13)	-	-	(18,890)	(18,890)
Total segment income	941,317	773,665	362,604	2,077,586
Net impairment losses on due from banks	-	-	(2,796)	(2,796)
Net impairment losses on investment securities	-	-	(6,127)	(6,127)
Net impairment losses on financing assets	(11,052)	(60,083)	-	(71,135)
Net impairment losses on off balance sheet exposures subject to credit risk	(17,261)	-	-	(17,261)
Finance expenses / Investment account holders' share of profit	(235,972)	(334,839)	(201,817)	(772,628)
Reportable segment net profit before allocation of non-segmented expenses	677,032	378,743	151,864	1,207,639

At 31 December 2018

7 OPERATING SEGMENTS (CONTINUED)

2017	Corporate Banking QR'000	Personal Banking QR'000	Treasury & Investments QR'000	Total QR'000
<i>External revenue:</i>				
Total income from financing and investing activities	779,356	639,639	294,874	1,713,869
Net fee and commission income	58,773	60,708	-	119,481
Net foreign exchange gains	-	-	40,821	40,821
Share of results of investment in associates	-	-	(18,211)	(18,211)
Total segment income	<u>838,129</u>	<u>700,347</u>	<u>317,484</u>	<u>1,855,960</u>
Net impairment loss on investment securities	-	-	(35,497)	(35,497)
Net impairment losses on financing assets	11,078	(39,078)	-	(28,000)
Foreign exchange loss on transaction of investment in associate	-	-	-	-
Finance expenses / Investment account holders' share of profit	(175,398)	(297,210)	(161,978)	(634,586)
Reportable segment net profit before allocation of non-segmented expenses	<u>673,809</u>	<u>364,059</u>	<u>120,009</u>	<u>1,157,877</u>

2018	Corporate Banking QR'000	Personal Banking QR'000	Treasury & Investments QR'000	Total QR'000
Reportable segment assets	<u>16,269,910</u>	<u>11,193,443</u>	<u>19,676,967</u>	<u>47,140,320</u>
Reportable segment liabilities and equity of investment account holders	<u>11,322,145</u>	<u>19,807,782</u>	<u>11,553,732</u>	<u>42,683,659</u>

2017	Corporate Banking QR'000	Personal Banking QR'000	Treasury & Investments QR'000	Total QR'000
Reportable segment assets	21,651,468	10,848,559	10,561,734	43,061,761
Reportable segment liabilities and equity of investment account holders	<u>12,717,586</u>	<u>19,761,062</u>	<u>6,605,745</u>	<u>39,084,393</u>

At 31 December 2018

7 OPERATING SEGMENTS (CONTINUED)

The tables below provide reconciliation of reportable segment revenues, profit, assets, liabilities and equity of investment account holders:

	2018 QR'000	2017 QR'000
Reportable segment net profit before allocation of expenses	1,207,639	1,157,877
Unallocated expenses	(325,495)	(325,668)
Consolidated net profit for the year	882,144	832,209
Assets		
Total assets for reportable segments	47,140,320	43,061,761
Other unallocated amounts	3,119,635	3,557,219
Consolidated total assets	50,259,955	46,618,980
Liabilities and equity of investment account holders		
Total liabilities and equity of investment account holders for reportable segments	42,683,659	39,084,393
Other unallocated amounts	746,209	718,022
Consolidated total liabilities and equity of investment account holders	43,429,868	39,802,415

Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on geographical location of the assets.

	Qatar QR'000	Other GCC QR'000	Middle East other than GCC QR'000	Europe QR'000	North America QR'000	Rest of the World QR'000	Total QR'000
2018							
External revenues	2,088,040	7,593	-	198	304	(18,549)	2,077,586
Non-current assets	20,660,653	348,116	-	-	-	259,524	21,268,293
2017							
External revenues	1,835,082	15,563	-	8,374	351	(3,411)	1,855,960
Non-current assets	18,885,407	339,093	-	9,854	-	198,659	19,433,013

8 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 statement of income QR'000	Fair value through equity QR'000	Amortized cost QR'000	Total carrying amount QR'000	Fair value QR'000
2018					
Cash and balances with Qatar Central Bank	-	-	2,735,524	2,735,524	2,735,524
Due from banks	-	-	12,800,681	12,800,681	12,800,681
Financing assets	-	-	27,463,353	27,463,353	27,463,353
Investment securities:					
- Measured at fair value	437	76,884	-	77,321	77,321
- Measured at amortized cost	-	-	4,812,323	4,812,323	4,760,015
Other assets (excluding non-financial assets)	-	-	722,962	722,962	722,962
	437	76,884	48,534,843	48,612,164	48,559,856
Due to banks and financial institutions	-	-	11,553,732	11,553,732	11,553,732
Customers' current accounts	-	-	6,911,572	6,911,572	6,911,572
Other liabilities (excluding non-financial liabilities)	-	-	746,209	746,209	746,209
	-	-	19,211,513	19,211,513	19,211,513
2017					
Cash and balances with Qatar Central Bank	-	-	2,432,223	2,432,223	2,432,223
Due from banks	-	-	3,274,025	3,274,025	3,274,025
Financing assets	-	-	32,500,027	32,500,027	32,500,027
Investment securities:					
- Measured at fair value	741	147,784	-	148,525	148,525
- Measured at amortized cost	-	-	6,031,259	6,031,259	5,971,341
Other assets (excluding non-financial assets)	-	-	583,361	583,361	583,361
	741	147,784	44,820,895	44,969,420	44,909,502
Due to banks and financial institutions	-	-	6,605,745	6,605,745	6,605,745
Customers' current accounts	-	-	6,894,433	6,894,433	6,894,433
Other liabilities (excluding non-financial liabilities)	-	-	718,022	718,022	718,022
	-	-	14,218,200	14,218,200	14,218,200

9 CASH AND BALANCES WITH QATAR CENTRAL BANK

	2018 QR'000	2017 QR'000
Cash reserve with QCB (i)	1,509,922	1,568,653
Other balances with QCB	716,859	316,418
Cash	508,743	547,152
	2,735,524	2,432,223

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

10 DUE FROM BANKS

	2018 QR'000	2017 QR'000
Mudaraba placements	7,497,630	2,775,227
Commodity Murabaha receivable	5,123,013	109,245
Current accounts	183,905	389,553
Allowance for expected credit losses of due from banks (stages 1 and 2)	(3,867)	-
	12,800,681	3,274,025

11 FINANCING ASSETS**(a) By type**

	2018 QR'000	2017 QR'000
Murabaha and Musawama	20,894,507	25,957,576
Ijarah Muntahia Bittamleek	7,116,672	7,161,886
Istisn'a	680,647	612,646
Mudaraba	774,609	483,235
Musharaka	709	764
Others	243,706	154,465
Total financing assets	29,710,850	34,370,572
Less: Deferred profit	(1,669,497)	(1,585,207)
Allowance for expected credit losses of financing assets (stages 1 and 2)	(218,846)	-
Allowance for credit impairment of financing assets (stage 3)	(330,929)	(264,044)
Suspended profit	(28,225)	(21,294)
Net financing assets	27,463,353	32,500,027

Total carrying amount of Istisn'a contracts under processing is QR 239 million (2017: QR 367 million).

During the year, the Bank had written off fully provided bad debts after meeting conditions stipulated in the instructions of QCB amounting to QR 521 thousand (2017: QR 149 million).

The total non-performing financing assets at 31 December 2018 amounted to QR 598 million, representing 2.01% of the gross financing assets (2017: QR 453 million, representing 1.32%)

11 FINANCING ASSETS (CONTINUED)**(b) Movement in impairment of financing assets and suspended profit is as follows:**

	2018		2017			
	Impairment QR'000	Suspended profit QR'000	Total QR'000	Impairment QR'000	Suspended profit QR'000	Total QR'000
Balance at 1 January	264,044	21,294	285,338	364,848	30,376	395,224
Adoption of ECL regulations restated balance as at 1 January 2018	215,094	-	215,094	-	-	-
Provisions provided during the year	250,336	11,742	262,078	130,370	15,509	145,879
Recoveries during the year	(179,201)	(4,788)	(183,989)	(102,370)	(4,465)	(106,835)
Written off during the year	(498)	(23)	(521)	(128,804)	(20,126)	(148,930)
Balance at 31 December	549,775	28,225	578,000	264,044	21,294	285,338

(88)

11 FINANCING ASSETS (CONTINUED)**(c) By internal business segment**

2018	Corporates			SMEs			Retail			Real estate mortgages			Total		
	Stage 1 QR'000	Stage 2 QR'000	Stage 3 QR'000	Stage 1 QR'000	Stage 2 QR'000	Stage 3 QR'000	Stage 1 QR'000	Stage 2 QR'000	Stage 3 QR'000	Stage 1 QR'000	Stage 2 QR'000	Stage 3 QR'000	Stage 1 QR'000	Stage 2 QR'000	Stage 3 QR'000
Balance at 1 January	-	-	24	-	-	39,405	-	-	224,197	-	-	418	-	-	264,044
Adjustments as a result of adopting FAS 30	19,149	6,577	-	9,971	3,474	-	115,672	4,782	-	52,849	2,620	-	197,641	17,453	-
Adjusted balance at the beginning of the year	19,149	6,577	24	9,971	3,474	39,405	115,672	4,782	224,197	52,849	2,620	418	197,641	17,453	264,044
Charge for the year	46,852	5,885	6,483	1,430	583	45,718	39,303	1,945	68,078	3,101	1,506	29,452	90,686	9,919	149,731
Recoveries during the year	(4,349)	(3,153)	(19)	(6,525)	(3,227)	(8,023)	(32,771)	(3,626)	(74,166)	(40,864)	(2,337)	(141)	(84,509)	(12,343)	(82,349)
Net impairment losses during the year	42,503	2,732	6,464	(5,095)	(2,644)	37,695	6,532	(1,681)	(6,088)	(37,763)	(831)	29,311	6,177	(2,424)	67,382
Written off during the year	-	-	-	-	-	-	-	-	(498)	-	-	-	-	-	(498)
Foreign currency translation and adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	61,652	9,309	6,488	4,876	830	77,100	122,204	3,101	217,611	15,086	1,789	29,729	203,818	15,029	330,928

(89)

11 FINANCING ASSETS (CONTINUED)**(d) By sector**

	Murabaha and Musawama QR'000	Musharaka QR'000	Ijarah Muntahia Bittamleek QR'000	Istisna'a QR'000	Mudaraba QR'000	Others QR'000	Total QR'000
2018							
Government and related entities	2,161,693	-	-	156,002	-	20	2,317,715
Industry	467,242	-	12,439	27,127	-	167	506,975
Commercial	2,687,921	-	266,789	144,057	498,999	59,971	3,657,737
Services	1,183,312	-	155,811	6,495	7,600	10,959	1,364,177
Contracting	371,755	-	27,278	18,982	268,010	1,671	687,696
Real estate	2,841,544	-	5,989,099	11,923	-	14	8,842,580
Personal	11,181,040	709	665,256	316,061	-	170,541	12,333,607
Others	-	-	-	-	-	363	363
Total financing assets	20,894,507	709	7,116,672	680,647	774,609	243,706	29,710,850
Less: Deferred profit							(1,669,497)
Allowance for expected credit losses of financing assets (stages 1 and 2)							(218,846)
Allowance for credit impairment of financing assets (stage 3)							(330,929)
Suspended profit							(28,225)
Net financing assets							27,463,353

11 FINANCING ASSETS (CONTINUED)**(d) By sector (continued)**

	Murabaha and Musawama QR'000	Musharaka QR'000	Ijarah Muntahia Bittamleek QR'000	Istisna'a QR'000	Mudaraba QR'000	Others QR'000	Total QR'000
2017							
Government and related entities	7,323,723	-	-	169,919	-	-	7,493,642
Industry	510,368	-	9,907	35,364	-	341	555,980
Commercial	1,567,341	-	239,947	66,914	141,679	45,707	2,061,588
Services	2,166,638	-	196,762	-	7,900	5,601	2,376,901
Contracting	532,893	-	32,689	35,253	333,656	34,657	969,148
Real estate	3,759,845	-	6,225,146	-	-	5	9,984,996
Personal	10,096,500	764	456,593	305,196	-	67,152	10,926,205
Others	268	-	842	-	-	1,002	2,112
Total financing assets	25,957,576	764	7,161,886	612,646	483,235	154,465	34,370,572
Less: Deferred profit							(1,585,207)
Allowance for credit impairment of financing assets							(264,044)
Suspended profit							(21,294)
Net financing assets							32,500,027

At 31 December 2018

12 INVESTMENT SECURITIES

	2018			2017		
	Quoted QR'000	Unquoted QR'000	Total QR'000	Quoted QR'000	Unquoted QR'000	Total QR'000
<i>Investments classified at fair value through income statement</i>						
- Equity-type investments	437	-	437	741	-	741
	437	-	437	741	-	741
<i>Debt-type investments classified at amortized cost (i)</i>						
- State of Qatar Sukuk	673,879	3,262,834	3,936,713	1,961,237	3,015,000	4,976,237
- Fixed rate	876,397	-	876,397	1,036,070	18,952	1,055,022
- Less: allowance for expected credit losses of investment securities (stages 1 and 2)	(787)	-	(787)	-	-	-
	1,549,489	3,262,834	4,812,323	2,997,307	3,033,952	6,031,259
<i>Equity-type investments classified at fair value through equity</i>						
Total	26,155	50,729	76,884	57,240	90,544	147,784
	1,576,081	3,313,563	4,889,644	3,055,288	3,124,496	6,179,784

Notes:

- (i) The fair value of the investments carried at amortized cost as at 31 December 2018 amounted to QR 4,760 million (2017: QR 5,971 million).
- (ii) The fair value hierarchy and the transfers between categories of fair value hierarchy are disclosed in Note 6 (b).
- (iii) The carrying value of investment securities pledged under repurchase agreements (REPO) is QAR 725 million (2017: nil) (note 18).

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

	2018			2017		
	Positive fair value QR'000	Negative fair value QR'000	Total QR'000	Positive fair value QR'000	Negative fair value QR'000	Total QR'000
Balance at 1 January	4,696	(441)	4,255	33,618	(2)	33,616
Net change in fair value	(3,383)	(844)	(4,227)	(28,922)	(439)	(29,361)
Balance at 31 December	1,313	(1,285)	28	4,696	(441)	4,255

During the year, the Group has recognized amount of QR 1,910 thousand fair value transferred to consolidated statement of income due to impairment (2017: 1,378 thousand).

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12 INVESTMENT SECURITIES (CONTINUED)

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

	2018 QR'000	2017 QR'000
Balance at 1 January (net)	126,998	96,822
Charge during the year	787	25,218
Change in foreign currencies	(378)	5,443
Reversals during the year	-	(485)
Write offs during the year	(67,181)	-
Balance at 31 December	60,226	126,998

- (b) The Group has recognized impairment loss for certain equity-type investments classified as fair value through equity during the year totaling QR 6.1 million (2017: 10.7 million), due to significant and/or prolonged reduction in fair values.

13 INVESTMENT IN ASSOCIATES

	2018 QR'000	2017 QR'000
Balance at 1 January (net)	364,965	336,544
Investment acquired during the year	48,048	46,174
(loss) / Gain from foreign currency translation	(3,013)	2,137
Share of results	(18,890)	(18,211)
Cash dividends received	(3,254)	(1,627)
Other movements	(214)	(52)
Balance at 31 December	387,642	364,965

The Group has the following investments in associates:

Name of the Company	Company's activities	Country of incorporation	Ownership percentage		2018	2017
			2018	2017	QR'000	QR'000
Mackeen Holding Q.P.S.C.	Real estate	Qatar	49%	49%	272,859	268,528
Al Tashelat Islamic Company W.L.L.	Financing	Qatar	49%	49%	47,511	49,228
Al Moqawil Company W.L.L.	Contracting	Qatar	49%	49%	5,391	5,212
Umnia Bank	Banking	Morocco	40%	40%	61,881	41,997
					387,642	364,965

At 31 December 2018

13 INVESTMENT IN ASSOCIATES (CONTINUED)

The financial position and revenue of associates based on its financial statements which were considered by the Group for the year ended 31 December 2018 and 2017 are as follows:

31 December 2018	Mackeen Holding Q.P.S.C. QR'000	Al Tashelat Islamic Company W.L.L. QR'000	Al Moqawil Company W.L.L. QR'000	Umnia Bank QR'000	Total QR'000
Total assets	950,396	116,252	11,943	571,663	1,650,254
Total liabilities	325,815	19,338	79	420,587	765,819
Total revenue	3,623	3,982	1,216	14,490	23,311
Share of (loss)/ profit	4,570	1,512	179	(25,151)	(18,890)

31 December 2017	Mackeen Holding Q.P.S.C. QR'000	Al Tashelat Islamic Company W.L.L. QR'000	Al Moqawil Company W.L.L. QR'000	Umnia Bank QR'000	Total QR'000
Total assets	970,522	119,895	10,691	131,524	1,232,632
Total liabilities	355,098	26,069	54	26,572	407,793
Total revenue	6,770	7,185	1,177	10,713	25,845
Share of loss	(11,254)	(782)	139	(6,314)	(18,211)

14 INVESTMENT PROPERTIES

	2018 QR'000	2017 QR'000
Balance at 1 January (Net)	426,540	430,590
Transfer from Fixed Assets (note 15)	479,672	-
Additions	4,450	-
Depreciation during the year	(28,520)	(4,050)
	882,142	426,540

Note:

The fair value of investment properties as at 31 December 2018 is QR 1,429 million (2017: QR 1,001 million).

The fair value of investments properties based on average valuations performed by independent valuers possessing relevant professional qualification, with recent experience in the location and category of the properties being fair valued, as of 31 December 2018 and 31 December 2017. The fair values have been determined based on recent transactions in the market, the independent valuers' knowledge and professional judgment.

Investments properties are located in the State of Qatar, KSA and UAE.

Rental income included in the consolidated statement of income from investments properties amounted to QR 45,572 thousands (2017: QR 26,777 thousand) (note 25).

At 31 December 2018

14 INVESTMENT PROPERTIES (CONTINUED)

Direct operating expenses (including repairs and maintenance) amounting to QR 6,637 thousand (2017: QR 364 thousand) arising from investment properties that generate rental income during the year are included in the consolidated statement of income under income from investing activities.

Investment properties include the Bank's share of QR 178,227 thousand (2017: QR 178,987 thousand) which are jointly owned with related parties and other third parties and are subject to normal conditions applicable to joint ownership.

The Group's investment properties are not subject to any other charges, pledge or restriction on transfer of title.

On 24th of January 2018, the board of directors of the Group decided to reclassify Al Dafna tower from fixed assets to investment properties amounted to QR 480 million because of the commencement of lease during the first quarter of year 2018.

15 FIXED ASSETS

	Land and Buildings QR'000	IT equipments QR'000	Fixtures and fittings QR'000	Motor vehicles QR'000	Work in progress QR'000	Total QR'000
Cost						
Balance at 1 January 2018	252,397	101,222	117,671	1,568	446,374	919,232
Additions	-	3,711	14,163	-	9,066	26,940
Disposals	-	-	(384)	(86)	-	(470)
Transfer to investments properties (note 14)	(24,232)	-	-	-	(455,440)	(479,672)
Balance at 31 December 2018	228,165	104,933	131,450	1,482	-	466,030
Balance at 1 January 2017	252,397	90,614	108,390	1,568	370,496	823,465
Additions	-	10,608	9,281	-	75,878	95,767
Balance at 31 December 2017	252,397	101,222	117,671	1,568	446,374	919,232
Accumulated depreciation						
Balance at 1 January 2018	20,100	76,972	64,631	1,028	-	162,731
Depreciation during the year	1,260	8,129	14,696	177	-	24,262
Disposals	-	-	(384)	(86)	-	(470)
Balance at 31 December 2018	21,360	85,101	78,943	1,119	-	186,523
Balance at 1 January 2017	18,840	65,315	57,844	848	-	142,847
Depreciation during the year	1,261	11,656	6,787	180	-	19,884
Balance at 31 December 2017	20,101	76,971	64,631	1,028	-	162,731
Carrying amounts						
Balance at 31 December 2017	232,296	24,251	53,040	540	446,374	756,501
Balance at 31 December 2018	206,805	19,832	52,507	363	-	279,507

16 INTANGIBLE ASSETS

	Software QR'000	Total QR'000
Net book value		
Balance at 1 January 2018	18,177	18,177
Additions	14,419	14,419
Amortization charged during the year	(7,603)	(7,603)
Balance at 31 December 2018	24,993	24,993
Balance at 1 January 2017	18,283	18,283
Additions	4,942	4,942
Amortization charged during the year	(5,048)	(5,048)
Balance at 31 December 2017	18,177	18,177

17 OTHER ASSETS

	2018 QR'000	2017 QR'000
Accrued profit	605,227	512,730
Prepayments and advances	73,507	83,375
Others	117,735	70,633
	796,469	666,738

18 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2018 QR'000	2017 QR'000
Wakala payable	11,338,728	6,387,745
Current accounts	215,004	218,000
	11,553,732	6,605,745

Note:

Wakala payable includes various facilities with maturities ranging from 7 days to 34 months (2017: 2 days to 5 months) and carries profit rates of 0.01 % -up to 4 % per year (2017: 0.0001 % - 3.00%).

19 CUSTOMERS' CURRENT ACCOUNTS

	2018 QR'000	2017 QR'000
<i>Current accounts by sector:</i>		
- Retail	3,842,697	4,011,993
- Corporate	1,540,630	1,465,434
- Government	1,404,346	1,362,463
- Non-Banking Financial Institutions	123,899	54,543
	6,911,572	6,894,433

At 31 December 2018

20 OTHER LIABILITIES

	2018 QR'000	2017 QR'000
Cash margins	126,723	131,972
Manager cheques	59,146	92,530
Accrued expenses	82,204	73,342
Contra acceptance	52,626	62,934
Dividend payable	65,517	59,356
Dividend appropriation to sukuk eligible as additional capital	-	55,000
Customers advances	21,479	38,991
Employees' end of service benefits (i)	31,089	29,964
NAPS and visa settlements	42,396	26,746
Contribution to Social and Sports fund	22,054	20,805
Accrued profit distribution to banks	23,906	14,553
Retention from suppliers	4,602	12,989
Allowance for expected credit losses of off balance sheet exposures subject to credit risk (stages 1 and 2)	40,070	-
Others	174,397	98,840
	746,209	718,022

Note:

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

	2018 QR'000	2017 QR'000
Balance at 1 January	29,964	26,943
Charge for the year (Note 28)	4,075	4,166
Payments made during the year	(2,950)	(1,145)
Balance at 31 December	31,089	29,964

21 EQUITY OF INVESTMENT ACCOUNT HOLDERS

	2018 QR'000	2017 QR'000
Investment account holders balance before share of profit	24,082,170	25,463,347
Add: Profits for investment account holders for the year (a)	570,811	472,608
Less: Profit paid during the year	(434,640)	(354,352)
Total investment account holders balance after share of profit and before share of fair value reserve (b)	24,218,341	25,581,603

By type:

Term accounts	17,712,212	19,761,352
Saving accounts	6,506,129	5,820,251
Total (b)	24,218,341	25,581,603

By sector:

Retail	15,174,101	14,964,211
Government	4,324,939	3,227,390
Corporate	1,500,127	4,330,075
Non-banking financial institution	539,708	403,993
Semi government organizations	2,679,466	2,655,934
Total (b)	24,218,341	25,581,603

At 31 December 2018

21 EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)

	2018 QR'000	2017 QR'000
Total investment account holders balance after share of profit and before share of fair value reserve (b)	24,218,341	25,581,603
Share in fair value reserve	14	2,612
Total investment account holders balance	24,218,355	25,584,215
Share of investment account holders' of the profit for the year before the bank's share as Mudarib	890,949	800,860
Bank's share as Mudarib	(559,893)	(517,982)
Support provided by the bank	239,755	189,730
Net return to investment account holders (a)	570,811	472,608

The whole balance of equity of investment account holders is unrestricted for 2018 and 2017.

22 SHAREHOLDERS EQUITY**(a) Share capital**

At 31 December

	Number of shares (thousand)	
	2018	2017
Issued and fully paid*	151,369	151,369

* Issued and fully paid capital of QR 1,513,687 thousands comprises 151.4 million shares with a nominal value of QR 10 each, (2017: QR 1,513,687 thousands comprises 151.4 million shares with a nominal value of QR 10 each).

The Board of Directors of Qatar Financial Markets Authority ("QFMA") issued its resolution at its 4th meeting for the year 2018 held on 16th of December 2018, to reduce the nominal value of shares of listed companies in Qatar to be (1) one Qatari Riyal, so that each existing share will split into (10) ten shares.

Therefore, the Group is inviting for an Extraordinary General Meeting of Shareholders to approve the share split and amend the Article of Association in accordance with the said resolution.

(b) Legal reserve

In accordance with QCB Law No. 13 of 2012 as amended, 10% of net profit 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 2015 and after QCB approval. No appropriation was made as the legal reserve equals more than 100% of the paid up share capital.

(c) Risk reserve

In accordance with QCB regulations, the minimum requirement for risk reserve is 2.5% of the total private sector exposure granted by the Group inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to / or secured by the Ministry of Finance – Qatar or finance against cash guarantees is excluded from the gross direct finance. The total amount transferred to the risk reserve during the year amounted to QR 1 million (2017: QR 50.3 million).

(d) Fair value reserve

Fair value reserve represents unearned profits or losses at year end. The profit is not available for distribution unless realized and charged to the consolidated statement of income.

	2018 QR'000	2017 QR'000
Investments carried as fair value through equity:		
Balance at 1 January	1,643	13,036
Movement during the year	(1,643)	(8,781)
Share of investment account holders	14	(2,612)
As at 31 December	14	1,643

At 31 December 2018

22 SHAREHOLDERS EQUITY (CONTINUED)**(e) Other reserves**

Other reserves include the undistributed share of the associates' profit after deducting dividends received.

Movements in the undistributed share of associates profit are as follows:

	2018 QR'000	2017 QR'000
<i>Undistributed share of associates profit:</i>		
Balance at 1 January	82,352	84,796
Add: Undistributed profit of associates of the year	849	262
Less: Dividend received from associates	(3,254)	(1,627)
Less: Recognized profit of associate	-	(1,079)
	79,947	82,352

(f) Proposed cash dividends

The Board of Directors has proposed a cash dividend of 40% of paid up share capital amounting to QR 605 million – QR 4 per share (2017: 40 % of paid up share capital amounting to QR 605 million – QR 4 per share) which is subject to approval at the Annual General Meeting of the shareholders of the Bank.

23 SUKUK ELIGIBLE AS ADDITIONAL CAPITAL

During the year 2016, the Group issued perpetual sukuk eligible as additional capital for an amount of QR 1 billion. The sukuk is unsecured and the profit distributions are discretionary, non –cumulative, payable annually, with a fixed profit rate for the first five years which will be revised upon the completion of the initial five years' period. The Group has the right not to pay profit and the sukuk holders have no right to claim profit on the sukuk. The sukuk does not have a maturity date and has been classified as an equity. In prior years, sukuk distributions were accrued in the year which the distributions belong to. Consistent with the Group's accounting policy on dividend distributions that is disclosed in note (3.(u).(ii)), the management changed the recognition policy for sukuk distributions to be recognized as a deduction in equity in the period in which they are approved by the shareholders of the Bank. Consequently, the earning per-share calculation (note 32) was adjusted to reflect the sukuk distributions of QR 55,000 thousands and QR 22,917 thousands for 2018 and 2017, respectively.

24 INCOME FROM FINANCING ACTIVITIES

	2018 QR'000	2017 QR'000
Murabaha and Musawama	1,128,316	1,012,068
Ijarah Muntahia Bittamleek	388,019	355,620
Istisn'a	21,849	32,637
Mudaraba	47,974	18,670
	1,586,158	1,418,995

25 NET INCOME FROM INVESTING ACTIVITIES

	2018 QR'000	2017 QR'000
Income from Inter-bank placements with Islamic banks	182,073	81,854
Income from investment in debt-type instruments	161,992	194,315
Net gain (loss) on sale of equity-type investments	7,062	(4,615)
Net gain on sale of debt-type investments	-	2,502
Rental income	45,572	26,777
Short-term Murabaha with QCB	6,353	1,963
Sale of fixed assets	13	-
Dividend income	2,847	2,543
Depreciation	(28,520)	(4,050)
Investment fees	(7,211)	(6,415)
	370,181	294,874

At 31 December 2018

26 NET FEE AND COMMISSION INCOME

	2018 QR'000	2017 QR'000
Fee and commission income		
Bank charges	123,674	105,691
Commission on local financing	46,014	44,294
Commission on letters of credit and guarantees	24,481	19,506
	194,169	169,491
Fee and commission expenses	(65,345)	(50,010)
Net fee and commission income	128,824	119,481

27 NET FOREIGN EXCHANGE GAINS

	2018 QR'000	2017 QR'000
Dealing in foreign currencies	7,779	20,413
Revaluation of assets and liabilities	3,534	20,408
	11,313	40,821

28 STAFF COSTS

	2018 QR'000	2017 QR'000
Basic salaries	56,167	59,099
Housing allowance	24,960	24,327
Employees' end of service benefits (Note 20)	4,075	4,166
Staff pension fund costs	2,281	2,886
Training	888	1,293
Other staff benefits	73,201	69,677
	161,572	161,448

29 OTHER EXPENSES

	2018 QR'000	2017 QR'000
Computer and ATMs expenses	30,775	29,501
Rent	26,784	26,330
Telephone, telex and post	15,916	22,848
Board of Directors remuneration	12,720	12,260
Advertising and promotion	6,827	9,425
Maintenance and cleaning expenses	3,967	5,799
Fees and subscriptions	6,179	5,683
Water and electricity	1,786	1,725
Security service expenses	1,589	1,403
Stationery and printing	1,261	1,034
Professional fees	14,833	18,672
Business travelling expenses	746	1,009
Insurance	1,199	979
Shari'a Committee remuneration	944	802
Hospitality expenses	1,677	560
Donations	100	30
Miscellaneous expenses	4,755	1,228
	132,058	139,288

30 CONTINGENT LIABILITIES AND COMMITMENTS

	2018 QR'000	2017 QR'000
Contingent liabilities		
Unused financing facilities	7,064,850	3,583,902
Guarantees	4,235,267	3,673,166
Letters of credit	449,048	472,461
Others	9,585	7,765
	11,758,750	7,737,294

Unused financing facilities

Commitments to extend credit represent contractual commitments to make financings and revolving financing. The majority of these 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.

31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**Geographical sector**

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

2018	Qatar QR'000	Other GCC QR'000	Europe QR'000	North America QR'000	Others QR'000	Total QR'000
Cash and balances with Qatar						
Central Bank	2,735,524	-	-	-	-	2,735,524
Due from banks	12,616,853	11,056	85,052	71,852	15,868	12,800,681
Financing assets	27,463,353	-	-	-	-	27,463,353
Investment securities	4,518,084	164,620	9,296	-	197,644	4,889,644
Investment in associates	325,762	-	-	-	61,880	387,642
Investment properties	693,504	188,638	-	-	-	882,142
Fixed assets	279,507	-	-	-	-	279,507
Intangible assets	24,993	-	-	-	-	24,993
Other assets	796,469	-	-	-	-	796,469
Total assets	49,454,049	364,314	94,348	71,852	275,392	50,259,955

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

Due to banks and financial institutions	5,907,704	4,067,408	182,077	455,188	941,355	11,553,732
Customers' current accounts	6,911,570	2	-	-	-	6,911,572
Other liabilities	746,209	-	-	-	-	746,209
Total liabilities	13,565,483	4,067,410	182,077	455,188	941,355	19,211,513

Equity of investment account holders

Total liabilities and equity of investment account holders	37,755,413	4,067,410	207,127	458,463	941,455	43,429,868
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31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)**Geographical sector (continued)**

2017	Qatar QR'000	Other GCC QR'000	Europe QR'000	North America QR'000	Others QR'000	Total QR'000
Cash and balances with Qatar						
Central Bank	2,432,223	-	-	-	-	2,432,223
Due from banks	2,884,599	11,375	323,825	45,070	9,156	3,274,025
Financing assets	32,500,027	-	-	-	-	32,500,027
Investment securities	5,627,412	343,860	9,854	-	198,658	6,179,784
Investment in associates	322,968	-	-	-	41,997	364,965
Investment properties	237,902	188,638	-	-	-	426,540
Fixed assets	756,501	-	-	-	-	756,501
Intangible assets	18,177	-	-	-	-	18,177
Other assets	666,738	-	-	-	-	666,738
Total assets	45,446,547	543,873	333,679	45,070	249,811	46,618,980

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

Due to banks and financial institutions	4,240,925	1,949,845	2,703	88	412,184	6,605,745
Customers' current accounts	6,894,431	2	-	-	-	6,894,433
Other liabilities	718,022	-	-	-	-	718,022
Total liabilities	11,853,378	1,949,847	2,703	88	412,184	14,218,200

Equity of investment account holders

Total liabilities and equity of investment account holders	37,434,283	1,949,848	2,716	3,384	412,184	39,802,415
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32 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year attributable to the shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Net profit for the year attributable to the shareholders of the Bank (QR'000)	882,144	832,209
Less: Profit attributable to Sukuk eligibile as additional capital (note 23)	(55,000)	(22,917)
Profit for EPS computation	827,144	809,292
Weighted average number of outstanding shares (thousands)	151,369	151,369
Basic and diluted earnings per share (QR)	5.46	5.35

As disclosed in note 22 (a) to the financial statements, the Group will invite for an Extraordinary General Meeting of Shareholders to approve a share split with a ratio of 1:10. After the share split is approved, the number of shares will become 1,514 million shares with a par value of (1) one Qatari Riyal each. Therefore, the earnings per share will become QAR 0.55 and QAR 0.54 for the years ended 31 December 2018 and 31 December 2017 respectively.

At 31 December 2018

33 CASH AND CASH EQUIVALENTS

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

	2018 QR'000	2017 QR'000
Cash and balances with Qatar Central Bank (excluding restricted QCB reserve account)	1,225,602	863,570
Due from banks	7,723,715	2,646,294
	8,949,317	3,509,864

The cash reserve with Qatar Central Bank is excluded as it is not used in the day-to-day operations of the Group.

34 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the shareholders who can control or exercise significant influence over the Group, associates of the Group and entities over which the Group and the shareholders (who have the ability to exercise their influence over the Group) exercise significant influence, in addition to directors and executive management of the Group.

The amount outstanding/transactions during the year with members of the Board or the companies in which they have significant interests were as follows:

	2018			2017		
	Associate companies QR'000	Board of Directors QR'000	Sharholders and others QR'000	Associate Companies QR'000	Board of Directors QR'000	Sharholders and others QR'000
Assets:						
Financing assets	11,224	783,488	2,469,672	13,568	615,487	3,249,739
Equity of investment account holders	11,840	276,547	50,134	13,822	188,973	178,340
Off balance sheet items:						
Contingent liabilities, guarantees and other commitments	1,230	11,821	23,305	1,161	3,896	38,436
Consolidated statement of income items:						
Income from financing assets	700	35,254	123,265	644	26,738	126,771
Profit paid on deposits	342	3,272	534	386	1,660	3,568
Board remunerations	-	12,720	-	-	12,260	-

Transactions with key management personnel

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

	2018 QR'000	2017 QR'000
Mortgage and other secured financings	2,592	3,549
Credit cards	118	57
	2,710	3,606

At 31 December 2018

34 RELATED PARTIES (CONTINUED)

Key management personnel compensation for the year comprised:

	2018 QR'000	2017 QR'000
Short-term benefits	13,584	12,162
Long-term benefits	847	785
	14,431	12,947

35 ZAKAH

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

36 SHARI'A SUPERVISORY BOARD

The Shari'a Supervisory Board of the Group consists of 3 scholars who are specialized 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.

37 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 2018 of QR 22 million which represents 2.5% of net profit as per Law No.13 for year 2008 and explanatory notes issued for year 2010 (2017: QR 20.8 million).

38 COMPARATIVE FIGURES

The comparative figures presented for 2017 have been reclassified where necessary to preserve consistency with the 2018 figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year. Below is the material reclassification on 2017 financial statements

Item	Balance before re-classification QR'000	Re-classification QR'000	Balance after re-classification QR'000
Retained earnings	538,593	605,476	1,144,069
Proposed cash dividends	605,476	(605,476)	-
Net impact	1,144,069	-	1,144,069