



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

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF QATAR ISLAMIC BANK Q.P.S.C.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Qatar Islamic Bank Q.P.S.C. (the "Bank"), and its subsidiaries (the "Group") as at 31 December 2021, which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statement of income, consolidated statement of changes in equity, consolidated statement of cash flows, consolidated statement of changes in restricted investment accounts and consolidated statement of sources and uses of charity fund for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of financing assets	
Due to the inherently judgmental nature of the computation of impairment of financing assets in accordance with FAS 30 "Impairment, Credit Losses and Onerous Commitments", there is a risk that the amount of impairment of financing assets may be misstated.	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Read the Group's FAS 30 impairment policy and assessed compliance with the requirements of FAS 30.

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF QATAR ISLAMIC BANK
Q.P.S.C. (CONTINUED)**

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Impairment of financing assets	
<p>The key areas of judgement include:</p> <ol style="list-style-type: none"> 1. The identification of exposure with a significant deterioration in credit quality; 2. Assumptions used in the models such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic variables etc; and 3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the model. <p>Determining the adequacy of impairment allowance on financing assets to customers is a key area of judgement for the management. Qatar Central Bank (“QCB”) regulations require banks to estimate impairment allowance in accordance with FAS 30 and the applicable provisions of QCB regulations. Notes 4(b), 10 and 20 of the consolidated financial statements provide details relating to the impairment of financing assets.</p> <p>Due to the significance of financing assets, subjectivity in identifying impairment indicators and estimation uncertainty in measuring impairment allowances, this is considered a key audit matter.</p>	<ul style="list-style-type: none"> • Evaluated the Group’s criteria for the significant increase in credit risk (“SICR”) and the basis for classification of exposures into various stages considering the effect of COVID-19 and various relief measures implemented by the QCB. Selected a sample of exposures and tested the application of Group’s SICR criteria to assess the movements between stages. • Evaluated the Group’s forward-looking macroeconomic variables by comparing on a sample basis against supporting evidence, where applicable, and assessed the reasonableness of changes made to the economic scenarios to reflect the effect of COVID 19. • For probability of default (“PD”) used in the ECL calculation: <ul style="list-style-type: none"> - Evaluated the through-the-cycle (“TTC”) PDs by selecting a sample of exposures and comparing against supporting evidence. - Selected a sample of exposures and tested the conversion of TTC PDs to point in time (“PIT”) PDs. • Tested the calculation of the Loss Given Default (“LGD”) used by the Group in the ECL calculations. • Assessed the modelled calculation by re-performing ECL calculations on a sample basis. • Assessed the impairment allowance for individually impaired financing assets (stage 3) in accordance with FAS 30 and the applicable provisions of QCB regulations. <p>In addition, we considered, assessed and tested relevant controls over credit initiation, monitoring and settlement, and those relating to the calculation of impairment allowances.</p>

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

Report on the audit of the consolidated financial statements (continued)

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2020 were audited by another auditor, whose audit report dated 2 February 2021, expressed an unmodified opinion on those consolidated financial statements.

Other information included in the Group's 2021 annual report

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as modified by the Qatar Central Bank (QCB), 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.

The Board of Directors is 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with 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.

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

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

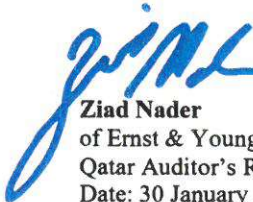
We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to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


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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF QATAR ISLAMIC BANK Q.P.S.C.
(CONTINUED)**

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. We confirm that we are not aware of any contraventions by the Bank of its Articles of Association and Qatar Commercial Companies Law No. 11 of 2015 (as amended by Law No. 8 of 2021), during the financial year that would have had a material adverse effect on the Group's financial position or performance


Ziad Nader
of Ernst & Young
Qatar Auditor's Register Number: 258
Date: 30 January 2022
State of Qatar


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	Notes	2021 QAR '000	2020 QAR '000
Net income from financing activities	25	5,998,636	5,956,209
Net income from investing activities	26	1,131,982	1,207,996
Net income from financing and investing activities		7,130,618	7,164,205
Fee and commission income		937,164	817,049
Fee and commission expense		(210,734)	(155,633)
Net fee and commission income	27	726,430	661,416
Net foreign exchange gain	28	200,380	75,691
Share of results of associates	12	41,569	3,404
Other income		30,876	53,256
Total income		8,129,873	7,957,972
Staff costs	29	(650,211)	(657,358)
Depreciation and amortisation	14,15	(90,140)	(95,348)
Sukuk holders' share of profit		(453,042)	(472,285)
Other expenses	30	(344,879)	(338,901)
Total expenses		(1,538,272)	(1,563,892)
Net impairment losses on investment securities	11	(3,791)	(21,769)
Net impairment losses on financing assets	10	(1,326,086)	(1,262,729)
Goodwill impairment	15	-	(22,100)
Other impairment losses		(11,930)	(9,493)
Net profit for the year before tax and return to unrestricted investment account holders		5,249,794	5,077,989
Less: Return to unrestricted investment account holders	21	(1,687,172)	(2,046,362)
Profit before tax		3,562,622	3,031,627
Tax expenses	31	(9,707)	(7,408)
Net profit for the year		3,552,915	3,024,219
Net profit for the year attributable to:			
Equity holders of the Bank		3,555,296	3,065,115
Non-controlling interests		(2,381)	(40,896)
Net profit for the year		3,552,915	3,024,219
Earnings per share			
Basic / diluted earnings per share (QAR per share)	34	1.42	1.21

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The attached notes 1 to 40 form an integral part of these consolidated financial statements.

Qatar Islamic Bank (Q.P.S.C)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

QAR '000

	Share capital	Legal reserve	Risk reserve	General reserve	Fair value reserve	Foreign currency translation reserve	Other reserves	Proposed cash dividend	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Sukuk eligible as additional capital	Total equity
Balance at 31 December 2020	2,362,932	6,370,016	2,436,510	81,935	(109,786)	(336,313)	216,820	945,173	6,336,240	18,303,527	902,576	4,000,000	23,206,103
Foreign currency translation reserve movement	-	-	-	-	(130,382)	-	-	-	-	(130,382)	-	-	(130,382)
Fair value reserve movement	-	-	-	-	170,447	-	-	-	-	170,447	-	-	170,447
Net profit / loss for the year	-	-	-	-	-	-	-	-	3,555,296	3,555,296	(2,381)	-	3,552,915
Total recognised income and expense for the year	-	-	-	-	170,447	(130,382)	-	-	3,555,296	3,595,361	(2,381)	-	3,592,980
Cash dividends paid to shareholders (Note 22)	-	-	-	-	-	-	-	(945,173)	-	(945,173)	-	-	(945,173)
Transfer to risk reserve (Note 22)	-	-	8,362	-	-	-	-	-	(8,362)	-	-	-	-
Proposed cash dividends (Note 22)	-	-	-	-	-	-	-	1,358,686	(1,358,686)	-	-	-	-
Social and Sports Fund appropriation (Note 39)	-	-	-	-	-	-	-	-	(88,882)	(88,882)	-	-	(88,882)
Profit on Sukuk eligible as additional capital (Note 24)	-	-	-	-	-	-	-	-	(196,337)	(196,337)	-	-	(196,337)
Buyback of shares by subsidiary	-	-	-	-	-	-	-	-	65,796	65,796	35,809	-	101,605
Gain on settlement of Equity type investments	-	-	-	-	-	-	-	-	1,437	1,437	-	-	1,437
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(259,862)	-	(259,862)
Balance at 31 December 2021	2,362,932	6,370,016	2,444,872	81,935	60,661	(466,695)	216,820	1,358,686	8,306,502	20,735,729	676,142	4,000,000	25,411,871

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QAR '000

Qatar Islamic Bank (Q.P.S.C)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Share capital	Legal reserve	Risk reserve	General reserve	Fair value reserve	Foreign currency translation reserve	Other reserves	Proposed cash dividend	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Sukuk eligible as additional capital	Total equity
Balance at 31 December 2019	2,362,932	6,370,016	2,380,093	81,935	242,377	(316,204)	216,820	1,240,539	4,554,498	17,133,006	1,026,306	4,000,000	22,159,312
Foreign currency translation reserve movement	-	-	-	-	-	(20,109)	-	-	-	(20,109)	-	-	(20,109)
Fair value reserve movement	-	-	-	-	(352,163)	-	-	-	-	(352,163)	-	-	(352,163)
Net profit / loss for the year	-	-	-	-	-	-	-	-	3,065,115	3,065,115	(40,896)	-	3,024,219
Total recognised income and expense for the year	-	-	-	-	(352,163)	(20,109)	-	-	3,065,115	2,692,843	(40,896)	-	2,651,947
Cash dividends paid to shareholders (Note 22)	-	-	-	-	-	-	-	(1,240,539)	-	(1,240,539)	-	-	(1,240,539)
Transfer to risk reserve (Note 22)	-	-	56,417	-	-	-	-	-	(56,417)	-	-	-	-
Proposed cash dividends (Note 22)	-	-	-	-	-	-	-	945,173	(945,173)	-	-	-	-
Social and Sports Fund appropriation (Note 39)	-	-	-	-	-	-	-	-	(76,628)	(76,628)	-	-	(76,628)
Profit on Sukuk eligible as additional capital (Note 24)	-	-	-	-	-	-	-	-	(205,000)	(205,000)	-	-	(205,000)
Loss on settlement of Equity type investments	-	-	-	-	-	-	-	-	(155)	(155)	-	-	(155)
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(82,834)	-	(82,834)
Balance at 31 December 2020	2,362,932	6,370,016	2,436,510	81,935	(109,786)	(336,313)	216,820	945,173	6,336,240	18,303,527	902,576	4,000,000	23,206,103

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	Notes	2021 QAR'000	2020 QAR'000
Cash flows from operating activities			
Net profit for the year before tax		3,562,622	3,031,627
<i>Adjustments for:</i>			
Net impairment losses on financing assets	10	1,326,086	1,262,729
Net impairment losses on investment securities	11	3,791	21,769
Net impairment reversals on other financial instruments		-	22,100
Other impairment losses		11,930	9,493
Depreciation and amortisation	14,15	90,140	95,348
Net gain on sale of investment securities		(28,704)	(191,775)
Share of results of associates	12	(41,569)	(3,404)
Amortization of premium on sukus		4,379	4,735
Fair value (gain) / loss on investment securities carried as fair value through income statement	26	(7,710)	17,194
Employees end of service benefits charge	20	24,687	34,194
Profit before changes in operating assets and liabilities		<u>4,945,652</u>	<u>4,304,010</u>
Change in reserve account with Qatar Central Bank		(812,722)	(490,355)
Change in due from banks		(129,834)	42,912
Change in financing assets		(10,662,181)	(6,581,565)
Change in other assets		398,443	(169,331)
Change in due to banks		6,028,136	(527,323)
Change in customers' current accounts		(508,663)	2,436,607
Change in other liabilities		(1,662,389)	(328,802)
Employees' end of service benefits paid	20	(34,620)	(13,383)
Net cash used in operating activities		<u>(2,438,178)</u>	<u>(1,327,230)</u>
Cash flows from investing activities			
Acquisition of investment securities		(14,682,761)	(3,141,969)
Proceeds from sale / redemption of investment securities		3,471,062	3,553,895
Acquisition of fixed assets		(47,333)	(56,376)
Proceeds from sale of investment in associates		24,325	17,235
Acquisition of investment properties		(1,019)	(655,515)
Dividends received from associate companies		12,757	7,000
Net cash used in investing activities		<u>(11,222,969)</u>	<u>(275,730)</u>
Cash flows from financing activities			
Change in equity of unrestricted investment accountholders		13,459,480	4,086,814
Net movement in non-controlling interest		(224,052)	(82,834)
Cash dividends paid to shareholders	22(i)	(945,173)	(1,240,539)
Profit paid on sukuk eligible as additional capital		(205,000)	(205,000)
Net proceeds from sukuk financing		-	3,130,400
Net cash from financing activities		<u>12,085,255</u>	<u>5,688,841</u>
Net (decrease) / increase in cash and cash equivalents		<u>(1,575,892)</u>	<u>4,085,881</u>
Cash and cash equivalents at 1 January		10,078,149	5,992,268
Cash and cash equivalents at 31 December	35	<u>8,502,257</u>	<u>10,078,149</u>

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Investment	Movements during the year						At 31	
	At 1 January 2021	Investment / (withdrawals)	Revaluation	Gross income	Dividends paid	Admin expense	Bank's fee as an agent	December 2021
Real Estate Portfolio	24,570	(1,820)	-	-	-	-	-	22,750
Equity Securities Portfolio	1,585,224	106,917	5,561	51,920	(31,267)	(338)	(7,733)	1,710,284
	1,609,794	105,097	5,561	51,920	(31,267)	(338)	(7,733)	1,733,034
	Movements during the year						At 31	
Investment	At 1 January 2020	Investment / (withdrawals)	Revaluation	Gross income	Dividends paid	Admin expense	Bank's fee as an agent	December 2020
Real Estate Portfolio	66,430	(41,860)	-	-	-	-	-	24,570
Equity Securities Portfolio	703,637	797,903	70,154	36,182	(16,355)	(262)	(6,035)	1,585,224
	770,067	756,043	70,154	36,182	(16,355)	(262)	(6,035)	1,609,794

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	2021	2020
Source of charity fund		
Earnings prohibited by Sharia'a during the year	<u>292</u>	<u>916</u>
Use of charity fund		
Researches, donations and other uses during the year	<u>(238)</u>	<u>(33)</u>
Decrease of sources over uses	<u>54</u>	<u>883</u>

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1. REPORTING ENTITY

Qatar Islamic Bank Q.P.S.C (“QIB” or the “Bank”) is an entity domiciled in the State of Qatar and was incorporated on 8 July 1982 as a Qatari Public Shareholding Company under Emiri Decree no. 45 of 1982. The commercial registration number of the Bank is 8338. The address of the Bank’s registered office is P.O. Box 559 Doha, State of Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2021 comprise the Bank and its subsidiaries (together referred to as “the Group”). The Bank is primarily involved in corporate, retail and investment banking in accordance with Islamic sharia rules as determined by sharia supervisory board of the Bank, and has 22 branches in Qatar and one branch in Sudan. The Parent Company of the Group is Qatar Islamic Bank (Q.P.S.C). The Bank’s shares are listed for trading on the Qatar Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 30 January 2022.

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

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

	Country of Incorporation	Principal Business Activity	Effective percentage of ownership	
			31 December 2021	31 December 2020
Arab Finance House	Lebanon	Banking	99.99%	99.99%
Aqar Real Estate Development and Investment Company W.L.L.(“Aqar”) (i)	Qatar	Investment in real estate	49%	49%
Durat Al Doha Real Estate Investment and Development W.L.L.	Qatar	Investment in real estate	82.61%	82.61%
QIB Sukuk Ltd (ii)	Cayman Island	Sukuk issuance	100%	100%
QIB (UK)	United Kingdom	Investment banking	99.71%	99.71%
QInvest LLC (iii)	Qatar	Investment banking	65.62%	58.17%

Notes:

- i) The Group excises control over Aqar it has the rights that give it the current ability to direct the relevant activities of Aqar. Furthermore, the Group has majority of the votes in the Board of Directors meetings of Aqar by virtue of representing the highest number of members in the Board.
- ii) QIB Sukuk Ltd was incorporated in the Cayman Islands as an exempted company with limited liability for the sole purpose of Sukuk issuance for the benefit of QIB.
- iii) In January 2021, Qinvest LLC bought back 61,212,590 shares at a price of US\$0.58 per share based on the tender offers received from the shareholders. The Treasury Shares were cancelled and the Issued Share Capital of Qinvest LLC was reduced by US\$ 61,212,590 representing 61,212,590 shares of US\$1 per share. In October 2021, QInvest LLC bought back additional 7,818,428 shares at a price of US\$0.70 per share based on the tender offers received from the shareholders. The Treasury Shares were cancelled and the Issued Share Capital of Qinvest LLC was reduced by US\$ 7,818,428 representing 7,818,428 shares of US\$1 per share. Related gains, net of transaction costs, were recognised in the consolidated statement of changes in equity. As a result of abovementioned buy-backs, the effective shareholding of the Bank in Qinvest LLC have increased to 65.62%

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements as of and for the year ended 31 December 2021 were prepared in accordance with FAS issued by AAOIFI as modified by QCB. QCB have issued the following modifications as per QCB Circular No. 13/2020 on 29 April 2020 (the effective date), which amends the requirements of Financial Accounting Standards No. (33) “Investments in Sukuk, shares and similar instruments” and Financial Accounting Standard No. (30) “Impairment, credit losses and onerous commitments” and requires banks to follow the principles of the International Financial Reporting Standard No. 9 “Financial Instruments” in respect of equity-type investments carried at Fair Value Through Equity. Further, QCB circular 13/2020 also modifies the requirement of FAS 1 “General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions” in respect of retrospective adoption and disclosures related to the change in accounting policy. Accordingly, the Bank has adopted the circular from the effective date and the changes to the accounting policies have been adopted prospectively by the Bank, as disclosed in note 3(d)(iii).

2. BASIS OF PREPARATION (CONTINUED)

a) Statement of compliance (continued)

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

This standard is effective beginning 1 January 2021. QCB had issued a circular dated 11 April 2021, requesting Islamic banks in Qatar to perform impact assessment for FAS 32 adoption on assets, liabilities, income account, interim profit, capital adequacy, liquidity, any relevant indicators and regulatory ratios. The Islamic banks in Qatar are in the process of complying with the requirements of QCB in this respect and implementation of the standard will be made in line with QCB instructions.

The Bank has performed an impact assessment during the year and submitted to QCB. According to the assessment made, the impact is not material to the consolidated financial statement as a whole.

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

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for investment securities classified as "Investments at fair value through equity", "Investments at fair value through income statement", "Shari'a compliant risk management instruments", "Investment properties" (measured at fair value) and certain financing assets classified as "fair value through income statement".

c) Functional and presentational currency

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

d) Use of estimates and judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) New standards and interpretations

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

During the period, the Group applied the following standards and amendments to standards in preparation of these condensed consolidated interim financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) New standards and interpretations (continued)

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

- ***FAS 35 Risk Reserves***

AAOIFI has issued FAS 35 “Risk Reserves” in 2019. 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”.

- ***IBOR Reform – Phase 2***

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank’s hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero.

The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

- ***FAS 38 Wa’ad, Khiyar and Tahawwut***

AAOIFI has issued FAS 38 “Wa’ad, Khiyar and Tahawwut” in 2021. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosure in relation to Shari’ah compliant Wa’ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. Wa’ad and Khiyar are used by institutions in various forms. Some are ancillary to other transactions, whereas a few are used as primary products. This standard intends to provide accounting principles for both of these, as well as the Tahawwut transactions which are normally based on Wa’ad or Khiyar, or a series or combination thereof. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. The Group is currently evaluating the impact of this standard.

b) Basis of consolidation

i. Business combinations

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of consolidation (continued)

i. Business combinations (continued)

- The ability to use its power over the investee to affect its returns.

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

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

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

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

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

ii. Business combinations and goodwill

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

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

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

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

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

iii. Associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of consolidation (continued)

iii. Associates (continued)

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

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

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

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

iv. Funds management

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

c) Foreign currency

i. Foreign currency transactions and balances

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

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

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

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

ii. Foreign operations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Foreign currency (continued)

ii. Foreign operations (continued)

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

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

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

d) Investment securities

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

i. Classification

Under FAS 33 "*Investment in Sukuks, shares and similar instruments*", each investment is to be categorized as investment in:

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

Unless irrevocable initial recognition choices provided in para 10 of the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

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

Amortised cost

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

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

Fair value through equity

An investment shall be measured at fair value through equity cost if both of the following conditions are met:

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

Fair value through income statement

An investment shall be measured at fair value through income statement unless it is measured at amortised cost or at fair value through equity or if irrevocable classification at initial recognition is applied.

Irrevocable classification at initial recognition

The Group may make an irrevocable election to designate a particular investment, at initial recognition, being:

- (a) an equity-type instrument that would otherwise be measured at fair value through income statement, to present subsequent changes in fair value through equity; and
- (b) a non-monetary debt-type instrument or other investment instrument, as measured at fair value through income statement if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or recognizing the gains and losses on them on different bases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Investment securities (continued)

ii Recognition and derecognition

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

iii Measurement

Initial recognition

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

Subsequent measurement

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

Fair value through equity

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

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

Whereas for debt type investments classified as fair value through equity, the cumulative gain or loss previously recognized in the consolidated statement of changes in equity is transferred to the consolidated statement of income.

iv Measurement principles

Amortised cost measurement

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

Fair value measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financing assets

Financing assets *comprise* Shari'a compliant financing provided by the Group. These include financing provided through Murabaha, Mudaraba, Musharaka, Musawama, Ijarah, Istisna'a, Wakala and other modes of Islamic financing. Financing assets are stated at their amortised cost less impairment allowances (if any) with the exception of certain Murabaha financings which are classified and measured at fair value through income statement (FVTIS).

Murabaha and Musawama

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

Musawama receivables are stated net of deferred profits and impairment allowance (if any). On initial recognition Murabaha receivables are classified and measured at:

- Amortised cost when the contractual terms of the Murabaha receivables give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding; or
- Fair value through income statement ("FVTIS") when the contractual terms of the Murabaha receivables does not give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Mudaraba

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

Musharaka

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

Ijarah

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

Istisna'a

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

Wakala

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

f) Other financial assets and liabilities

i. Recognition and initial measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Other financial assets and liabilities (continued)

i. Recognition and initial measurement (continued)

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

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

ii. De-recognition of financial assets and financial liabilities

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

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

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

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

iii. Offsetting

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

iv. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv. Modification of financial assets and liabilities (continued)

Financial assets (continued)

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 financed counterparty, then the gain or loss is presented together with impairment losses. In other cases, it is presented as net income from financing activities.

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 income statement.

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

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

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

Impairment and ECL are used interchangeably throughout these consolidated financial statements.

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

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

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitments: 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 financed counterparty, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost 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 financed counterparty 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 financed counterparty will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

h) Cash and cash equivalents

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

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

i) Investment properties

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

j) Risk Management Instruments

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

k) Fixed assets

Recognition and measurement

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of related equipment. When parts of an item of fixed asset have different useful lives, they are accounted for as separate items (major components) of fixed assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Fixed assets (continued)

Subsequent costs

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

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

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

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

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

l) Intangible assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognised if the carrying amount of an asset or its Cash Generating Unit ("CGU") exceeds its estimated recoverable amount.

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

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

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

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

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

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

n) Customer current accounts

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

o) Equity of unrestricted investment account holders

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

q) Restricted investment accounts

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

r) Sukuk financing

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

s) Provisions

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

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 recognised when they are due.

ii. Employees' end of service benefits

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

iii. Short-term employee benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Share capital and reserves

Dividends on ordinary shares

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

v) Revenue recognition

Murabaha and Musawama

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

Mudaraba

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

Musharaka

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

Ijara

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

Istisna'a

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

Wakala

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

Income from investment banking services

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

Fees and commission income

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

Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Tax expense

Taxes are calculated based on the tax laws and regulations in jurisdictions in which the Group operates. The amount of tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

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

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

y) 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 after deducting the profit payable to Sukuk eligible as additional capital by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to owners and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

z) Segment reporting

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

aa) Repossessed collateral

Repossession collateral against settlement of financing assets are stated within the consolidated statement of financial position under "Other assets" at their fair value and are accounted for in line with Group's policy for investment properties as noted in 3(i).

bb) Earnings prohibited by Shari'a

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

cc) Wakala payables

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

dd) Financial guarantees

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

ee) Contingent liabilities

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

ff) Comparatives

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

gg) Shari'a – compliant risk management instruments

Derivatives held for Risk management Purposes and Hedge Accounting

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

The Group has elected to continue to apply the hedge accounting requirements of IAS 39. These hedging relationships are discussed below.

Fair Value Hedges

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

gg) Shari'a – compliant risk management instruments (continued)

Cash Flow Hedges

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

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

Financial instruments

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

Risk Management

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

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

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

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

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

Risk management framework

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Introduction and overview (continued)

Risk management framework (continued)

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

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

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Introduction and overview (continued)

Risk management framework (continued)

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

c) Credit risk

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

The Group's credit risk management framework includes:

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

Credit risk exposures relating to financial assets recorded on the consolidated statement of financial position are as follows:

	2021	2020
Balances with central banks	6,406,782	6,371,395
Due from banks	7,460,696	6,913,258
Financing assets	128,408,527	119,072,432
Investment securities – debt type	<u>40,614,061</u>	<u>30,275,161</u>
	<u>182,890,066</u>	<u>162,632,246</u>
Other credit risk exposures		
Guarantees	8,393,739	10,744,022
Unutilised financing facilities	7,731,497	7,027,307
Letters of credit	<u>6,193,367</u>	<u>5,901,094</u>
	<u>22,318,603</u>	<u>23,672,423</u>

b) Credit risk (continued)

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Geographical sectors

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

31 December 2021					
Assets recorded on the consolidated statement of financial position:	Qatar	Other GCC	Other Middle East	Others	Total
Balances with central banks	5,887,753	-	483,531	35,498	6,406,782
Due from banks	3,769,602	1,215,227	132,852	2,343,015	7,460,696
Financing assets	121,257,866	1,117,585	590,335	5,442,741	128,408,527
Investment securities – debt type	39,741,904	460,128	17,835	394,194	40,614,061
	170,657,125	2,792,940	1,224,553	8,215,448	182,890,066
31 December 2020					
Assets recorded on the consolidated statement of financial position:	Qatar	Other GCC	Other Middle East	Others	Total
Balances with central banks	5,987,048	-	299,192	85,155	6,371,395
Due from banks	5,377,694	21,017	150,668	1,363,879	6,913,258
Financing assets	110,171,851	1,208,046	263,285	7,429,250	119,072,432
Investment securities – debt type	29,475,285	393,025	22,613	384,238	30,275,161
	151,011,878	1,622,088	735,758	9,262,522	162,632,246
31 December 2021					
Off balance sheet items	Qatar	Other GCC	Other Middle East	Others	Total
Guarantees	8,192,027	16,654	3,630	181,428	8,393,739
Unutilised financing facilities	7,710,167	5,312	2	16,016	7,731,497
Letters of credit	904,445	447	-	5,288,475	6,193,367
	16,806,639	22,413	3,632	5,485,919	22,318,603
31 December 2020					
Off balance sheet items	Qatar	Other GCC	Other Middle East	Others	Total
Guarantees	10,561,732	15,864	10,496	155,930	10,744,022
Unutilised financing facilities	6,991,099	17,391	5,079	13,738	7,027,307
Letters of credit	1,191,890	-	-	4,709,204	5,901,094
	18,744,721	33,255	15,575	4,878,872	23,672,423

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

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

Industry sectors

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

	Net exposure 2021	Net exposure 2020
Funded and unfunded:		
Government	68,905,160	52,773,931
Non-banking Financial Institutions	11,180,455	10,180,314
Industry	5,533,093	7,913,192
Commercial	14,865,529	13,500,934
Services	18,862,437	18,810,129
Contracting	6,356,689	5,520,142
Real estate	24,587,993	21,832,363
Personal	30,406,730	25,794,762
Others	2,191,980	6,306,479
Contingent liabilities	22,318,603	23,672,423
Total	205,208,669	186,304,669

Credit risk exposure

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

	2021	2020
Equivalent grades		
AAA to AA-	78,138,149	62,169,000
A+ to A-	10,307,303	8,337,105
BBB to BBB-	92,373,642	91,299,581
BB+ to B-	19,967,948	19,450,812
Unrated	4,421,627	5,048,171
Total	205,208,669	186,304,669

(iii) Credit quality

The credit quality of financial assets is managed by Group using internal and external credit risk ratings. The Group follows an internal rating mechanism for grading relationship across its credit portfolio.

The Group utilises a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Group endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(iii) Credit quality (continued)

Credit quality analysis

The following table provides the details for the credit quality:

	2021			
	Stage 1	Stage 2	Stage 3	Total
<i>Financing assets</i>				
Performing (Grades 1 to 7)				
Gross amount	116,502,731	21,737,813	-	138,240,544
Deferred profit	(6,050,348)	(1,333,504)	-	(7,383,852)
Carrying amount	110,452,383	20,404,309	-	130,856,692
Non-performing (Grade 8 to 10)				
Gross amount	-	-	2,671,936	2,671,936
Deferred profit	-	-	(281,802)	(281,802)
Carrying amount	-	-	2,390,134	2,390,134
Allowance for impairment	(2,215,969)	(797,773)	(1,768,841)	(4,782,583)
Suspended profit	-	-	(55,716)	(55,716)
Net carrying amount	108,236,414	19,606,536	565,577	128,408,527
	2020			
	Stage 1	Stage 2	Stage 3	Total
<i>Financing assets</i>				
Performing (Grades 1 to 7)				
Gross amount	108,656,839	20,385,784	-	129,042,623
Deferred profit	(6,282,206)	(1,467,013)	-	(7,749,219)
Carrying amount	102,374,633	18,918,771	-	121,293,404
Non-performing (Grade 8 to 10)				
Gross amount	-	-	1,776,646	1,776,646
Deferred profit	-	-	(24,424)	(24,424)
Carrying amount	-	-	1,752,222	1,752,222
Allowance for impairment	(1,666,290)	(689,093)	(1,545,715)	(3,901,098)
Suspended profit	-	-	(72,096)	(72,096)
Net carrying amount	100,708,343	18,229,678	134,411	119,072,432

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(iii) Credit quality (continued)

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<i>Investment securities – Debt type (amortised cost)</i>								
Performing (AAA to B- and NR)	40,181,188	101,701	-	40,282,889	29,979,523	71,842	-	30,051,365
Non-performing (CCC+ to D)	-	-	109,337	109,337	-	-	102,057	102,057
	40,181,188	101,701	109,337	40,392,226	29,979,523	71,842	102,057	30,153,422
Allowance for impairment	(153)	(358)	(103,222)	(103,733)	(253)	(1,666)	(98,126)	(100,045)
Carrying amount	40,181,035	101,343	6,115	40,288,493	29,979,270	70,176	3,931	30,053,377
<i>Due from central banks</i>								
Performing (AAA to B- and NR)	5,923,252	-	-	5,923,252	6,072,203	-	-	6,072,203
Non-performing (CCC+ to D)	-	-	701,531	701,531	-	-	517,192	517,192
	5,923,252	-	701,531	6,624,783	6,072,203	-	517,192	6,589,395
Allowance for impairment	-	-	(218,000)	(218,000)	-	-	(218,000)	(218,000)
Carrying amount	5,923,252	-	483,531	6,406,783	6,072,203	-	299,192	6,371,395
<i>Due from banks</i>								
Performing (AAA to B- and NR)	7,407,654	53,227	-	7,460,881	6,909,260	4,559	-	6,913,819
Non-performing (CCC+ to D)	-	-	19,945	19,945	-	-	20,647	20,647
	7,407,654	53,227	19,945	7,480,826	6,909,260	4,559	20,647	6,934,466
Allowance for impairment	(182)	(3)	(19,945)	(20,130)	(561)	-	(20,647)	(21,208)
Carrying amount	7,407,472	53,224	-	7,460,696	6,908,699	4,559	-	6,913,258
<i>Financing commitments and financial guarantee</i>								
Performing (Grades 1 to 7)	21,638,755	540,798	-	22,179,553	22,977,998	544,758	-	23,522,756
Non-performing (Grade 8 to 10)	-	-	139,050	139,050	-	-	149,667	149,667
	21,638,755	540,798	139,050	22,318,603	22,977,998	544,758	149,667	23,672,423
Allowance for impairment	(19,359)	(1,074)	(27,678)	(48,111)	(14,346)	(2,829)	(33,349)	(50,524)
Carrying amount	21,619,396	539,724	111,372	22,270,492	22,963,652	541,929	116,318	23,621,899

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(iii) Credit quality (continued)

Cash and cash equivalents

The Group held cash and balances with central bank QAR 1,171 million at 31 December 2021 (2020: QAR 3,165 million). These balances are held with counterparties that are rated at least AA- to AA++, based on external rating agencies except QAR 461 million (2020: QAR 358 million) which is unrated.

Collateral

The Group obtains collateral and other credit enhancements in ordinary course of business from counterparties. On an overall basis, during the year there was no discernable deterioration in the quality of collateral held by the Group. In addition, there were no changes in collateral policies of the Group.

The fair value of the collateral held against credit-impaired financing assets as at 31 December 2021 is QR 945.9 million (2020: QR 110.7 million).

The contractual amount of financial assets written off during the period, subject to enforcement activity as at 31 December 2021 is QR 294 million (2020: QR 22.3 million).

Renegotiated financing assets

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated financing assets as at 31 December 2021 amounted to QAR 1.1 million (2020: QAR 3.1 million). These mainly represent Ijarah and Istisna' financing that have been restructured upon completion of underlying assets and based on the expected future cash flows.

(iv) Repossessed collateral

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

(v) 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 financed counterparty's / issuer's financial position such that the financed counterparty/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

(vi) Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

- I. Two notches downgrade for rating from 1 to 4 or one notch downgrade for ratings from 5 and 6
- II. Facilities restructured during previous twelve months
- III. Facilities overdue by more than 60 days as at the reporting date
- IV. Any other reason as per management discretion that evidence a significant increase in credit risk

Credit risk grades

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

Generating the term structure of Probability of Default (PD)

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

Renegotiated financial assets

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

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

Definition of default

The Group considers a financial asset to be in default when:

- the financed counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financed counterparty is past due more than 90 days on any material credit obligation to the Group.
- rated internally as 8, 9 or 10 corresponding to the Qatar Central Bank (QCB) categories of substandard, doubtful and loss, respectively.

In assessing whether a financed counterparty is in default, the Group considers indicators that are:

- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical correlation analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variable were tested for both direction of association and level of association with the Bank's own portfolio and market level default rates.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instruments. Forecasts of these economic variables (the "base economic scenario") are updated from the World Economic Outlook: IMF country data and economic forecast periodically published by World Bank – Pink Sheet and Qatar Central Bank, which provide the best estimate view of the economy and commodity prices over the coming one to five years. The macro-economic variable forecasts till remaining lifetime of the exposures post five years is obtained through time series analysis i.e. moving average/ mean reversion as applicable. The impact of these economic variables on the PD is obtained by using the Merton-Vasicek structural model for all the portfolio other than Retail. Regression analysis is performed for capturing the effects of forward-looking macro-economic variables on Retail portfolio.

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

QIB Group is closely monitoring the situation, especially with emergence of new variants and has activated its business continuity planning and other risk management practices to manage the potential business disruption the COVID-19 outbreak may have on its operations and financial performance. In addition, QIB Group's operations are concentrated in economies that are relatively dependent on the price of crude oil. During the financial reporting period, oil prices have witnessed significant improvement.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

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

Forward-looking information incorporated in the ECL models (continued)

The Bank has considered the effect of the probable uncertainties due the pandemic through the stressed scenario construction and weights. The Bank has used latest economic forecasts published in October 2021, which includes the continued impact of economic contraction globally due to the pandemic. Qatar's economy is projected to resume growth in post COVID-19 recovery phase backed by high vaccination rate. The outlook for Qatar remains positive with the country set to host FIFA World Cup 2022 and continue its growth in a robust manner over the next 5 years. The management however, has decided to adopt a cautious approach and all the cumulative probability of all the plausible downturn scenario considering the Base forecast as the starting point has been considered as the probability weight of the stressed scenario to address worries of economic downturn due the pandemic.

QIB Group has also given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances.

In addition to the base economic scenario, the Bank's Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2021 and 31 December 2021, for all portfolios the Bank concluded that three scenarios that appropriately captured the uncertainties in the macro-economic forecasts i.e. Base scenario: considering the published macro-economic forecasts, improved scenario and stressed scenario: considering the long term observed volatility in macro-economic forecast. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The scenario weights considered for the ECL calculation as of 31 December 2021 are Base Scenario: 65%, and Stressed Scenario: 35%. The assessment of SICR is performed based on credit risk assessment following QCB rule and management assessment under each of the base, and the other scenarios, multiplied by the associated scenario weightings. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a 12-month ECL (Stage 1), or lifetime ECL (Stages 2). These ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the likelihoods of the Base forecast are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and the scenarios are considered to be capturing the uncertainties in the Base forecast.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2021 were Oil prices (2022: \$74/Barrel, 2023: \$65/ Barrel), Percentage of Private Sector Credit Concentration (2022: 65.22%, 2023: 64.87%) and Percentage Change in Volume of Export (2022: 1.51%, 2023: 1.79%).

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure At Default (EAD).

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

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

Measurement of ECL (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. 50% LGD used is in line with BCBS (Basel Committee) suggested unsecured LGD of 45%. The LGD models consider forecasted collateral values for Real Estate collateral class and the bank assumes that the high haircut percentages applied to collateral values as per QCB is compensating of any other factors affecting LGD as discount factor, recovery or admin costs.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Loss allowance

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Loss allowance (continued)

<i>Financing assets</i>	2021				2020			
	Stage 1	Stage 2	Stage 3	Total ECL	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	1,666,290	689,093	1,545,715	3,901,098	600,037	650,037	1,448,613	2,698,687
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	(43,282)	43,282	-	-	(1,971)	38,555	(36,584)	-
Transfers to Stage 3	(13,254)	(85,535)	98,789	-	(786)	(28,680)	29,466	-
Impairment allowance for the period, net	607,612	150,933	567,541	1,326,086	1,069,010	29,195	164,524	1,262,729
Amounts reversed / written off	-	-	(443,204)	(443,204)	-	-	(60,306)	(60,306)
Foreign currency translation adjustments and reclassifications	(1,397)	-	-	(1,397)	-	(14)	2	(12)
Balance at 31 December	2,215,969	797,773	1,768,841	4,782,583	1,666,290	689,093	1,545,715	3,901,098

<i>Debt type investments carried at amortised cost</i>	2021				2020			
	Stage 1	Stage 2	Stage 3	Total ECL	Stage 1	Stage 2	Stage 3	Total ECL
Balance at 1 January	253	1,666	98,126	100,045	1,039	4,337	94,850	100,226
Impairment allowance for the period, net	3	(1,308)	5,096	3,791	(109)	(2,671)	3,276	496
Foreign currency translation adjustments and reclassifications	(103)	-	-	(103)	(677)	-	-	(677)
Balance at 31 December	153	358	103,222	103,733	253	1,666	98,126	100,045

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk

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

(i) Management of liquidity risk

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

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

The Liquidity Ratio computed as per QCB guidelines is 118.9% (2020: 101.9%)

(ii) Exposure to liquidity risk

A key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to customer deposits, i.e total assets by maturities against total liabilities by maturities. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt-type securities for which there is an active and liquid market less any deposits from banks, sukuk issued, other fundings 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.

(iii) Maturity analysis

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

2021	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Cash and balances with central banks	1,002,165	-	198,335	-	5,976,007	7,176,507
Due from banks	7,424,274	36,422	-	-	-	7,460,696
Financing assets	29,311,921	17,728,743	24,220,714	26,991,631	30,155,518	128,408,527
Investment securities	739,357	339,077	1,306,971	21,794,426	20,199,941	44,379,772
Investment in associates	-	-	-	-	1,139,568	1,139,568
Investment properties	-	-	-	50,232	2,803,765	2,853,997
Fixed assets	147	112	1,051	86,750	340,072	428,132
Intangible assets	33	84	2,384	66,026	291,392	359,919
Other assets	78,418	31,483	87,026	47,323	1,464,542	1,708,792
Total assets	38,556,315	18,135,921	25,816,481	49,036,388	62,370,805	193,915,910

Liabilities and equity of unrestricted investment account holders

Liabilities

Due to banks	7,913,850	2,136,467	2,660,734	6,384,064	760,767	19,855,882
Customers' current accounts	16,858,664	3,281	5,473	18,194	21,418	16,907,030
Sukuk financing	-	2,791,694	-	5,083,031	6,188,000	14,062,725
Other liabilities	2,553,789	95,542	113,205	163,830	564,267	3,490,633
Total liabilities	27,326,303	5,026,984	2,779,412	11,649,119	7,534,452	54,316,270

Equity of unrestricted investment account holders

Equity of unrestricted investment account holders	71,148,114	11,901,901	23,285,292	7,687,554	164,908	114,187,769
Total liabilities and equity of unrestricted investment account holders	98,474,417	16,928,885	26,064,704	19,336,673	7,699,360	168,504,039
Maturity gap	(59,918,102)	1,207,036	(248,223)	29,699,715	54,671,445	25,411,871

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Cash and balances with central banks	2,115,000	-	1,126,145	-	5,116,137	8,357,282
Due from banks	6,912,018	1,240	-	-	-	6,913,258
Financing assets	39,558,281	25,913,531	8,866,308	19,022,269	25,712,043	119,072,432
Investment securities	345,117	940,831	1,672,113	5,760,285	24,529,763	33,248,109
Investment in associates	3,435	-	-	-	1,130,257	1,133,692
Investment properties	-	-	-	-	2,862,523	2,862,523
Fixed assets	158	254	5,307	93,666	362,862	462,247
Intangible assets	242	191	808	64,399	304,344	369,984
Other assets	128,397	8,999	200,519	44,108	1,554,625	1,936,648
Total assets	49,062,648	26,865,046	11,871,200	24,984,727	61,572,554	174,356,175

Liabilities and equity of unrestricted investment account holders

Liabilities

Due to banks	2,895,204	4,500,505	1,122,654	4,854,736	454,647	13,827,746
Customers' current accounts	17,380,171	101	1,311	18,976	15,134	17,415,693
Sukuk financing	-	608,283	-	4,168,360	9,282,000	14,058,643
Other liabilities	3,031,712	59,568	877,086	548,206	603,130	5,119,702
Total liabilities	23,307,087	5,168,457	2,001,051	9,590,278	10,354,911	50,421,784

Equity of unrestricted investment account holders

Equity of unrestricted investment account holders	60,318,861	12,060,372	17,203,614	10,974,976	170,465	100,728,288
Total liabilities and equity of unrestricted investment account holders	83,625,948	17,228,829	19,204,665	20,565,254	10,525,376	151,150,072
Maturity gap	(34,563,300)	9,636,217	(7,333,465)	4,419,473	51,047,178	23,206,103

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

Maturity analysis of undiscounted cashflows

2021	Carrying amount	Gross undiscounted cashflows	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
Non-derivative financial liabilities							
Due to banks	19,855,882	20,446,672	7,967,293	2,199,381	2,802,841	6,684,503	792,654
Customers' current accounts	16,907,030	16,907,030	16,858,664	3,281	5,473	18,194	21,418
Sukuk financing	14,062,725	15,125,740	82,290	2,841,510	187,170	5,732,440	6,282,330
Other liabilities	3,490,633	3,405,143	3,003,099	71,792	34,513	5,269	290,470
Total liabilities	54,316,270	55,884,585	27,911,346	5,115,964	3,029,997	12,440,406	7,386,872
Equity of unrestricted account holders	114,187,769	116,495,239	72,010,266	12,117,727	24,001,753	8,300,704	64,789
	168,504,039	172,379,824	99,921,612	17,233,691	27,031,750	20,741,110	7,451,661
2020	Carrying amount	Gross undiscounted cashflows	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
Non-derivative financial liabilities							
Due to banks	13,827,746	14,101,798	2,916,239	4,765,923	966,321	5,157,853	295,462
Customers' current accounts	17,415,693	17,415,694	17,332,478	47,794	1,311	18,976	15,135
Sukuk financing	14,058,643	15,415,310	-	712,070	132,550	4,722,080	9,848,610
Other liabilities	5,119,702	4,728,404	2,815,879	788,394	553,044	142,952	428,135
Total liabilities	50,421,784	51,661,206	23,064,596	6,314,181	1,653,226	10,041,861	10,587,342
Equity of unrestricted account holders	100,728,288	119,980,579	77,913,376	12,401,114	17,866,913	11,621,956	177,220
	151,150,072	171,641,785	100,977,972	18,715,295	19,520,139	21,663,817	10,764,562

d) Market risks

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

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

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for all its affected contracts.

The project is sponsored by the Group CFO and is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations and Technology. The project provides monthly progress updates to the Managing Board and bi-annually to the Audit Committee. During 2021, the Bank commenced the transition of its IBOR exposures to RFRs and has in place detailed plans, processes and procedures to support the transition of the remainder. Following the progress made during 2021, the Bank is confident that it has the operational capability to process the remaining transitions to RFRs for those interest rate benchmarks such as USD LIBOR that will cease to be available after 30 June 2023.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risks (continued)

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

The tables below show the Bank's exposure to significant IBORs subject to reform that have yet to transition to RFRs at the current year end, including those exposures which transitioned immediately after the current year end. The tables exclude exposures to IBOR that will expire before transition is required.

31 December 2021	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal
LIBOR GBP (3 months)	158,880	-	-
LIBOR USD (6 months)	687,140	-	-
LIBOR USD (6 months)	16,850,760	-	-
LIBOR USD (3 months)	9,547,180	7,189,000	4,664,540
LIBOR EUR (3 month)	165,260	-	-
	<u>27,409,220</u>	<u>7,189,000</u>	<u>4,664,540</u>

Included within the table above are GBP Libor exposures at 31 December 2021 that will transition from IBORs to RFRs on its next rate reset or maturity date, whichever is earlier in 2022. Instruments referenced to LIBOR USD (3 and 6 months) will transition no later than immediately after 30 June 2023.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risks (continued)

(i) Management of market risks

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

(ii) Exposure to market risks – trading portfolios

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

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

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

The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is monitored and reported daily to the Senior Management.

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

	At 31 December	Average	Maximum	Minimum
2021				
Equity price risk 10-day VaR @99%	23,054	23,693	28,022	16,956
2020				
Equity price risk 10-day VaR @99%	21,103	18,752	24,082	13,666

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risks (continued)

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

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

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

	Carrying amount	Repricing in:					Non-profit sensitive	Effective profit rate
		Less than 3 months	3-12 months	1-5 years	More than 5 years			
2021								
Cash and balances with central banks	7,176,507	1,169,242	29,105	257,484	-	5,720,676	-	
Due from banks	7,460,696	4,438,103	-	-	-	3,022,593	0.47%	
Financing assets	128,408,527	79,667,763	37,065,248	10,048,721	1,436,060	190,735	4.15%	
Investment securities	44,379,772	10,478,340	14,852,157	12,395,439	3,351,576	3,302,260	3.06%	
	187,425,502	95,753,448	51,946,510	22,701,644	4,787,636	12,236,264	-	
Due to banks	19,855,882	15,749,733	3,523,201	582,948	-	-	0.88%	
Sukuk financing	14,062,725	4,973,874	2,730,000	6,358,851	-	-	2.55%	
	33,918,607	20,723,607	6,253,201	6,941,799	-	-	-	
Equity of unrestricted investment account holders	114,187,769	71,148,114	35,187,193	7,852,462	-	-	1.57%	
	148,106,376	91,871,721	41,440,394	14,794,261	-	-	-	
Profit rate sensitivity gap	39,319,126	3,881,727	10,506,116	7,907,383	4,787,636	12,236,264	-	
Cumulative profit rate sensitivity gap	-	39,319,126	35,437,399	24,931,283	17,023,900	12,236,264	-	

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risks (continued)

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

	Carrying amount	Repricing in:					Non-profit sensitive	Effective profit rate
		Less than 3 months	3-12 months	1-5 years	More than 5 years			
2020								
Cash and balances with central banks	8,357,282	3,238,825	-	151,879	27,097	4,939,481	-	
Due from banks	6,913,258	6,097,788	52,748	-	-	762,722	0.47%	
Financing assets	119,072,432	63,525,566	41,543,304	10,765,061	1,461,680	1,776,821	4.54%	
Investment securities	33,248,109	164,639	15,328,812	10,913,375	3,734,806	3,106,477	3.37%	
	167,591,081	73,026,818	56,924,864	21,830,315	5,223,583	10,585,501	-	
Due to banks	13,827,746	8,226,185	5,186,705	414,856	-	-	1.02%	
Sukuk financing	14,058,643	5,458,180	62,283	8,538,180	-	-	2.57%	
	27,886,389	13,684,365	5,248,988	8,953,036	-	-	-	
Equity of unrestricted investment account holders	100,728,288	60,318,850	29,263,997	11,145,441	-	-	1.77%	
	128,614,677	74,003,215	34,512,985	20,098,477	-	-	-	
Profit rate sensitivity gap	38,976,404	(976,397)	22,411,879	1,731,838	5,223,583	10,585,501	-	
Cumulative profit rate sensitivity gap	-	38,976,404	39,952,801	17,540,922	15,809,084	10,585,501	-	

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risks (continued)

(iii) 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 and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

Sensitivity of net profit	100 bp parallel increase	100 bp parallel decrease
2021		
At 31 December	169.04 million	(169.04 million)
2020		
At 31 December	184.28 million	(184.28 million)

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

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

Foreign currency transactions

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

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

	2021	2020
Net foreign currency exposure:		
Sterling Pounds	4,120	2,808
USD	(28,217,559)	(20,260,243)
Euro	4,810	(17,535)
Other currencies	112,445	117,005

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risks (continued)

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

Foreign currency transactions (continued)

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

	Increase / (decrease)	
	2021	2020
5% change in currency exchange rate		
Sterling Pound	206	140
USD	(1,410,878)	(1,013,012)
Euro	241	(877)
Other currencies	5,622	5,850

Equity price risk

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

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

Market Indices	Change in equity price %	Effect on equity		Effect on profit and loss	
		2021	2020	2021	2020
Qatar Exchange	+/- 10%	946	15,896	34,598	9,678
Bahrain Stock Exchange	+/- 10%	1,150	910	-	-

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

e) Operational risks

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Compliance Risk

Compliance risk encompasses regulatory and legal compliance risk. Compliance risk is the risk that the Group incurs financial or reputational risk through imposition of penalties or fines as a result of not adhering to applicable laws, rules and regulations and good market practice (including ethical standards). The Group's compliance function proactively seeks to enhance compliance risk management and the supporting control framework. The Group operates in a market where there is a significant level of regulatory change activity, therefore, compliance risk is a key area of focus for Senior Management. The compliance function monitors this risk through reference to metrics relevant to the Group, review of incident reports and assessments, risk and control assessments pertaining to the first and second lines of defence functions, results of regulatory assessments, and review of results internal audit and external audit reports. Remediation of controls is conducted in a timely manner

g) Capital management

Regulatory capital

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

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

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

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

	<u>2021</u>	<u>2020</u>
	Basel III	Basel III
Common Equity Tier 1 (CET 1) Capital	19,716,441	18,090,588
Tier 1 capital	23,765,517	22,140,517
Tier 2 capital	1,579,436	1,442,060
Total regulatory capital	25,344,953	23,582,577
Risk weighted assets		
	<u>2021</u>	<u>2020</u>
	Basel III	Basel III
Risk weighted assets for credit risk	122,428,774	111,370,511
Risk weighted assets for market risk	776,794	313,275
Risk weighted assets for operational risk	10,839,628	9,897,925
Total risk weighted assets	134,045,196	121,581,711
Regulatory capital	25,344,953	23,582,577
Common equity tier 1 (CET 1) ratio	14.7%	14.9%
Total capital adequacy ratio	18.9%	19.4%

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Capital management (continued)

The minimum requirements for Capital Adequacy Ratio under Basel III as per QCB regulations for the year ended 31 December 2021 are as follows:

	Actual	Minimum limit as per QCB
CET 1 ratio without capital conservation buffer	14.7%	6.00%
CET 1 ratio including capital conservation buffer	14.7%	8.50%
Tier 1 capital ratio including capital conservation buffer	17.7%	10.50%
Total capital ratio including capital conservation buffer	18.9%	12.50%
Total capital including capital conservation buffer and domestic systematic important bank buffer	18.9%	13.00%
Total capital including conservation buffer, domestic systematic important bank buffer and ICAAP Pillar II capital charge	18.9%	14.65%

5. USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

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

i. Allowance for credit losses

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL, refer to note 4 (b) (vi) Inputs, assumptions and techniques used for estimating impairment for more information.

ii. Determining fair values

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

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

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

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

iii. 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.

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

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

iv. 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 measurements categorised:

2021	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Shari'a compliant risk management instruments (assets)	88,803	-	88,803	-
Investments securities				
Quoted equity-type investments classified FVTIS	345,977	345,977	-	-
Quoted debt-type investments classified as FVTIS	12,992	12,992	-	-
Unquoted debt-type investments classified as FVTIS	312,576	-	312,576	-
Unquoted equity-type investments classified as FVTIS	1,082,506	-	209,441	873,065
Quoted equity-type investments classified as FVTE	1,354,854	833,981	520,873	-
Unquoted equity-type investments classified as FVTE	982,374	-	600,536	381,838
Financing assets classified as FVTIS	432,315	-	-	432,315
Shari'a compliant risk management instruments (liabilities)	202,286	-	202,286	-

FVTIS – Fair value through income statement

FVTE – Fair value through equity

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

iv. Financial asset classification (continued)

2020	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Shari'a compliant risk management instruments (assets)	229,903	-	229,903	-
Investments securities				
Quoted equity-type investments classified as FVTIS	96,779	96,779	-	-
Quoted debt-type investments classified as FVTIS	17,770	17,770	-	-
Unquoted debt-type investments classified as FVTIS	204,014	-	204,014	-
Unquoted equity-type investments classified as FVTIS	973,340	-	229,153	744,187
Quoted equity-type investments classified as FVE	761,835	761,835	-	-
Unquoted equity-type investments classified as FVE	1,140,994	-	843,247	297,747
Financing assets classified as FVTIS	512,275	-	-	512,275
Shari'a compliant risk management instruments (liabilities)	198,199	-	198,199	-

The fair value of financial assets and liabilities carried at amortised cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for investment securities carried at amortised cost for which the fair value amounts to QAR 2,757 million (2020: QAR 3,215 million), which is derived using level 1 fair value hierarchy. The details of the Group's classification of financial assets and liabilities are disclosed in note 7.

During the years ended 2021 and 2020, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurement.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

iv. Financial asset classification (continued)

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

	At 1 January 2021	Total (loss) gain recorded in consolidated income statement / equity	Purchases	Sales/ transfers	At 31 December 2021
Equity investments					
at FVTE	297,747	(14,918)	103,068	(4,059)	381,838
at FVTIS	744,187	12,286	235,092	(118,500)	873,065
Financing assets classified as FVTIS	512,275	(3,048)	9,915	(86,827)	432,315
	1,554,209	(5,680)	348,075	(209,386)	1,687,218

	At 1 January 2020	Total loss recorded in consolidated income statement / equity	Purchases	Sales/ transfers	At 31 December 2020
Equity investments					
at FVTE	394,277	(21,673)	22,404	(97,261)	297,747
at FVTIS	883,689	(9,818)	183,037	(312,721)	744,187
Financing assets classified as FVTIS	513,444	(1,169)	-	-	512,275
	1,791,410	(32,660)	205,441	(409,982)	1,554,209

v. 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.

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

vi. Useful lives of property and equipment

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

vii. Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. All non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. OPERATING SEGMENTS

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

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

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

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

6. OPERATING SEGMENTS (CONTINUED)

Information about operating segments

2021

	Corporate banking	Personal banking	Group function	Local & international subsidiaries	Total
External revenue:					
Total net income from financing and investing activities	4,354,131	1,809,786	702,481	264,220	7,130,618
Net fee and commission income	246,895	248,046	143,823	87,666	726,430
Net foreign exchange gain	-	-	200,862	(482)	200,380
Share of results of associates	-	-	35,710	5,859	41,569
Other income	-	-	21,657	9,219	30,876
Total income	4,601,026	2,057,832	1,104,533	366,482	8,129,873
Sukuk holders' share of profit	-	-	(453,042)	-	(453,042)
Return to unrestricted investment account holders	(800,967)	(460,684)	(382,931)	(42,590)	(1,687,172)
Inter segment (cost) / revenue	(1,386,206)	461,074	925,132	-	-
Reportable segment net profit after tax	1,176,315	1,198,239	1,107,531	70,830	3,552,915
Reportable segment assets	123,825,437	23,846,413	39,979,620	6,264,440	193,915,910
Reportable segment liabilities and equity of unrestricted investments account holders	63,739,603	44,525,279	54,062,865	6,176,292	168,504,039

6. OPERATING SEGMENTS (CONTINUED)

Information about operating segments (continued)

2020

	Corporate banking	Personal banking	Group function	Local & international subsidiaries	Total
External revenue:					
Total net income from financing and investing activities	4,505,630	1,666,088	798,669	193,818	7,164,205
Net fee and commission income	293,134	216,667	95,905	55,710	661,416
Net foreign exchange gain	-	-	60,261	15,430	75,691
Share of results of associates	-	-	3,450	(46)	3,404
Other income	-	-	36,616	16,640	53,256
Total income	4,798,764	1,882,755	994,901	281,552	7,957,972
Sukuk holders' share of profit	-	-	(472,285)	-	(472,285)
Return to unrestricted investment account holders	(967,464)	(531,856)	(494,757)	(52,285)	(2,046,362)
Inter segment (cost) / revenue	(1,649,705)	574,119	1,075,586	-	-
Reportable segment net profit after tax	967,407	1,138,002	935,727	(16,917)	3,024,219
Reportable segment assets	105,439,086	21,320,480	42,450,007	5,146,602	174,356,175
Reportable segment liabilities and equity of unrestricted investments account holders	54,114,669	43,673,591	48,490,839	4,870,973	151,150,072

7. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
2021					
Cash and balances with central banks	-	-	7,176,507	7,176,507	7,176,507
Due from banks	-	-	7,460,696	7,460,696	7,460,696
Financing assets	-	432,315	127,976,212	128,408,527	128,408,527
Investment securities:					
- Equity type instruments	2,337,228	1,428,483	-	3,765,711	3,765,711
- Debt type instruments	-	325,568	40,288,493	40,614,061	40,387,805
Other assets	-	-	482,481	482,481	482,481
	2,337,228	2,186,366	183,384,389	187,907,983	187,681,727
Due to banks	-	-	19,855,882	19,855,882	19,855,882
Customers' current accounts	-	-	16,907,030	16,907,030	16,907,030
Sukuk financing	-	-	14,062,725	14,062,725	14,062,725
Other liabilities	-	-	3,490,633	3,490,633	3,490,633
Equity of unrestricted investment account holders	-	-	114,187,769	114,187,769	114,187,769
	-	-	168,504,039	168,504,039	168,504,039

7. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
2020					
Cash and balances with central banks	-	-	8,357,282	8,357,282	8,357,282
Due from banks	-	-	6,913,258	6,913,258	6,913,258
Financing assets	-	512,275	118,560,157	119,072,432	119,072,432
Investment securities:					
- Equity type instruments	1,902,829	1,070,119	-	2,972,948	2,972,948
- Debt type instruments	-	221,784	30,053,377	30,275,161	30,095,137
Other assets	-	-	431,448	431,448	431,448
	<u>1,902,829</u>	<u>1,804,178</u>	<u>164,315,522</u>	<u>168,022,529</u>	<u>167,842,505</u>
Due to banks	-	-	13,827,746	13,827,746	13,827,746
Customers' current accounts	-	-	17,415,693	17,415,693	17,415,693
Sukuk financing	-	-	14,058,643	14,058,643	14,058,643
Other liabilities	-	-	5,119,702	5,119,702	5,119,702
Equity of unrestricted investment account holders	-	-	100,728,288	100,728,288	100,728,288
	<u>-</u>	<u>-</u>	<u>151,150,072</u>	<u>151,150,072</u>	<u>151,150,072</u>

For financial liabilities carried at amortized cost, carrying values are a reasonable approximation of their fair values.

8. CASH AND BALANCES WITH CENTRAL BANKS

	2021	2020
Cash in hand	769,724	1,985,887
Cash reserve with QCB (i)	5,718,524	4,937,156
Other balances with QCB	169,230	1,049,892
Balances with other central banks	737,029	602,347
Less: Allowance for impairment (ii)	<u>(218,000)</u>	<u>(218,000)</u>
	<u>7,176,507</u>	<u>8,357,282</u>

- (i) Cash reserve with QCB represents a mandatory reserve not available for use in the Group's day to day operations.
- (ii) The economic situation in Lebanon has exposed its domestic banking system to a significant degree of uncertainty, with the magnitude of the possible adverse effects on the Lebanese economy, the banking sector and the Bank's subsidiary AFH, currently unknown. Given these circumstances, QIB Group has taken a conservative approach and created impairments at QIB Parent level to fully cover its exposure to its stand-alone subsidiary AFH resulting from the inter-group investment and placements. These impairments have been allocated in the consolidated financial statements to ECL on Balances due from Central Bank of Lebanon, primarily impacted by the lack of clarity.

9. DUE FROM BANKS

	2021	2020
Commodity murabaha receivable	2,056,867	2,571,448
Wakala placements	2,375,675	3,577,535
Mudaraba placements	25,691	22,760
Current accounts	3,022,593	762,723
Less: Allowance for impairment	<u>(20,130)</u>	<u>(21,208)</u>
	<u>7,460,696</u>	<u>6,913,258</u>

10. FINANCING ASSETS

(a) By type

	2021	2020
Receivables and balances from financing activities:		
Murabaha	94,426,155	86,714,107
Musawama	25,394,553	21,807,315
Ijarah Muntahia Bittamleek	20,708,608	20,099,935
Istisna'a	8,914	185,249
Mudaraba	-	14,111
Others	374,250	1,998,552
Total financing assets	<u>140,912,480</u>	<u>130,819,269</u>
Less: Deferred profit	<u>(7,665,654)</u>	<u>(7,773,643)</u>
Total financing assets net of deferred profit	<u>133,246,826</u>	<u>123,045,626</u>
Less: Expected credit losses on financing assets - performing (Stage 1 and 2)	<u>(3,013,742)</u>	<u>(2,355,383)</u>
Allowance for impairment on financing assets – credit impaired (Stage 3)	<u>(1,768,841)</u>	<u>(1,545,715)</u>
Suspended profit	<u>(55,716)</u>	<u>(72,096)</u>
Net financing assets	<u>128,408,527</u>	<u>119,072,432</u>

Net financing assets includes hybrid instruments amounting to QR 432 million designated as fair value through income statement ('FVTIS') (2020: QR 512 million).

The impaired financing assets net of deferred profit amounted to QAR 2,390 million as at 31 December 2021 representing 1.8% of the total financing assets net of deferred profit (31 December 2020: QAR 1,752 million, representing 1.4% of the total financing assets net of deferred profit).

10. FINANCING ASSETS (CONTINUED)

(b) By type (continued)

Modified financing assets

Considering the economic circumstances post the COVID-19 outbreak, the QCB has encouraged banks in Qatar to delay repayments for affected sectors, via a circular issued on 27 December 2021, pursuant to which QIB has delayed repayments of certain SME and Corporate customers for a period of three months. In line with the requirements of the FAS, the Bank will amortize the remaining amount of the deferred profit over the remaining period of the financing facilities

(c) Movement in impairment of financing` assets is as follows:

	2021	2020
Balance at 1 January	3,901,098	2,698,687
Charge for the year	1,473,677	1,340,718
Recoveries during the year	(147,591)	(77,989)
Net impairment losses during the year	1,326,086	1,262,729
Written off during the year	(443,204)	(60,306)
Foreign currency translation and adjustments	(1,397)	(12)
Balance at 31 December*	4,782,583	3,901,098

*For stage wise allowance for impairment refer note 4(b).

10. FINANCING ASSETS (CONTINUED)

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

	Corporate			SMEs			Retail			Real estate mortgages			Total		
	Stage 1 Performing	Stage 2	Stage 3 Credit impaired	Stage 1 Performing	Stage 2	Stage 3 Credit impaired	Stage 1 Performing	Stage 2	Stage 3 Credit impaired	Stage 1 Performing	Stage 2	Stage 3 Credit impaired	Stage 1 Performing	Stage 2	Stage 3 Credit impaired
Balance at 1 January 2021	843,019	523,588	975,659	12,227	242	25,748	397,160	32,466	480,016	413,884	132,797	64,292	1,666,290	689,093	1,545,715
Transfers between stages	(40,755)	(33,148)	73,903	-	-	-	(2,686)	(8,833)	11,519	(13,095)	(272)	13,367	(56,536)	(42,254)	98,789
Charge for the year	214,692	176,227	534,194	21,585	48	718	353,525	(11,414)	76,014	17,810	(13,928)	104,206	607,612	150,934	715,132
Recoveries during the year	-	-	(63,981)	-	-	(6,919)	-	-	(47,293)	-	-	(29,398)	-	-	(147,591)
Net impairment losses during the year	214,692	176,227	470,213	21,585	48	(6,201)	353,525	(11,414)	28,721	17,810	(13,928)	74,808	607,612	150,934	567,541
Written off during the year	-	-	(307,687)	-	-	-	-	-	(116,649)	-	-	(18,868)	-	-	(443,204)
Foreign currency translation and adjustments	(1,397)	-	-	-	-	-	-	-	-	-	-	-	(1,397)	-	-
Balance at 31 December 2021 (i)	1,015,559	666,667	1,212,088	33,812	290	19,547	747,999	12,219	403,607	418,599	118,597	133,599	2,215,969	797,773	1,768,841

10. FINANCING ASSETS (CONTINUED)

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

	Corporate			SMEs			Retail			Real estate mortgages			Total		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	Performing		Credit impaired	Performing		Credit impaired	Performing		Credit impaired	Performing		Credit impaired	Performing		Credit impaired
Balance at 1 January 2020	391,649	468,479	916,934	677	5,511	29,661	104,091	25,544	438,716	103,620	150,503	63,302	600,037	650,037	1,448,613
Transfers between stages	(947)	(16,650)	17,597	-	-	-	(1,665)	27,703	(26,038)	(146)	(1,177)	1,323	(2,758)	9,876	(7,118)
Charge for the year	452,317	71,771	113,096	11,550	(5,269)	(1,365)	294,734	(20,781)	127,880	310,410	(16,529)	2,904	1,069,011	29,192	242,515
Recoveries during the year	-	-	(11,734)	-	-	(2,548)	-	-	(60,470)	-	-	(3,237)	-	-	(77,989)
Net impairment losses during the year	452,317	71,771	101,362	11,550	(5,269)	(3,913)	294,734	(20,781)	67,410	310,410	(16,529)	(333)	1,069,011	29,192	164,526
Written off during the year	-	-	(60,234)	-	-	-	-	-	(72)	-	-	-	-	-	(60,306)
Foreign currency translation and adjustments	-	(12)	-	-	-	-	-	-	-	-	-	-	-	(12)	-
Balance at 31 December 2020 (i)	843,019	523,588	975,659	12,227	242	25,748	397,160	32,466	480,016	413,884	132,797	64,292	1,666,290	689,093	1,545,715

10. FINANCING ASSETS (CONTINUED)

(d) By sector

2021	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Others	Total
Government and related entities	21,388,485	-	1,541,123	-	-	22,929,608
Non-banking financial institutions	11,094,092	80,815	1,000,140	-	55,878	12,230,925
Industry	5,206,004	110,509	1,766	-	9,338	5,327,617
Commercial	13,514,450	1,632,441	430,232	-	29,317	15,606,440
Services	11,230,532	249,519	53,752	114	591	11,534,508
Contracting	6,134,142	570,201	331,275	2,962	105,593	7,144,173
Real estate	12,246,357	267,316	17,332,554	-	-	29,846,227
Personal	11,301,211	22,483,752	-	5,838	173,533	33,964,334
Others	2,310,882	-	17,766	-	-	2,328,648
Total financing assets	94,426,155	25,394,553	20,708,608	8,914	374,250	140,912,480
4ess: Deferred profit						(7,665,654)
Total financing assets net of deferred profit						133,246,826
Less: Expected credit losses on financing assets - performing (Stage 1 and 2)						(3,013,742)
Allowance for impairment on financing assets – credit impaired (Stage 3)						(1,768,841)
Suspended profit						(55,716)
Net financing assets						128,408,527

Note:
Details of financing assets related to Sukuk backed assets as at 31 December 2021 are disclosed in Note 20 to the consolidated financial statements.

10. FINANCING ASSETS (CONTINUED)

(d) By sector (continued)

2020	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
Government and related entities	15,320,729	-	1,787,373	-	-	-	17,108,102
Non-banking financial institutions	9,596,353	61,466	1,036,319	-	-	37,446	10,731,584
Industry	7,218,684	113,041	25,939	-	-	514,799	7,872,463
Commercial	11,484,036	1,203,780	1,512,923	3,381	14,111	347,881	14,566,112
Services	11,021,922	181,524	80,228	528	-	789,267	12,073,469
Contracting	5,549,295	370,144	216,990	4,524	-	86,236	6,227,189
Real estate	11,038,519	150,848	15,228,562	168,997	-	6,324	26,593,250
Personal	9,038,525	19,690,184	-	7,819	-	216,585	28,953,113
Others	6,446,042	36,329	211,601	-	-	15	6,693,987
Total financing assets	86,714,105	21,807,316	20,099,935	185,249	14,111	1,998,553	130,819,269
Less: Deferred profit							(7,773,643)
Total financing assets net of deferred profit							123,045,626
Less: Expected credit losses on financing assets - performing (Stage 1 and 2)							(2,355,383)
Allowance for impairment on financing assets – credit impaired (Stage 3)							(1,545,715)
Suspended profit							(72,096)
Net financing assets							119,072,432

11. INVESTMENT SECURITIES

	2021			2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
<i>Investments classified as fair value through income statement</i>						
• equity-type investments	345,977	1,082,506	1,428,483	96,779	973,340	1,070,119
• debt-type investments						
- Fixed rate	12,992	312,576	325,568	17,770	204,014	221,784
	358,969	1,395,082	1,754,051	114,549	1,177,354	1,291,903
<i>Debt-type investments classified at amortised cost</i>						
(i)						
- State of Qatar Sukuk and QCB Murabaha	2,070,015	37,551,410	39,621,425	2,074,208	27,122,734	29,196,942
- Fixed rate	663,549	107,252	770,801	742,797	141,138	883,935
- Floating rate	-	-	-	-	72,545	72,545
Less: Allowance for impairment*	(504)	(103,229)	(103,733)	(1,919)	(98,126)	(100,045)
	2,733,060	37,555,433	40,288,493	2,815,086	27,238,291	30,053,377
<i>Equity-type investments and other investment instruments classified as fair value through equity</i>						
	1,354,854	982,374	2,337,228	761,835	1,140,994	1,902,829
	4,446,883	39,932,889	44,379,772	3,691,470	29,556,639	33,248,109

*For stage wise allowance for impairment refer note 4(b).

Notes:

- (i) The fair value of the investments carried at amortised cost as at 31 December 2021 amounted to QAR 40,065 million (2020: QAR 29,470 million).
- (ii) The fair value hierarchy and the transfers between categories of fair value hierarchy are disclosed in Note 5 (b).

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

	2021	2020
Balance at 1 January	317,774	408,849
Charge during the year	3,791	21,769
Write off / reversals / transfers during the year	(49,176)	(112,844)
Balance at 31 December	272,389	317,774

With effect from the issuance of QCB circular 13/2021, equity type instruments classified as fair value through equity are not tested for impairment. However prior to that, equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognised in the condensed consolidated statement of changes in equity is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

12. INVESTMENT IN ASSOCIATES

Associates' movement during the year is as follows:

	2021	2020
Balance at 1 January	1,133,692	544,735
Foreign currency translation and other movements	1,389	(8,887)
Investments transferred / disposed during the year	(24,325)	601,440
Share of results	41,569	3,404
Cash dividend	(12,757)	(7,000)
Balance at 31 December	1,139,568	1,133,692

Name of the principal associates	Country of Incorporation	Company's Activities	Ownership %	
			2021	2020
Al Jazeera Finance Company (Q.S.C)	Qatar	Financing	30.00%	30.00%
Damaan Islamic Insurance Co (P.S.C)	Qatar	Insurance	30.82%	30.82%
Ambit Corporate Finance	India	Financial Service	21.72%	21.72%
Bawabat Al Shamal Real Estate Company W.L.L	Qatar	Real Estate	25.00%	25.00%

The financial position, revenue and result of principal associates based on its financial statements, as at and for the year ended 31 December 2021 and 2020 are as follows:

	Al Jazeera Finance Company (Q.S.C)	Damaan Islamic Insurance Co (P.S.C)	Ambit Corporate Finance	Bawabat Al Shamal Real Estate Company W.L.L.
31 December 2021				
Total assets	1,068,220	613,527	898,191	5,387,493
Total liabilities	146,070	178,333	436,904	4,115,856
Total revenue	90,959	66,816	176,052	559,860
Net profit	18,798	37,963	8,970	123,796
Share of profit	5,637	12,126	1,337	17,947

	Al Jazeera	Al Daman	Ambit Corporate Finance	Bawabat Al Shamal Real Estate Company W.L.L.
31 December 2020				
Total assets	1,087,460	626,467	643,002	5,579,894
Total liabilities	160,713	223,718	212,743	4,380,044
Total revenue	110,629	62,410	64,893	406,906
Net profit	21,120	34,607	4,830	(45,673)
Share of profit	4,559	10,310	1,247	(11,418)

13. INVESTMENT PROPERTIES

	2021	2020
Balance at 1 January	2,862,523	2,175,459
Transfer	-	(74,300)
Additions	1,019	655,515
Changes in fair value	37,851	53,558
Foreign currency translation and adjustments	(47,396)	52,291
Balance at 31 December	2,853,997	2,862,523

Note:

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

14. FIXED ASSETS

	Land and buildings	IT equipment	Fixtures and fittings	Motor vehicles	Work in Progress	Total
Cost:						
Balance at 1 January 2021	483,097	188,342	365,643	5,037	6,868	1,048,987
Additions	547	1,170	7,919	468	3,294	13,398
Disposals	-	(150)	(443)	-	(7,125)	(7,718)
Foreign currency translation	(2,200)	(413)	9	(59)	-	(2,663)
Transfers	-	398	559	-	-	957
Balance at 31 December 2021	481,444	189,347	373,687	5,446	3,037	1,052,961
Balance at 1 January 2020	428,448	188,145	359,185	5,109	6,238	987,125
Additions	1,314	3,423	11,036	90	3,323	19,186
Disposals	-	(1,747)	(6,567)	-	(2,746)	(11,060)
Foreign currency translation	2,659	(19)	773	(15)	53	3,451
Transfers	50,676	(1,460)	1,216	(147)	-	50,285
Balance at 31 December 2020	483,097	188,342	365,643	5,037	6,868	1,048,987
Accumulated depreciation:						
Balance at 1 January 2021	111,677	174,288	296,177	4,598	-	586,740
Depreciation charged during the year	7,662	5,357	25,439	137	-	38,595
Disposals	-	(10)	(452)	-	-	(462)
Foreign currency translation	(240)	117	(569)	(69)	-	(761)
Transfers	(5)	585	130	7	-	717
Balance at 31 December 2021	119,094	180,337	320,725	4,673	-	624,829
Balance at 1 January 2020	84,349	171,214	275,188	4,626	-	535,377
Depreciation charged during the year	12,594	6,573	28,208	110	-	47,485
Disposals	-	(1,649)	(6,199)	-	-	(7,848)
Foreign currency translation	(295)	(202)	(277)	(39)	-	(813)
Transfers	15,029	(1,648)	(743)	(99)	-	12,539
Balance at 31 December 2020	111,677	174,288	296,177	4,598	-	586,740
Carrying amounts:						
Balance at 1 January 2020	344,099	16,931	83,997	483	6,238	451,748
Balance at 31 December 2020	371,420	14,054	69,466	439	6,868	462,247
Balance at 31 December 2021	362,350	9,010	52,962	773	3,037	428,132

15. INTANGIBLE ASSETS

	Goodwill	Software	Work in Progress	Total
Balance at 1 January 2021	217,814	134,850	17,320	369,984
Additions	-	41,985	38,021	80,006
Transfers	-	-	(38,353)	(38,353)
Foreign currency translation	-	(173)	-	(173)
Amortisation during the year	-	(51,545)	-	(51,545)
Balance at 31 December 2021	217,814	125,117	16,988	359,919
Balance at 1 January 2020	239,914	145,571	14,775	400,260
Additions	-	37,191	33,953	71,144
Transfers	-	-	(31,408)	(31,408)
Impairment during the year	(22,100)	-	-	(22,100)
Foreign currency translation	-	(49)	-	(49)
Amortisation during the year	-	(47,863)	-	(47,863)
Balance at 31 December 2020	217,814	134,850	17,320	369,984

QInvest

Goodwill acquired through the acquisition of QInvest L.L.C has been allocated to one CGU. An impairment testing of the goodwill was undertaken by management as at 31 December 2020. The recoverable amount of the investment in QInvest was determined using the dividend discount method.

Key assumptions used in the valuation

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

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

16. OTHER ASSETS

	Note	2021	2020
Projects under development		233,279	372,240
Shari'a compliant risk management instruments	16.1	88,803	229,903
Deferred tax assets		44,290	37,319
Prepayments and advances		42,367	47,700
Others (i)		1,300,053	1,249,486
		1,708,792	1,936,648

Notes:

- (i) This includes the value of the property acquired in settlement of financing assets which is stated at its fair value.

16. OTHER ASSETS (CONTINUED)

16.1 Shari'a compliant risk management instruments

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

	2021			2020		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
a) Held for trading						
Forward foreign exchange promissory contracts	40,777	23,074	4,569,617	64,076	45,793	7,153,303
Profit rate promissory swaps	1,933	-	72,800	-	-	-
b) Held as cash flow hedges:						
Forward foreign exchange promissory contracts	547	82,646	5,211,307	105,806	-	1,364,964
Profit rate promissory swaps	20,363	96,544	6,786,780	-	137,811	2,546,180
Cross currency promissory swaps	2,768	-	1,444,750	5,213	-	-*
c) Held as hedge of net investment in foreign operation						
Forward foreign exchange promissory contracts	20,883	22	639,555	43,888	14,595	432,165
d) Held as fair value hedges						
Cross currency promissory swaps	644	-	145,600	10,920	-	1,152,154
Forward foreign exchange promissory contracts	888	-	25,673	-	-	-
	88,803	202,286	18,896,082	229,903	198,199	12,648,766

*Notional amount disclosed under fair value hedges QAR 1,445 million (2020: QAR 1,152 million).

17. DUE TO BANKS

	2021	2020
Wakala payable	3,287,654	2,927,949
Commodity murabaha payable	10,583,263	6,884,020
Repurchase agreements	5,514,728	3,721,936
Current accounts	470,237	293,841
	19,855,882	13,827,746

Wakala payables include various facilities with maturities up to thirty six months and carries a profit rate of 0.45% to 1.1% (2020: maturities up to eight months and carrying profit rate of 0.02% to 1.12%). The market value of securities given as collateral against the repurchase agreement borrowings are QAR 5,544 million (2020: 3,851 million)

20. OTHER LIABILITIES

	Note	2021	2020
Accrued expenses		343,090	358,785
Manager cheques		427,334	506,165
Customers advances		16,921	18,032
Provision for employees' end of service benefits (i)		202,138	212,346
Naps and visa settlements		452,133	305,271
Cash margins		274,575	288,011
Contribution to Social and Sports fund		88,882	76,628
Clearing cheques		24,687	25,306
Pension fund		685	1,427
Shari'a compliant risk management instruments	16.1	202,286	198,199
Others (ii)		1,409,791	3,079,008
Allowance for impairment for financing commitments and financial guarantees		48,111	50,524
		<u>3,490,633</u>	<u>5,119,702</u>

Notes:

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

	2021	2020
Balance at 1 January	212,346	191,605
Charge for the year (Note 29)	24,687	34,194
Payments made during the year	(34,620)	(13,383)
Foreign currency translation	(275)	(70)
Balance at 31 December	<u>202,138</u>	<u>212,346</u>

(ii) Others include acceptances amounting to QAR 342 million (2020: QAR 1,777 million).

21. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2021	2020
Unrestricted investment account holders balance before share of profit	113,179,185	99,562,407
Add: Profits for unrestricted investment account holders for the year (a)	1,687,172	2,046,362
Less: Profit paid during the year	(782,356)	(962,854)
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	<u>114,084,001</u>	<u>100,645,915</u>
	2021	2020
Share of unrestricted investment account holders' of the profit for the year	5,128,747	5,379,377
Less: Mudarib share	(3,441,575)	(3,333,015)
Total profit distributed to investment account holders for the year (a)	<u>1,687,172</u>	<u>2,046,362</u>

21. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (CONTINUED)

<i>By type:</i>	2021	2020
Term accounts	90,884,114	78,813,358
Saving accounts	19,789,956	18,392,513
Call accounts	3,409,930	3,440,044
Total (b)	<u>114,084,000</u>	<u>100,645,915</u>
<i>By sector:</i>		
Retail	39,063,838	34,005,502
Corporate	27,984,429	28,142,538
Non-banking financial institution	8,536,625	3,070,403
Government	36,802,687	33,433,703
Banks	1,696,421	1,993,769
Total (b)	<u>114,084,000</u>	<u>100,645,915</u>
	2021	2020
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	114,084,001	100,645,915
Share in fair value reserve	103,768	82,373
Total unrestricted investment account holders balance	<u>114,187,769</u>	<u>100,728,288</u>

22. EQUITY

(a) Share capital

	2021	2020
At 31 December	<u>2,362,932</u>	<u>2,362,932</u>

At 31 December 2021 the authorised and issued share capital comprised of 2,363 million ordinary shares (2020: QR 2,363 million), having a par value of QAR 1 per share.

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

(b) Legal reserve

In accordance with QCB Law No. 13 of 2012 as amended, 10% of net profit attributable to the owners of the Bank for the year is required to be transferred to the reserve until the legal reserve equals 100% of the paid up share capital. This reserve is not available for distribution except in circumstances specified in Qatar Commercial Companies Law No. 11 of 2015 and after QCB approval. No appropriation was made in the current year as the legal reserve exceeds 100% of the paid up share capital.

(c) Risk reserve

In accordance with QCB regulations, a risk reserve should be created to cover contingencies on both the public and private sector financing assets, with a minimum requirement of 2.5% of the total private sector exposure inside and outside Qatar after the exclusion of the specific provisions and profit in suspense, to be appropriated from shareholders' profit. The finance provided to / or secured by the Ministry of Finance – Qatar or finance against cash guarantees is excluded from the gross direct finance. The total amount transferred to the risk reserve amounted to QAR 8.4 million (2020: QAR 56.4 million).

(d) General reserve

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

22. EQUITY (CONTINUED)

(e) Retained earnings

Retained earnings include the Group's share in profit of associates. These profits are distributable to the holders of ordinary shares only to the extent of the cash received.

(f) Fair value reserve

	2021	2020
Opening balance	(109,786)	242,377
Changes in fair value of cash flow hedges	191,127	(233,446)
Share of other comprehensive income of associates	(274)	(3,878)
Investments carried as fair value through equity:		
Increase / (decrease) in fair value reserve	(34,889)	(208,795)
Share of equity of unrestricted investment account holders	(4,202)	67,048
Revaluation of investment properties:		
Movement in investment property fair value	35,877	48,746
Share of equity to unrestricted investment account holders	(17,192)	(21,838)
	60,661	(109,786)

(g) Foreign currency translation reserve

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

(h) Other reserves

Other reserves represent the Group's share in the undistributed profit from investments in associate companies after deducting the received dividends. During the year QAR Nil was transferred to other reserves from retained earnings (2020: QAR Nil was transferred to other reserves from retained earnings).

(i) Proposed cash dividends

The Board of Directors in its meeting dated 16 January 2022 has proposed a cash dividend of 57.5% of the paid up share capital amounting to QAR 1,358.7 million – QAR 0.575 per share (2020: 40% of the paid up share capital amounting to QAR 945.2 million – QAR 0.4 per share) which is subject to approval at the Annual General Meeting of the shareholders of the Bank.

23. NON-CONTROLLING INTERESTS

This represents the Group's non-controlling interests in QInvest LLC (34.38%), QIB (UK) (0.29%), Aqar Real Estate Development & Investment (51%), Arab Finance House (0.007%) and Durat Al Doha Real Estate Investment & Development Company (17.39%).

24. SUKUK ELIGIBLE AS ADDITIONAL CAPITAL

During 2015, the Group issued perpetual sukuk eligible as additional tier 1 capital for an amount of QAR 2 billion. The sukuk is unsecured and the profit distributions are discretionary, non-cumulative and payable annually at an agreed expected profit rate of 5% to be reset every sixth year. During 2021 the first reset period lapsed and a new profit rate of 4.13365% has been reset for the coming six years. 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 have been classified as equity. During September 2016, the Group raised additional tier 1 capital by issuing a perpetual sukuk for an amount of QR 2 billion at an agreed expected profit rate of 5.25% to be reset every sixth year.

25. NET INCOME FROM FINANCING ACTIVITIES

	2021	2020
Income from:		
Murabaha	3,570,073	3,641,620
Musawama	1,583,461	1,461,422
Ijarah Muntahia Bittamleek	831,756	842,361
Istisna'a	13,346	10,806
	<u>5,998,636</u>	<u>5,956,209</u>

26. NET INCOME FROM INVESTING ACTIVITIES

	2021	2020
Income from debt-type instruments carried at amortised cost	1,056,145	1,144,202
Net cost of inter-bank with / from Islamic banks	(140,296)	(232,217)
Net gain / (loss) on sale of debt-type instruments carried at amortised cost	13,410	(8,254)
Net gain on sale of equity and debt type instruments carried at fair value	15,294	200,029
Fair value gain / (loss) on equity and debt type instruments carried as fair value through income statement	7,710	(17,194)
Rental income from investment properties	67,836	61,986
Dividend income	111,883	59,444
	<u>1,131,982</u>	<u>1,207,996</u>

27. NET FEE AND COMMISSION INCOME

	2021	2020
Feasibility study and facility management fees	202,898	210,682
Fees on letters of credit and guarantees	79,665	89,531
Banking services fees	484,583	395,450
Advisory fees	49,452	23,762
Others	120,566	97,624
	<u>937,164</u>	<u>817,049</u>
Fee and commission expense	(210,734)	(155,633)
Net fee and commission income	<u>726,430</u>	<u>661,416</u>

28. NET FOREIGN EXCHANGE GAIN

	2021	2020
Dealing in foreign currencies	125,141	76,564
Foreign exchange swap loss	(18,695)	(33,494)
Revaluation of assets and liabilities	93,934	32,621
	<u>200,380</u>	<u>75,691</u>

29. STAFF COSTS

	2021	2020
Salaries and other benefits	617,461	615,157
Staff pension fund costs	8,063	8,007
Staff indemnity costs (Note 20)	24,687	34,194
	<u>650,211</u>	<u>657,358</u>

30. OTHER EXPENSES

	2021	2020
Legal and professional fees	42,337	33,779
Rent	43,455	45,967
Service expenses	45,853	50,604
Board of Directors' remuneration	18,500	18,500
IT expenses	57,864	58,653
Advertising and marketing expenses	18,036	22,374
Communication and utilities	45,403	44,408
Subscription fees	5,008	5,178
Repairs and maintenance	10,132	9,749
Insurance costs	9,118	4,901
Other expenses	49,173	44,788
	<u>344,879</u>	<u>338,901</u>

31. TAX EXPENSE

	2021	2020
Current tax expense		
Current year	9,707	7,408
Total tax expense	<u>9,707</u>	<u>7,408</u>

32. CONTINGENT LIABILITIES AND COMMITMENTS

	2021	2020
a) Contingent liabilities		
Unutilised financing facilities	7,731,497	7,027,307
Guarantees	8,393,739	10,744,022
Letters of credit	6,193,367	5,901,094
	<u>22,318,603</u>	<u>23,672,423</u>
b) Commitments		
Investment commitment	213,614	80,380
Total	<u>22,532,217</u>	<u>23,752,803</u>

Unutilised financing facilities

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

Guarantees and Letters of Credit

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

c) Lease commitments

Operating lease rentals are payable as follows:

	2021	2020
Within one year	8,947	8,379
After one year but not more than five years	22,888	38,374
More than five years	755	815
	<u>32,590</u>	<u>47,568</u>

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

Geographical sector

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

2021	Qatar	Other GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central banks	6,644,757	-	2,152	-	529,598	7,176,507
Due from banks	3,769,602	1,215,227	901,827	1,259,154	314,886	7,460,696
Financing assets	121,257,866	1,117,585	2,778,039	2,307,255	947,782	128,408,527
Investment securities	39,907,873	957,619	1,521,001	1,492,843	500,436	44,379,772
Investment in associates	1,077,484	-	-	-	62,084	1,139,568
Investment properties	2,062,863	48,509	742,625	-	-	2,853,997
Fixed assets	320,892	-	63,677	-	43,563	428,132
Intangible assets	356,239	-	1,133	-	2,547	359,919
Other assets	1,213,098	109,866	189,729	4,581	191,518	1,708,792
Total assets	176,610,674	3,448,806	6,200,183	5,063,833	2,592,414	193,915,910
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks	6,941,215	5,858,502	5,508,947	-	1,547,218	19,855,882
Customers' current accounts	16,095,674	21,175	75,514	89,441	625,226	16,907,030
Sukuk financing	-	-	14,062,725	-	-	14,062,725
Other liabilities	3,084,082	62,943	149,853	-	193,755	3,490,633
Total liabilities	26,120,971	5,942,620	19,797,039	89,441	2,366,199	54,316,270
Equity of unrestricted investment account holders	85,673,986	8,354,465	11,502,861	4,066,678	4,589,779	114,187,769
Total liabilities and equity of unrestricted investment account holders	111,794,957	14,297,085	31,299,900	4,156,119	6,955,978	168,504,039

33. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (CONTINUED)

Geographical sector (continued)

2020	Qatar	Other GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central banks	7,959,857	-	2,324	-	395,101	8,357,282
Due from banks	5,377,692	21,017	955,514	295,324	263,711	6,913,258
Financing assets	110,171,851	1,208,046	3,572,285	2,473,386	1,646,864	119,072,432
Investment securities	29,334,338	773,761	1,002,505	1,510,394	627,111	33,248,109
Investment in associates	1,052,595	-	-	-	81,097	1,133,692
Investment properties	2,064,591	47,489	750,443	-	-	2,862,523
Fixed assets	348,280	-	67,021	-	46,946	462,247
Intangible assets	365,360	-	1,244	-	3,380	369,984
Other assets	1,683,482	57,819	35,529	8,409	151,409	1,936,648
Total assets	158,358,046	2,108,132	6,386,865	4,287,513	3,215,619	174,356,175

Liabilities and equity of unrestricted investment account holders

Liabilities

Due to banks	4,242,681	3,931,950	3,462,277	617,252	1,573,586	13,827,746
Customers' current accounts	16,888,589	31,323	86,357	23,987	385,437	17,415,693
Sukuk financing	-	-	14,058,643	-	-	14,058,643
Other liabilities	3,254,741	295	945,691	-	918,975	5,119,702
Total liabilities	24,386,011	3,963,568	18,552,968	641,239	2,877,998	50,421,784

Equity of unrestricted investment account holders	76,794,084	3,289,221	11,719,455	4,331,856	4,593,672	100,728,288
Total liabilities and equity of unrestricted investment account holders	101,180,095	7,252,789	30,272,423	4,973,095	7,471,670	151,150,072

34. EARNINGS PER SHARE

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

	2021	2020
Profit for the year attributable to equity holders of the Bank	3,555,296	3,065,115
Less: profit attributable to sukuk eligible as additional capital	(196,337)	(205,000)
Profit for EPS computation	3,358,959	2,860,115
Weighted average number of shares outstanding during the year (in thousands)	2,362,932	2,362,932
Basic / diluted earnings per share (QAR)	1.42	1.21

35. CASH AND CASH EQUIVALENTS

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

	2021	2020
Cash and balances with central banks (excluding restricted QCB and other central banks reserve account)	1,171,395	3,164,891
Due from banks	7,330,862	6,913,258
	<u>8,502,257</u>	<u>10,078,149</u>

36. RELATED PARTIES

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

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

	2021		2020	
	Associate companies	Board of Directors	Associate Companies	Board of Directors
Assets:				
Gross financing assets (excluding provisions)	3,169,957	4,842,850	3,427,027	5,001,546
Equity of unrestricted investment account holders	353,040	1,442,878	376,860	2,074,315
Off balance sheet items:				
Contingent liabilities, guarantees and other commitments	125,798	55,245	125,463	493,470
Consolidated statement of income items:				
Financing income	157,719	206,787	180,596	225,500
Profit paid on deposits	3,060	33,176	1,647	27,932
Others	1,138	11,068	11,820	10,055

Key management personnel compensation for the year comprised:

	2021	2020
Short term employee benefits	71,386	68,863
Other long term benefits	9,994	9,856
	<u>81,380</u>	<u>78,719</u>

37. ZAKAH

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

38. SHARI'A SUPERVISORY BOARD

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

39. 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 2021 of QAR 88.8 million (2020: QAR 76.6 million) which represents 2.5% of net profit as per law No.13 for year 2008 and explanatory notes issued for 2010.

40. COMPARATIVE FIGURES

The comparative figures presented for 2020 have been reclassified where necessary to preserve consistency with the 2021 figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

FINANCIAL STATEMENT OF THE PARENT BANK
A. Statement of financial position of the parent bank

As at 31 December	2021	2020
ASSETS		
Cash and balances with central banks	6,644,757	7,959,857
Due from banks	7,193,494	6,788,845
Financing assets	126,111,058	117,130,121
Investment securities	43,730,146	33,019,558
Investment in associates	1,011,148	986,469
Investment properties	1,352,635	1,341,071
Fixed assets	317,469	343,911
Intangible assets	138,513	146,968
Other assets	1,152,251	1,492,774
TOTAL ASSETS	187,651,471	169,209,574
LIABILITIES		
Due to banks	17,082,351	11,640,794
Customers' current accounts	16,121,698	16,819,621
Sukuk financing	14,062,725	14,058,643
Other liabilities	4,408,400	5,855,749
TOTAL LIABILITIES	51,675,174	48,374,807
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	110,937,792	98,185,920
SHAREHOLDERS' EQUITY		
Share capital	2,362,932	2,362,932
Legal reserve	6,353,459	6,353,459
Risk reserve	2,444,872	2,436,510
General reserve	79,485	79,485
Fair value reserve	35,966	(178,318)
Foreign currency translation reserve	(55,803)	(50,882)
Other reserves	212,058	212,058
Proposed cash dividends	1,358,686	945,173
Retained earnings	8,246,850	6,488,430
TOTAL SHAREHOLDERS' EQUITY	21,038,505	18,648,847
Sukuk eligible as additional capital	4,000,000	4,000,000
Total equity	25,038,505	22,648,847
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND SHAREHOLDERS' EQUITY	187,651,471	169,209,574

SUPPLEMENTARY INFORMATION
For the year ended 31 December 2021

QAR '000

B. STATEMENT OF INCOME OF THE PARENT BANK

For the year ended 31 December	2021	2020
Net income from financing activities	5,880,022	5,824,052
Net income from investing activities	988,033	1,146,335
Total net income from financing and investing activities	6,868,055	6,970,387
Fee and commission income	843,290	758,440
Fee and commission expense	(204,526)	(152,734)
Net fee and commission income	638,764	605,706
Net foreign exchange gain	200,862	60,261
Share of results of associates	35,710	3,450
Other income	20,000	36,616
Total income	7,763,391	7,676,420
Staff costs	(510,334)	(524,128)
Depreciation and amortization	(80,802)	(81,017)
Sukuk holder's share of profit	(453,042)	(472,285)
Other expenses	(280,074)	(277,551)
Total expenses	(1,324,252)	(1,354,981)
Net impairment loss on investment securities	(3,365)	(10,947)
Net impairment loss on financing assets	(1,304,676)	(1,227,578)
Goodwill impairment	-	(22,100)
Other impairment losses	(4,431)	(25,601)
Profit for the year before return to unrestricted investment account holders	5,126,667	5,035,213
Less: Return to unrestricted investment account holders	(1,644,582)	(1,994,077)
Profit for the year	3,482,085	3,041,136