



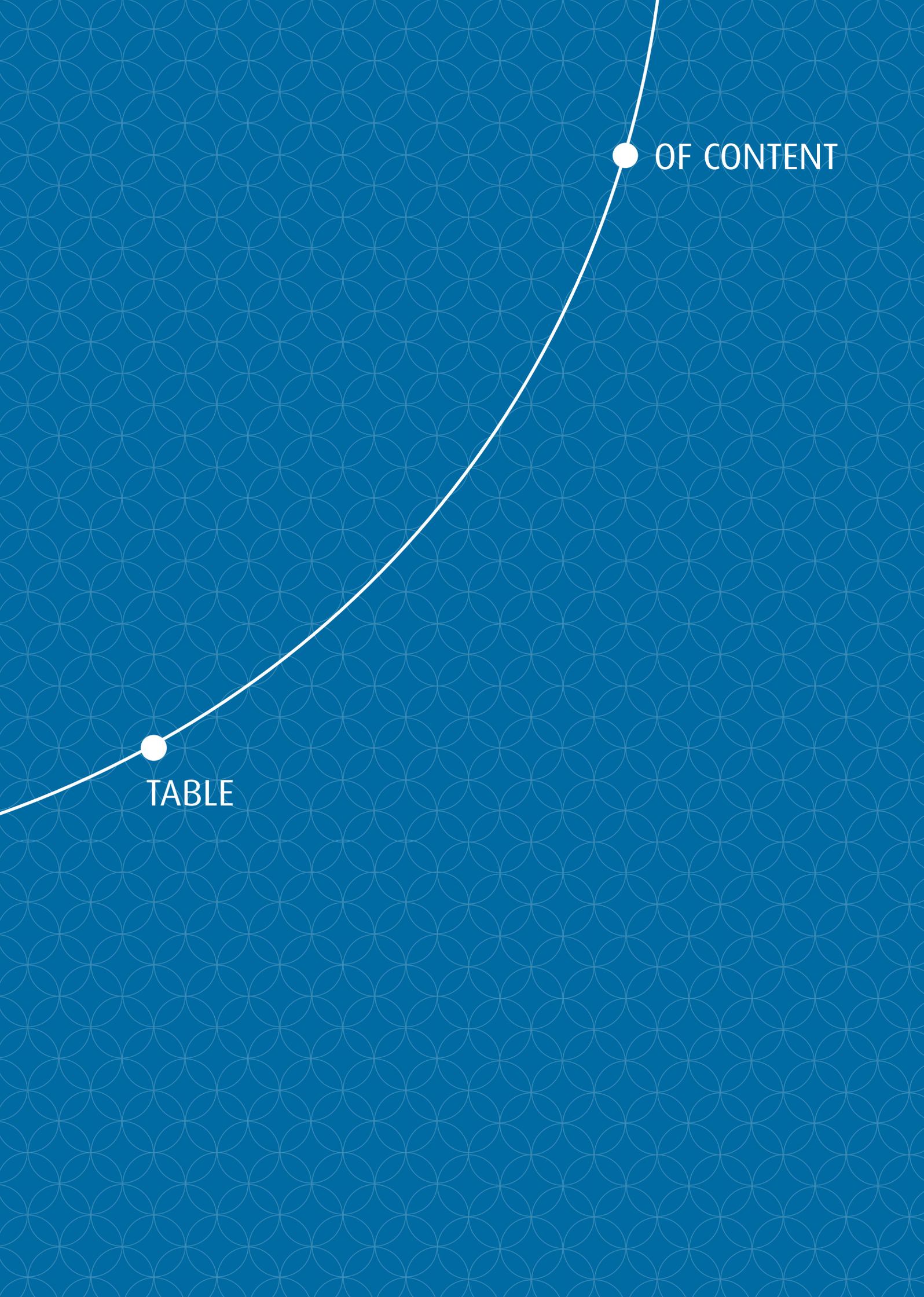
ANNUAL REPORT

2016





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



TABLE



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# VISION MISSION VALUES

## Vision

A leading, innovative and global Islamic bank adhering to the highest Shari'a and ethical principles; meeting international banking standards; partnering with the development of the global economy and participating in the advancement of the society.

## Mission

- To provide innovative Shari'a-compliant financial solutions and quality services to our customers.
- To maximise returns for our shareholders and partners.
- To nurture an internal environment of qualified professionals and cutting-edge technology.

## Values

- Integrity
- Transparency
- Justice
- Co-operation and Teamwork
- Loyalty and Commitment
- Excellence

# BOARD OF DIRECTORS



(Sitting from left to right)

**Mr. Mohamed Bin Issa Al Mohanadi**  
Board Member

**Sheikh Jassim Bin Hamad Bin Jassim  
Bin Jaber Al Thani**  
Chairman

**Mr. Issa R. Al Rabia Al Kuwari**  
Board Member

**Mr. Nasser Rashid S. Al-Kaabi**  
Board Member

(Standing from left to right)

**Mr. Abdul Rahman Abdulla Abdul Ghani**  
Board Member

**Sheikh Ali Bin Ghanim Bin Ali Al Thani**  
Board Member

**Mr. Abdulla Bin Saeed Aleidah**  
Board Member

**Mr. Abdullatif Bin Abdulla Al Mahmoud**  
Vice Chairman

**Mr. Mansour Al Muslah**  
Board Member

# SENIOR MANAGEMENT



**Mr. Bassel Gamal**  
Group Chief Executive Officer



**Mr. Tarek Youssef Fawzi**  
General Manager  
Wholesale Banking Group



**Mr. Dorai Anand**  
General Manager  
Personal Banking Group



**Mr. Gourang Hemani**  
Chief Financial Officer



**Mr. Constantinos Constantinides**  
Chief Strategy Officer



**Mr. C. Krishna Kumar**  
Chief Operating Officer  
Operations & IT Group



**Mr. Khalefa Al Mesalam**  
Head of Human Capital Group



**Mr. Rakesh Sanghvi**  
Chief Risk Officer

# SHARI'A SUPERVISORY BOARD

**His Eminence Sheikh Walid Bin Hadi**  
Chairman, Shari'a Supervisory Board

**Prof. Abdul Sattar Abou Ghodda**  
Member

**Dr. Mohamad Ahmaine**  
Administrative Member



# BOARD OF DIRECTORS' REPORT

Sheikh Jassim Bin  
Hamad Bin Jassim Bin  
Jaber Al Thani  
Chairman

# Last year, QIB successfully solidified and reinforced its core system and structure by upgrading and introducing many policies and procedures, covering more than 20 business lines.

On behalf of the QIB Board of Directors, it is my pleasure to present to you the 2016 Annual Report and the bank's financial results.

Despite last year's global economic volatility, including a drop in oil prices, and a decline in investments, your Bank was in the vanguard, continuing to develop as the fastest-growing national bank over the past three years. In fact, QIB has become the second national player in the market in terms of assets, deposits, and finance. Offering a pioneering, secure, and stable Islamic banking and economics experience, QIB's net profit has increased during the same period by nearly 75 percent.

The fiscal year 2016 was challenging for QIB's drive. The Bank deployed the Temenos Islamic banking solution IslamicSuite as its core banking system. It will continue to invest in modernizing and digitalizing its infrastructure and services, and upgrading information security systems to ensure secure banking operations.

Last year, QIB successfully solidified and reinforced its core system and structure by upgrading and introducing many policies and procedures, covering more than 20 business lines. With its customer-centric approach, the Bank maintained its high level of service quality, renovating its largest local branches to meet customer needs. Additionally, QIB turned special attention to the stability, development, and capacity building of its subsidiaries, which have been recently restructured.

QIB maintains a consistent policy in developing human resources through ongoing staff development programs, training courses, scholarships and higher education programs. In this context, the Bank recently adopted an educational programme to support local talents, providing them with study opportunities in Qatar and abroad, in line with QIB's workforce and organisational structure requirements. This further consolidates the Bank's deep commitment to enabling local talent to take a more active role in shaping the future of key banking operations.

As for 2017, QIB will continue to focus on seizing investment opportunities in the Qatari market, and closely following up with our subsidiaries abroad to leverage efforts made in the past. The Bank will also introduce a set of new products to attract additional local customers, and optimise our customer base, which has grown immensely since the establishment of Qatar's first and largest Islamic financial institution 35 years ago.

In light of all those achievements and accomplishments, 2016 was a profitable and prosperous year. Compared to 2015, QIB's total assets last year increased by 10 percent, standing at QAR 139.8 billion; customer deposits grew four percent, reaching QAR 95.4 billion; and total income rose 22 percent to QAR 5.488 billion. Meanwhile, the Bank maintained a one-percent debt-to-income ratio, one of the lowest in the industry, as well as conservative impairment policy with an 87% coverage ratio for non-performing financing assets by the end of 2016.

Thanks to those outstanding results, QIB has achieved net profit of QAR 2,155 million for the fiscal year 2016, with a 10.3% increase compared to 2015. Based on that, QIB Board of Directors proposes a profit distribution to shareholders of 47.5% of the nominal share value (QAR 4.75 per share).

On behalf of the Board of Directors, I would like to express my gratitude and appreciation to His Highness Sheikh Tamim bin Hamad Al-Thani, Emir of the State of Qatar, and His Highness Sheikh Hamad bin Khalifa Al Thani, the Father Emir, for their ongoing encouragement and support for the banking industry in Qatar.

I also want to extend my thanks to state officials for their guidance and support; customers, investors, and shareholders for their trust and loyalty; and to the Sharia Supervisory Board for its efforts. QIB Group CEO deserves special gratitude and commendation for his wise leadership over the past four years, which, with the help of his loyal team, kept the Bank at the helm of the industry.

May God protect you all to advance this leading Bank.

Thank you.



# GROUP CHIEF EXECUTIVE OFFICER'S REPORT

**Bassel Gamal**

Group Chief Executive Officer

# QIB has managed to achieve positive financial results during the fiscal year of 2016 compared to 2015, registering strong earnings and returns for the shareholders, investors and customers.

The 2016 financial year signified another challenging year for the regional economies. Export revenues from the hydrocarbon sector have declined and many countries in the region adopted policies of fiscal consolidation to mitigate the effect of declining revenues. In Qatar, the economy continues to be driven mainly by the growth of non-hydrocarbon sector, and in its latest world economic outlook (October 2016), the IMF projects that Qatar economy will be growing from 2.6% in 2016 to 3.4% in 2017.

Within this challenging economic climate through the successful implementation of the Bank's business strategy, QIB has managed to achieve positive financial results during the fiscal year of 2016 compared to 2015, registering strong earnings and returns for the shareholders. The Bank net profit increased by 10.3% to QAR 2,155 Million for the fiscal year compared to QAR 1,954 Million in 2015. Total Assets have increased by 10% compared to 2015 to reach QAR 139.8 Billion driven by a robust growth in the financing activities that have reached QAR 98.2 Billion having added QAR 10.7 Billion, representing a 12% growth over 2015. Total Income for the year ended 31 December 2016 was QAR 5,488 Million registering 22% growth compared to QAR 4,508 Million for 2015 reflecting a healthy growth in the Bank's core operating activities. Total Shareholders' Equity of the bank increased by 6.4% as compared to December 2015. Following the issuance of another tranche of QAR 2 Billion perpetual Sukuk, the total Basel III compliant Additional Tier 1 Capital of the Bank now stands at QAR 4 Billion. Total Capital adequacy of the Bank under Basel III guidelines is 16.7% as of December 2016, higher than the regulatory minimum requirements prescribed by the Qatar Central Bank and the Basel Committee.

QIB was able to maintain the ratio of non-performing financing assets to total financing assets at 1%, one of the lowest in the industry, reflecting the quality of the Bank's financing assets portfolio and its effective risk management framework. QIB continues to pursue a conservative impairment policy with the coverage ratio for non-performing financing assets reaching 87% as of December 2016. Strong Balance Sheet growth in a period of fast evolving marketing conditions required the Bank to strengthen its liquidity management and capital planning functions. In 2016, the Bank was able to raise through international debt capital markets a new issuance of USD 368 million 3-year Sukuk that was well received by the markets reflecting continued strong support and confidence of international, regional and local investors in the fundamentals of Qatar's economy and the QIB's underlying credit quality.

QIB conducts its domestic business through a modern branch network spread throughout Qatar with key branches featuring distinctive centers with specialized relationship managers focused on servicing specific customer segments: Private Banking Centers, Affluent Banking Centers, Small & Medium Enterprises (SME) Centers as well as Ladies Banking Centers. In addition to its branch network, the Bank has accelerated its investments in digital channels providing its services through multi-functional ATMs, mobile and internet banking applications for individuals and companies, and an award winning Call Center.

QIB's growth strategy is built on its position as a leading Islamic Bank with deeply rooted customer relationships and strong engagement with the local communities. The Bank's strategy is closely tied with Qatar's National Vision 2030 and the Government's commitment to investments in the country's infrastructure, the diversification of the economy and the development of a strong private sector. QIB is a stable financial group covering all segments of the financial markets, including individuals, government institutions, large corporations and SMEs providing innovative Sharia-compliant banking solutions. Driven by a genuine commitment to continuously increase value for its customers, its shareholders and the Qatari society, QIB will keep on focusing on being a customer-centric, efficient bank meeting the expectations of all its stakeholders.

QIB Group has a stake in a number of Qatari Sharia'-compliant financial services companies. This includes QInvest, its investment banking subsidiary, and its affiliates Beema (Takaful solutions provider) and Al Jazeera Finance (Consumer Finance company). The Group has established an international presence in key markets to be able to serve the cross border needs of its customers as well as to develop a focused presence in geographies with high interest in Islamic banking services. QIB UK is a wholly owned subsidiary, established in 2008, covering the financial needs of Qatari individuals and companies in the United Kingdom. Furthermore, the bank has presence in Lebanon through Arab Finance House, in Malaysia through Asian Finance Bank and one branch in Sudan.

QIB's **Corporate Banking** continues to reap the result of the recent business transformation program with another strong performance year in 2016. The effective execution of the strategy permitted a solid growth of the financing portfolio of 12.3% compared to previous year despite the challenging economic environment in GCC characterized

by low oil prices. The growth in the Corporate Banking Group balance sheet has again contributed positively to the bottom line of the bank by achieving a growth of 17.2% versus the previous year, with a continuous focus on business diversification and improving the quality of the portfolio.

The Bank's Financial Institutions division focuses on unfunded business which allowed the bank to substantially increase the trade finance portfolio by 68.8% compared to last year.

During the year, the bank concluded its issuance of another tranche of Additional Tier I capital for QAR 2 billion to strengthen the Group's capital position. **Finance Group** also facilitated raising liquidity from international debt capital markets through a private placement of USD 368 million 3-year Sukuk, making it one of the largest private placement of Sukuks in the region.

QIB **Personal Banking** group delivered robust revenue and profit growth during 2016, whereby net income grew by 12.9% over 2015. The Financing portfolio increased by 2.4% and the customer deposits depicted a growth of 12.3% compared with the previous year.

One of the significant achievements in 2016 was the launch of Ladies Banking, a new proposition specifically designed to cater to the financial needs of ladies in appreciation for their role in the Qatari society.

While QIB offers a range of innovative online banking services providing the possibility of 24 /7 banking services at a click of a button, the Bank recognizes that its branches remain a popular option among customers. QIB has taken new initiatives in order to ensure that its branches remain welcoming while strategically designed for a balance of privacy and effectiveness. The Bank renovated four of its largest branches: Al Fanar, Salwa Road, Al Rayyan and Al Khor, all located in the heart of Qatar's most popular communities' areas. The four branches reflected a new design that is currently being rolled out to all the Bank's branches. The new design combines a palette of natural tones for a modern interpretation of the traditional Islamic values of purity, simplicity and transparency. The result is a welcoming, friendly and efficient customer experience.

As a leading Islamic Bank in Qatar and as an active participant in the diversification and development of Qatar's economy, QIB also took several initiatives that supported this vision including signing a new **Al Dhameen Programme Portfolio** Agreement sponsored by Qatar Development Bank. The agreement will facilitate and fast-track approvals to guarantee the value of the funding provided by the partner bank to small and medium enterprises (SMEs) lacking sufficient guarantees.

As a corporate citizen, QIB invested in **CSR initiatives** in the fields of education, economy, health and sports. This is manifested through its annual Blood Donation campaign, its student-focused training programs as well as the sponsorship of key initiatives such as the award winning Traffic Awareness Campaign.

An **Information Security** customer awareness campaign was launched in 2016 and will continue in the future. The Bank launched a customer focused awareness campaign that is designed to deliver information security tips to the public in a straightforward, simple approach. All QIB's employees were also trained through a comprehensive 16-module learning program on information security risks and threats and how to mitigate them to protect themselves and the Bank's customers.

QIB maintains a consistent policy in developing **Human Capital** through continued staff development programs, training courses, scholarships and higher education programs. Last year, more than 50 individual programs, events and workshops were held which benefited all the employees at the Bank. These training and career development programs go hand-in-hand with QIB's strategy to grow its employees and to support and promote their capabilities. These programs enable QIB to stay abreast of all requirements and directives issued by regulatory authorities, and to keep up with constantly evolving international banking legislation, and the increasing number of banking services and higher customer's expectations.

2016 also marks a record milestone for QIB and its continuous efforts to attract local talents and future leaders.. As part of its strategic Qatarization plan, QIB welcomes Qatari graduates into its ranks and offers comprehensive training and mentoring programs, professional development opportunities, and strong incentives to build a career in the banking and financial industry.

QIB was also the first financial institution to launch an innovative mobile application aimed at identifying and training national talents, adopting the world's latest application technologies in the field of Human Capital management. The Bank's "**Management Associate fast track program**" is a comprehensive training program supported by a highly interactive mobile application.

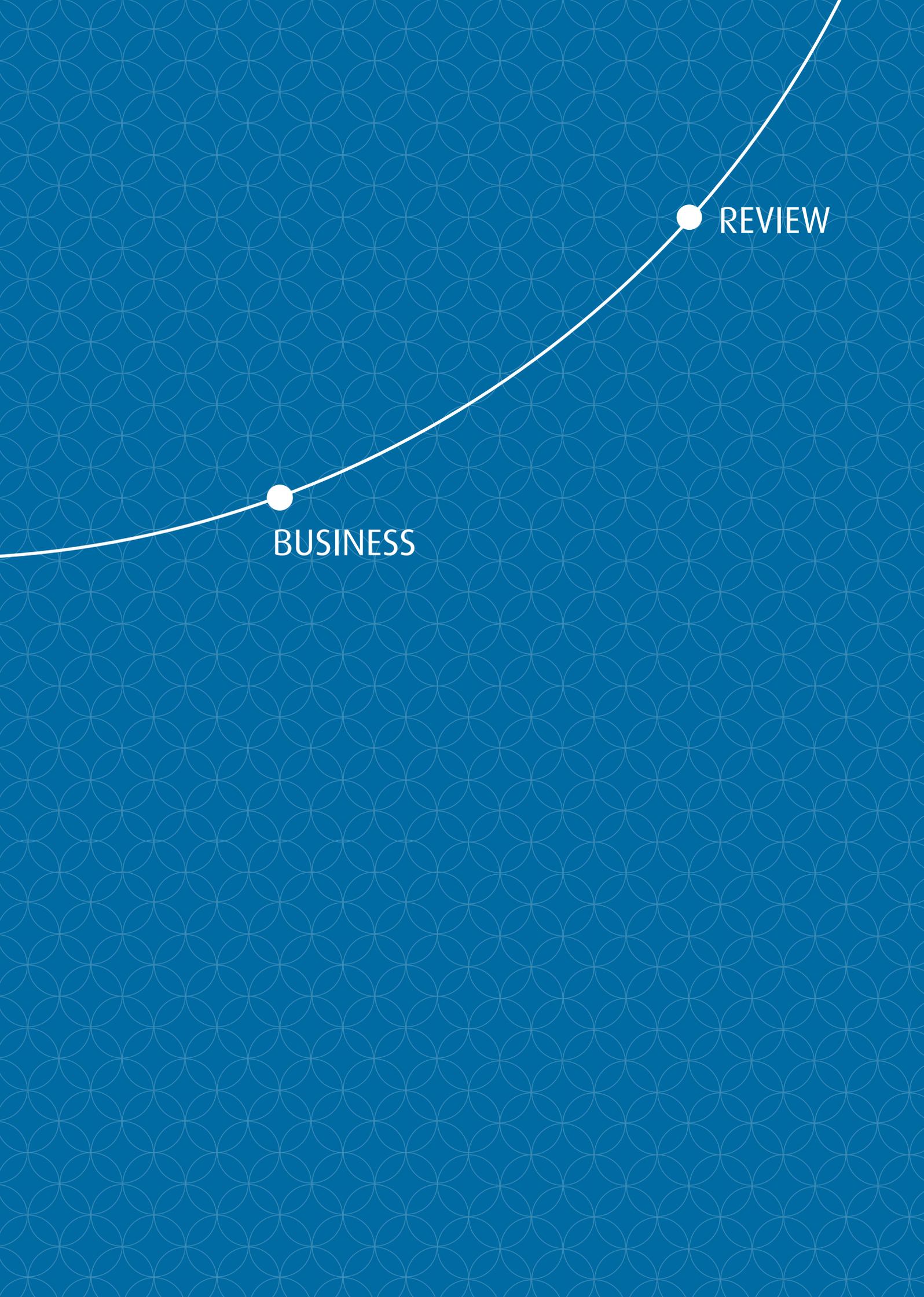
QIB has been investing in **Technology**, to modernize and digitalize its services in order to better serve its customers. It deployed the Temenos award winning Islamic banking solution IslamicSuite as its **new core banking system**. The move helped the Bank to seamlessly migrate from a number of fragmented systems to a single fully integrated platform.

The Bank also launched a **new automated complaint management system** that makes it easy for QIB customers to track the status of an issue or inquiry and to understand what is happening at every step in the process.

QIB stable growth for the past five years coupled with a series of strategic investments in human capital, technology and the development of innovative products and services have contributed to the praise and recognition it is receiving from key prestigious entities within the financial industry.

In light of the Bank's positive results, QIB has been recognized by highly reputable international financial publications and reports as one of the leading regional Banks. Among a number of important awards, for the second year in a row, The Banker - Financial Times Group, named QIB the "**Islamic Bank of the Year in the Middle East**", while 2016 also marks the fourth consecutive time that QIB was selected as **Qatar's 'Islamic Bank of the Year'**. QIB was named for the first time "**Qatar's Best Bank**" by Euromoney Awards for Excellence 2016 as well as "**Best Islamic Retail Bank in the world**" for 2016 by Global Finance.





BUSINESS



REVIEW



# QIB has been focusing on its strategic objectives to be a customer centric, efficient bank, providing Shari'a-compliant solutions to meet Qatar's increasing demand for Islamic finance.

2016 has been a year of continued growth for QIB, reflecting strong performance across all Bank's divisions. QIB's Net Profit reached QR 2.155 Billion, representing a growth of 10.3% compared to 2015, while total assets of the Bank stood at QR 139.8 Billion, having increased 10% compared with the previous year.

QIB has been focusing on its strategic objectives to be a customer centric, efficient bank, providing Shari'a-compliant solutions to meet Qatar's increasing demand for banking products and services.

In 2016, QIB **Personal Banking** continued to deliver strong performance in spite of challenging market conditions and intensified competition. We made great strides in creating and strengthening one of the finest Sharia compliant banking propositions and services, which apart from preserving core values, offer unique and innovative customer experience. Our customer centric strategy emphasized in delivering innovative products at competitive rates which led to increase of our market share across different segments.

As a result, QIB Personal Banking group delivered robust revenue and profit growth during 2016, whereby net income grew by 12.9% over 2015. The Financing portfolio increased by 2.4% and the customer deposits depicted a growth of 12.3% compared with the previous year. The continued weakening of oil prices, strong dollar and slowing market conditions have negatively affected liquidity in the banking sector. Despite these strong headwinds, QIB's Personal Banking Group has further improved its deposit to asset mix by over 6%.

One of the significant achievements in 2016 was the launch of Ladies Banking, a new proposition specifically designed to cater to the financial needs of ladies in appreciation for their role in the Qatari society and as part of the nation's vision to empower and support all citizens in the country. The proposition is our response to the increasingly active social and professional lives that women lead in Qatar. QIB's new ladies banking proposition aims to meet the wide-range of financial needs that each modern day woman has. Whether the customer is a mother, a business-woman or a fresh graduate, variety of packages are specifically designed to suit their exact needs. The launch received very positive feedback from the market.

In 2016, we also introduced an award-winning flexible, advanced and 100% Sharia compliant Credit Card providing our customers with the convenience of managing their cash flow by paying as low as 5% per month on their card outstanding balance. The card provided the customers with the flexibility to pay anywhere between 5% and 100% of the monthly outstanding, with monthly settlements automatically deducted from their accounts and the ability to perform early payments at the customer's discretion at all times. The new Credit Card offers attractive QIB reward points based on their spends and customers can also benefit from higher credit limits of up to two times their monthly salary. The above combinations proved instant success with thousands of new cards being issued in the first 3 months of the launch. The launch of the new credit cards has been recognized as the "Best New Islamic Product" in Qatar by Visa International.

In our continuous effort to add value to our customers, we established partnership with some of the most premium Retailers in Qatar to offer exclusive discounts for QIB customers when they shop using QIB credit & Debit cards.

Further improving our Tamayuz and Private Banking value propositions, we introduced the most comprehensive range of Absolute Mudaraba deposits, whereby customers could choose from multiple profit payment options. The new deposit product provides the flexibility to receive profit on deposits in multiple ways such as Upfront, Monthly, Quarterly or at Maturity. With these options, customers can choose deposit tenor or profit repayments to match their requirements or cash flows. Global Finance Named QIB Islamic Product Innovator of the Year based on the introduction of long-term deposits with flexible profit payment options.

To meet the needs of our Private Banking clients, we launched a new product to enable our valuable customers to purchase residential property in London whereby they can finance the purchase of buy-to-live residential property in London through our branches in Qatar and QIB-UK based in the heart of London's affluent Mayfair district. We have put in place a team of specialists who will help ensure that clients get access to real estate opportunities in the London market, as well as early access to exclusive residential real estate opportunities.

The implementation of the '3D Secure' security feature on all QIB Debit Cards, allows us to offer safe and convenient online Debit Card shopping. QIB Customers can purchase goods and services from their favorite international online retailers and pay with funds from their Current or Savings Account. 3D Secure is an additional layer of security that prevents fraudulent use of any card information online.

As part of our ongoing commitment to enhance our credit card features and services, we launched the facility to change the PIN on our vast network of ATMs. In this age of having too many PINs / password to remember.

QIB's significant progress was recognized both locally and internationally by winning accolades like the Global Finance magazine - Best Global Islamic Retail Bank, Global Banking & Finance Review - Best Islamic Retail Bank Qatar and VISA - Best New Product in Qatar.

QIB's **Corporate Banking** continues to reap the result of the recent business transformation program with another strong performance year in 2016. The effective execution of the strategy permitted a solid growth of the financing portfolio of 12.3% compared to previous year despite the challenging economic environment in GCC characterized by low oil prices. The growth in the Corporate Banking Group balance sheet has again contributed positively to the bottom line of the bank net income by achieving a growth of 17.2% versus the previous year, with a continuous focus on business diversification and improving the quality of the portfolio in order to maintain the non performing financing portfolio to the same level of 2015, as one of the lowest in the Qatari banking sector. The key drivers of the positive performance included sustainable growth from a variety of sectors including Government & GRE, Cross Border activities, Commercial and contracting financing activities.

The contracting and commercial division continued in its trajectory during 2016 as it witnessed a healthy growth in the size of the portfolio and generated an increase in financing revenue of 26.4% and 16.1% respectively. The contracting division continued focusing on infrastructure projects as per Qatar's 2030 National Vision. This was achieved through improved association with core customers and selective contracts financings for major government, semi-government and Private Corporation like Q-Rail, Ashgal and Qatar Foundation,. Furthermore, the contracting division continued to attract medium to large sized local contractors, as well as various international conglomerates active in the local market. In addition, the contracting division is also actively involved in several landmark projects of strategic importance particularly in Saudi Arabia, UAE and Kuwait. Commercial division also continued delivering a strong performance in 2016 with significant strides towards becoming more customer-centric with particular focus on the Services, Automotive, Logistics and FMCG sectors for diversification purposes. The team will continue transforming the successful business model to tie business relationship with regional companies active in these industries.

High Net-worth Individuals, Real Estate and General Coverage and Business Banking also recorded growth in its portfolio and revenue of 53.7% and 4.6% respectively in 2016. QIB achieved considerable success in the Small & Medium Enterprises (SME) business in 2016 by providing high level of service and comprehensive financing solutions offered to its clients. QIB's SME Division increased its market share by signing agreements and partnerships with QDB to finance the new established projects and partnership agreements with the heavy equipment agencies in Qatar to and facilitate Capital Expenditures for SMEs. It also formalized specific credit parameters for this sector to facilitate and speed up the finance process.

The Government, Oil & Gas and cross border sectors benefitted from the expansion programs by GCC governments. Sustained investments by public oil & gas companies and a cautious approach to cross border transactions in MENA region allowed QIB to capture a growth of 44.2% in financing income in this segment.

Transaction Banking registered significant achievements this year, both in terms of new products launched and deals closed. Having introduced and structured a number of tailor-made and innovative Cash Management solutions, there was a significant number of corporate operating accounts captured and an increased willingness from clients to mandate QIB as their core Cash Management bank. This was made possible thanks to the newly launched Cash Management product suite. Transaction banking also successfully spearheaded the implementation of Central Bank initiatives namely the TERMS Direct Debit and the Wage Protection System (WPS) which made QIB one of the first banks in Qatar to smoothly implement the service for their all corporate customers. Furthermore, QIB was able also to launch other innovative products in 2016 like Golden cash arrangement, Working Capital Ijara, in order to address the specific need of companies in the Qatari market.

The **Financial Institutions** division, as one of the Bank's core businesses, strengthened relationships with financial institutions across geographies and facilitated substantial cross-border trades. As part of its operations, the division arranges financing and participates in syndicated facilities to financial institutions across all the strategic international locations. The division also plays a key role in supporting the bank's funding needs by working closely with its Treasury to diversify the Bank's funding by arranging cost effective bilateral facilities for the bank and expanding treasury and corporate deposits relationships. The division's financing portfolio has been maintained and reinforced through new Bilateral financing transactions to regional and international banks. Furthermore, focus on unfunded business allowed the bank to substantially increase the trade finance portfolio by 68.8% compared to last year. We also successfully expanded the correspondent banking network to more than 500 banks worldwide and Diversified U.S Dollar Clearing accounts and rationalized other currency accounts.

QIB **Treasury** Department continued providing comprehensive banking solutions to both Institutional, Corporate and Retail clients.. The offered products suite include deposit taking, bespoke investment solutions, hedging solutions, foreign exchange, commodity facilitation, liquidity management, subsidiaries funding and capital market products. Treasury Department is part of the Wholesale Banking Group and works closely with the corporate relationship managers, and private banking to deliver its services to all QIB clients. In addition, Treasury liaises with the local & foreign subsidiaries branches for cross selling and funding activities.

The Treasury activities are consolidated within Financial Markets, Derivatives and Structured Investments, Debt Capital Market, Local Equities and Treasury Sales. QIB's Treasury follows a customer centric and integrated business model, in which all

Shariaa compliant treasury products and services are offered by the treasury sales team with support from the interbank desk, structuring team and relationship managers. The team also provides Sukuk prices to institutional, corporate and private banking clients both in the primary and secondary markets.

The year of 2016 was a very successful year for Treasury, as we managed to further attract and grow our deposits from cross border clients. Moreover, Treasury was adept in diversifying the sources of funds and tenors, tapping new counterparties while curbing the cost of funds. As a result, Treasury supported the bank's growth and ensured strict adherence to all prudent ratios throughout the year by actively managing the liquidity and the balance sheet of the bank. Furthermore, Treasury continued to be a main bidder of local Islamic sukuks issued by Qatar Central Bank.



As a result of treasury initiatives, coordination with the Asset Liability Management Committee and Credit and Investment Committee, the Bank achieved a prominent market position in deposit retention and mobilization, product offerings, fees and FX income.

In 2016, there were so many challenges such as liquidity, and intensive competition in the pricing of deposits, and local equity market. The Treasury Group produced a good set of results and used new strategies to manage liquidity and mitigate market conditions, while exhibiting a well-disciplined risk management. Moreover, Treasury has implemented new products such as Forward Shari'a compliant Cross Currency SWAP, Par Forwards and Time Option. Furthermore, the Treasury signed agreements with new Commodity Houses to support the growth of balance sheet and the liquidity of the bank.

**QIB International**, reaped the benefits of the previous transformation programs established for QIB's international network and within the Wholesale Banking Group in order to realize a successful 2016 year. All countries continued to be profitable across all operations despite a very challenging global economic and political backdrop. The strategic alignment with QIB's head Office in Doha was further strengthened, and the focus has been to maintain strong compliance and governance in all international operations. Regional and International markets present significant opportunities for growth and diversification which we are continuously exploring for the right opportunity to arise.

2016 was a year of significant transformation for the **Finance Group**, as the bank transitioned to a new technology platform. Finance group was one of the key contributors in the transformation and was responsible for leading the bank-wide data migration and reporting streams. The post go live stabilization was very smooth with adequate change management and control processes in place.

Finance Group successfully implemented a new financial, management and regulatory reporting solution to enhance its reporting process and analytics credibility. The implementation has resulted in quicker delivery of financial results, better analytics by way of ease of drilldowns into customer and product level information making the reporting infrastructure even more robust and transparent. Keeping in mind the criticality of the capital adequacy management, finance group upgraded the Basel III reporting system to facilitate capital optimization along with strict compliance of QCB guidelines.

During the year 2016, Finance group also implemented an end to end payment management system which enables better tracking and monitoring of expenses and also integrates the Fixed Assets management with the Accounts Payable system.

Finance group further strengthened the monitoring and supervision of the Group's subsidiaries and associates through enhanced engagement with the relevant finance and business teams for better forecast and management of their business performance.

The Bank's financial statements and performance continue to reflect the pre-emptive and effective financial management through compliance of various AAOIFFI, IFRS, QCB guidelines, and ensuring prudence in income recognition, cost control and impairment provisioning. The bank is required to implement IFRS 9 from 1st January 2018 and as part of the process, an IFRS 9 impact study was completed in 2016 as per QCB requirements.

The Asset Liability Management function under Finance continued to monitor and ensure that the Bank's growth was well supported by required capital and liquidity. Finance continued to lead the capital planning activities including evaluation of the capital requirements to support business growth, establishing the optimal capital structure to maximize the shareholder value. The bank successfully implemented the new Internal Capital Adequacy Assessment Process (ICAAP) guidelines issued by QCB that prescribed detailed methodologies for comprehensive assessment of various risks and required capital buffers. The enhanced ICAAP ensures close alignment of the Bank's strategies and business plans, its associated risks and requisite capital levels and a capital plan to achieve the same.

During the year, the bank concluded its issuance of another tranche of Additional Tier 1 capital for QAR 2 billion to strengthen the Group's capital position. Finance group also facilitated raising liquidity from international debt capital markets through a private placement of USD 368 million 3-year Sukuk, making it one of the largest private placement of Sukuks in the region.

In 2016, the Finance Group continued to coordinate the process with rating agencies and the Bank was successful in maintaining the ratings at same levels despite a rapidly evolving macro-economic environment. Fitch Ratings has affirmed the Long-term Issuer Default Ratings of QIB at 'A+', similarly Capital Intelligence has reaffirmed QIB's financial strength rating of 'A' with a stable outlook and Standard & Poor's Rating Services has also retained QIB's Counterparty Credit Rating at 'A-'.

QIB's **Human Capital** Group continued in its commitment to investing in organization wide training, implementing best practices and mobilising critical leadership roles. This further enhanced organisational effectiveness and helped build a high performance culture.

In terms of Learning & Development, QIB effectively maintained a consistent policy in developing human capital through continued staff development programs, training courses, scholarships and higher education programs. Last year, more than 50 individual programs, events and workshops were held which benefited all the employees at the Bank.

QIB also successfully delivered the training component of the new core banking system T24 change initiative across the bank to train, coach and support all QIB staff in successfully adopting and using the new systems delivering more than 15,000 hours of training in 2016. A Bank-wide comprehensive Information security programme was launched with more than 13 focused elearning modules to prepare the bank staff in managing and reporting cyber threats and attacks.

2016 also marked a record milestone for QIB and its continuous efforts to attract local talents and conduct successful workforce planning to create future leaders. We were the first financial institution to launch an innovative mobile application aimed at identifying and training national talents, adopting the world's latest application technologies in the field of Human Capital. We also effectively implemented recruitment assessment tools to assess competencies & skills of new employees to ensure quality hiring. We successfully launched Future Banker Program - A fast track career development program for Qatari Talent Development in Banking Operations domain and we also implemented 4 dimensional back ground verification (4D – Employment, Experience, Credit & Criminal check) as per guidelines from QCB post audit report on Cyber Security.

Additionally, QIB participated in 5 Career Fairs conducted by prominent universities & institutions based in Qatar. We also digitalized candidate application enrollment by developing a dedicated application on iPad. This app is mainly used to receive large volume of candidate applications during career fair and organized career day at our premises in collaboration with Labor Ministry to support in creating employment opportunity for non-skilled local workforce.

The **Risk Management** organization design and governance processes at Group level assure independence from the businesses it supports. The ability to manage risk well is a core competency at QIB, and is supported by strong risk conduct and an effective risk management approach. QIB defines risk as the potential for loss or an undesirable outcome with respect to volatility of actual earnings in relation to expected earnings, capital adequacy or liquidity.

QIB manages risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed through adherence to the Enterprise Risk Appetite Framework.

An important component of the enterprise risk management approach is to ensure that top risks which are evolving or emerging risks are appropriately identified, managed, and incorporated into existing enterprise risk management assessment, measurement, monitoring and escalation processes.

These practices ensure management is forward-looking in its assessment of risks to the organization. Risk oversees activities which can lead to identification of new, evolving or emerging risks, include control mechanisms (e.g. approval of new products, transactions, projects or initiatives) stress testing, portfolio level measurement, monitoring and reporting activities, and the on-going assessment of industry and regulatory developments.

QIB's enterprise-wide stress tests evaluate the key balance sheet, income statement, leverage, and capital impacts arising from risk exposures and changes in earnings. The results are used by the Board and the bank's management risk committees to understand our performance drivers under stress, and review stressed capital and leverage ratios against regulatory thresholds and internal targets. The results are also incorporated into the Internal Capital Adequacy Assessment Process (ICAAP) and Capital Plan analyses.

Being identified as a Domestically Systemic Important Bank (DSIB) by the Qatar Central Bank (QCB), the Risk Group along with the Finance was engaged in the drafting, approval and submission of a Recovery Plan for the bank to the Qatar Central Bank. The Recovery Plan sets out a resilient and comprehensive crisis management framework, which demonstrates that the Bank is able to identify a crisis in a timely manner, and has the right governance in place to guarantee adequate and timely decision making. In addition, the plan describes credible recovery options that can help the Bank achieve recovery and strengthen its financial position from a liquidity and/or capital perspective.

As part of the enhanced focus on operational risks, Information Security and Business Continuity Plan (BCP) were given high priority. A new state of art Operational Risk Management System went into production to enhance the Loss data management (LDM), Issues & Management Action Plan (IMAP), Key Risks Indicators (KRI) monitoring and Risks and Controls Self Assessments (RCSA). The relevant policies for Information Security and Business Continuity Management have been enhanced considering the new evolving challenges. The Bank's information security improvements and protection against cyber-attacks have been key focus areas during the year and continue to be so to minimize associated risks. In addition, the business continuity management plans were reviewed to confirm their currency and relevance.

Risk Group has been supporting the other Group entities by providing technical and management support especially in the risk areas. There has been a close coordination and interaction with all the entities within the Group to ensure consistent risk appetite and policies is implemented across the Group.

Risk Group completed its annual review of its policies and procedures to ensure they are comprehensive and current. A comprehensive Risk Appetite Statement and Framework, complemented by the Credit & Investment Policy are in place, to serve as guide for the Bank's risk taking activities. Further streamlining of the operating procedures is on-going after the new core banking system implementation at the beginning of the year to improve controls and efficiencies.

The Risk Group handles difficult and distressed assets and seeks to resolve or exit while minimizing losses. During the year a major milestone was achieved for the bank's subsidiary Durrat Al Doha where the pending completion of the five towers at the Pearl under development was achieved. One of those towers was successfully sold during the year and others are currently being leased or being marketed for sale.

QIB has been investing in **Technology**, to modernizing and updating its services in order to better serve its customers. It deployed the Temenos award winning Islamic banking solution IslamicSuite as its core banking system. The move helped the Bank to seamlessly migrate from a number of fragmented systems to a single fully integrated IT platform. The technology transformation program, which was concluded on schedule in a record timeframe of 2 years, included the replacement of QIB's core banking system, covering all business lines, as well as the introduction of new peripheral systems and upgrades of existing ones in areas such as Treasury Operations, Enterprise Content Management and Collections.

The Bank has also established a Business Transformation function that would build on the system knowledge as well as project implementation skills set acquired on account of the Core Banking conversion program. The harnessing of Business Technology to enhance service delivery and achieve better efficiencies is now vested with this function.

In the **Operations** domain the focus was on stabilizing the routines immediately after the changeover to the new Core Banking System. The Bank has taken this opportunity to both streamline process flows as well as utilize the new system's functionality to automate and improve services turnaround times. The process reengineering efforts have paid off in terms of handling larger transaction volumes with lesser resources.

A number of initiatives/projects were delivered during the course of the year which served to enhance the technological landscape and add to the business offerings targeting QIB's customer base such as the new Murabaha credit cards, ecommerce debit cards, and the Instant Cards Issuance. Furthermore, new initiatives such as the Salary Processing System, Customer Statements System, Asset Management System, and Attendance Management System addressed the service aspect from an external as well as internal perspective.

A Centre of Excellence was set up to manage high priority initiatives and projects that aim to bring in best practices as well as focus on achieving market leading benchmarks, in process management and service delivery. Control aspects are given importance with a centralized reconciliation function being set up and any customer concerns being looked at from a root cause analysis perspective.

From a regulatory/control aspect the roll out of the Operational Risk Management System (ORMS), Basel III – Ambit Capital Manager, upgrading the Anti Money Laundering (AML) system, KYC validation for regulatory reporting and MasterCard Data Integrity certification were noteworthy milestones.

In addition to the system functionality changes that were necessitated by business requirements there were several initiatives targeting cost savings.

In line with the focus and thrust in enhancing the **Information Security**, the Bank invested in upgrading its Intrusion Protection systems, Mobile Device Management and fortifying its cyber security and data protection. QIB also launched a customer focused awareness campaign that is designed to deliver information security tips to the public in a straightforward, simple approach. The Bank's employees were also trained through a comprehensive 16-module learning program on information security risks and threats and how to mitigate them to protect themselves and the Bank's customers. Furthermore, the Bank sponsored the annual International Security Conference for the Financial Sector organized by the Qatar Central Bank in November 2016.

QIB further progressed its **Disaster Recovery** capability by testing out the new core system with the allied systems in an automated recovery process that reduces the time to recover in case of need. The continued investments in hardware and communication infrastructure that the Bank pursued should hold it in good stead in its endeavor to raise customer service levels from a technology perspective. The year also saw QIB outsourcing its IT Service Desk on an SLA basis to a leading IT service provider.

A Service Delivery Management team has been the point of customer contact in terms of receiving customer instructions as well as serving as a point of contact for cards and cheque book delivery. All outsourced services are overseen and managed to ensure that Service Level Agreements are adhered to and customer expectations are met with consistently.



# Rating & Awards

## QIB Rating

Over the past 34 years, QIB has succeeded in establishing a recognisable local, regional and international presence that has ensured it is a frontrunner in the regional and international Islamic banking industry.

### Moody's – May 2017

Moody's Investors Service, ("Moody's") has assigned a first time rating of A1 with stable outlook to QIB's local and foreign currency deposit. Moody's, cited that the bank has solid asset quality, sound capital buffers, good profitability, underpinned by its established and growing retail and corporate Islamic banking franchise. In addition to the A1 long term deposit rating, Moody's has also assigned a short term rating of Prime-1 local and foreign currency deposit ratings, baa2 baseline credit assessment (BCA) and a baa2 adjusted BCA. Furthermore, Moody's has assigned a Counterparty Risk Assessment (CR Assessment) of Aa3(cr)/ Prime-1(cr).

### Fitch Rating - April 2017

Fitch Ratings has affirmed Qatar Islamic Bank (QIB) Long Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and Viability Rating (VR) at 'bbb'. QIB's rating reflects the Bank's established franchise in Qatar, its sound asset quality, solid funding and liquidity profile with a franchise that is more diversified than that of many peers. It also takes into account the bank's adequate profitability, and satisfactory capital and leverage ratios. QIB's latest Fitch Ratings are as follows: Short-Term IDR affirmed at 'F1', Support Rating affirmed at '1', Support Rating Floor affirmed at 'A+'; The QIB Sukuk Ltd's Trust certificate issuance programme was also affirmed at 'A+' with its senior unsecured certificates affirmed at 'A+'.

### Capital Intelligence (CI) - April 2017

Capital Intelligence Ratings (CI Ratings), the international credit rating agency, has affirmed QIB's Financial Strength Rating (Fitch Ratings has also affirmed QIB's Long Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook reflecting the Bank's established franchise in Qatar, its sound asset quality, solid funding and liquidity profile with a franchise that is more diversified than that of many peers and taking into account the Bank's adequate profitability, and satisfactory capital and leverage ratios. SR) at 'A' with a 'Stable Outlook'. The Bank's Long-Term FCR is raised to 'A+' while the Short-Term FCR is affirmed at 'A2' on a 'Stable Outlook'. These indications reflect the QIB's strong financial profile, the robust growth potential of the Qatari economy and the on-going government support for all Qatari banks.

### Standard & Poor's – May 2016

Standard & Poor's (S&P), The Global Ratings has affirmed Qatar Islamic Bank's (QIB) "A-/A-2" long and short term counterparty credit ratings. QIB's rating reflects an adequate business position based on a strong Islamic franchise in Qatar, its strong capital and earnings position and adequate liquidity position. S&P has revised its outlook to negative anticipating pressure on the operating conditions for banks in Qatar.

## Awards 2016

In light of the Bank's performance and continuous innovation, QIB is being recognized by highly reputable international financial publications and reports as a leading regional Bank:

- "Best Bank in Qatar" by Euromoney Awards for Excellence 2016
- "Islamic Bank of the Year 2016 in the Middle East" by The Banker – Part of Financial Times Group
- "Islamic Bank of the Year 2016 in Qatar" by The Banker – Part of Financial Times Group
- "Best Islamic Retail Bank in the World 2016" by Global Finance
- "Best Islamic Bank in Qatar" 2016 by Global Finance
- "Best Islamic Bank in Qatar" Award by the World Islamic Banking Conference
- "Best Deal of the Year - Regulatory Capital" from Islamic Finance News (IFN) in relation to its QAR 2 billion Sukuk deal
- Mr. Bassel Gamal, QIB's Group CEO, was recognized as the first of 100 best performing CEOs of listed companies in the GCC states from TRENDS & INSEAD Business School

# QIB Group Overview

## Domestic Subsidiaries & Affiliates



### QInvest

Licensed by Qatar Financial Centre in May 2007 with a declared capital of US\$ 1 Billion, QInvest is the largest financial establishment to commence operations in Qatar Financial Centre (QFC). QIB played a key role in establishing QInvest and holds a 50,13% stake in the Company.



### Al Jazeera Finance

Founded in 1989, Al Jazeera Finance is jointly owned by QIB (30%), Awqaf (20%) and other institutions such as Qatar Insurance Company (QIC) and QNB. Al Jazeera Finance spares no effort in satisfying the needs of its customers and offers them the best Shari'a-compliant solutions.



### Aqar Real Estate

Established in year 2000 as a Shari'a-compliant joint venture. QIB holds 49% shares in the Company, Awqaf holds 34%, while the Endowment Department and the General Authority for Minors Affairs hold 17%.



### Damaan Islamic Insurance Company (Beema)

Was incorporated in September 2009 as a fully Shari'a-compliant Private Closed Qatari Shareholding Insurance Company, licensed to transact all classes of insurance (General and Family Takaful). The founders of the Company are: Qatar Islamic Bank (25%); Qatar Insurance Company (25%); Masraf Al Rayan (20%); Barwa Real Estate Company (20%) and QInvest (10%).



### Durat Al Doha Real Estate Investment and Development

Engaged in real estate investment and development. QIB owns around 40% of the company's shares.

## Global Network

QIB has established presence in relevant markets outside Qatar so as to serve the cross border financial needs of its Qatari customers:



### QIB UK

(wholly owned subsidiary). Established in 2008, covering the financial needs of Qatari High Net Worth Individuals & Companies in UK.



### QIB Sudan

(one branch): Opened in July 2013, it provides Shari'a-compliant corporate finance and trade finance solutions to major corporates.



### Arab Finance House (AFH) in Lebanon

Established in 2004, AFH was the first fully-fledged Islamic bank in Lebanon. The restructuring in 2012 refocused the bank on four strategic locations resulting in an efficient/sustainable business model.



### Asian Finance Bank (AFB) in Malaysia

Established in 2007, it is QIB's gateway to the Asian market. It specializes in investments and corporate financing in Malaysia and in neighboring countries which have investment links with GCC countries.

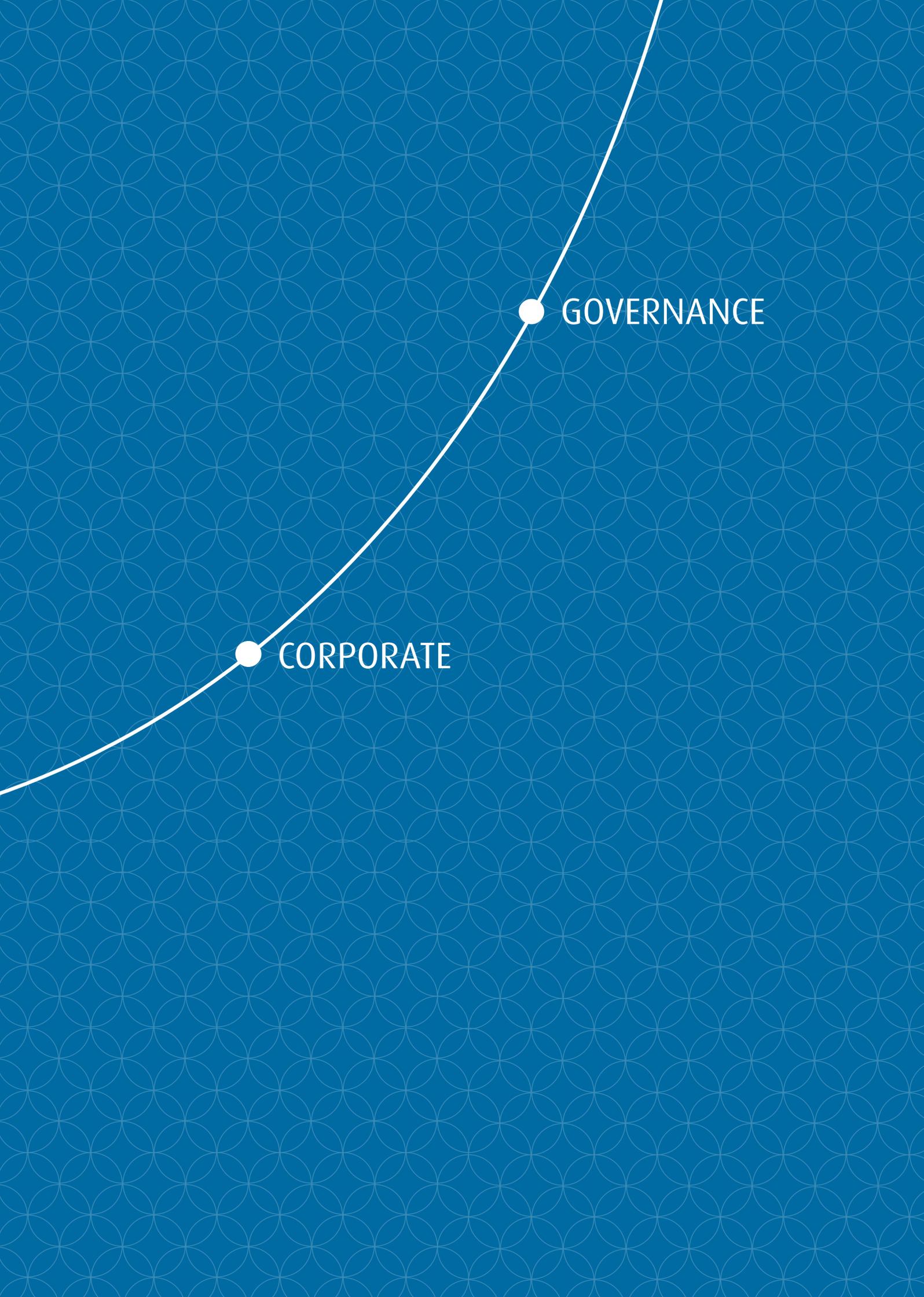


# Corporate Social Responsibility (CSR)

As a pioneer of Islamic Banking and an active partner providing continuous support to community activities, QIB places social responsibility at the very top of its priorities. This is reflected in substantial contributions for supporting human, health, educational, and sports activities as part of QIB's social responsibility programs. Recent CSR initiatives include:

- The introduction of a "Financial Literacy" program focused on high schools students
- Scholarships and internships for Qatari Students
- Career Day organized with the Ministry of Labour and Social Affairs
- Blood Donation Day organized with the Hamad Medical Corporation
- Support of charitable activities (in Qatar)
- QIB's Zakat Committee various initiatives

**Building effective social communication with all the sectors of society to get a sense of the activities that need support and achieve community partnership**



CORPORATE

GOVERNANCE



## Introduction

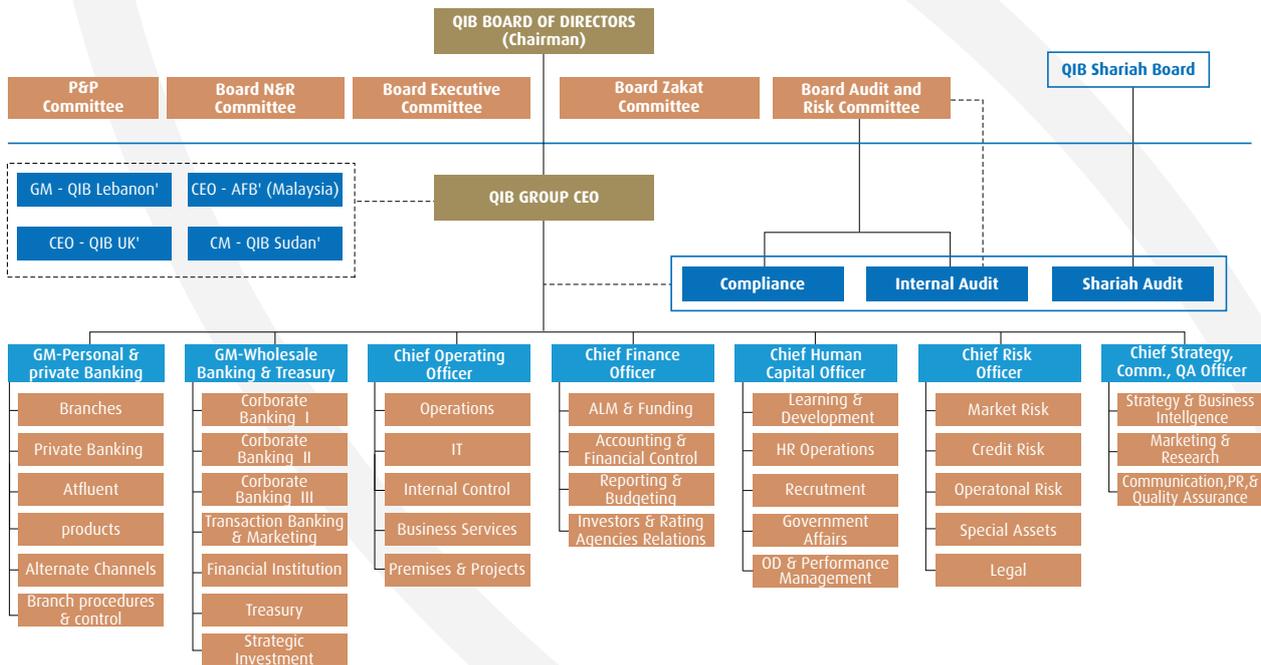
Corporate Governance is a critical issue and an integral part of Qatar Islamic Bank ('QIB')'s business activities. 'QIB' is committed to the sound practices of Corporate Governance which set the basic principles of rights and responsibilities for every Shareholder, the Board and, the Executive Management in order to ensure efficient control and management are duly exercised by the bank in support of Shareholders' added value. In fact, QIB's commitment to apply the right Corporate Governance rules is due to its belief that these rules constitute an integral part of its culture in managing its daily strategic activities. Further, in addition to consolidating its own culture in terms of companies and establishments, Corporate Governance practices aim at improving the bank's internal and external controls.

Effectively, 'QIB' has adopted a formal framework for Corporate Governance that covers all the aspects of Governance in Qatar Islamic Bank. Approval and implementation of an integral set of Policies and Procedures have been included in that framework in addition to the comprehensive Organizational Change that comprises a restructuring of the business's Organization Chart, along with Job Descriptions for all the jobs, detailing competencies, responsibilities related to internal & external reporting requisites for the purposes of Audit, Risk & Compliance. It defines as well the B.O.D. responsibilities, its Work Chart and, the competencies of all its Committees in addition to the Executive Committees.

The Corporate Governance framework clearly defines also the General Principles, Policies, Controls of dealing with concerned parties, Conflict of Interests, Dealings with various parties, in addition to codes of Conduct and Ethics, Standards of Professional Behaviour for Board Members.

In this respect, the Bank, in fulfilment of its responsibilities towards Shareholders, has managed to get its BOD approval on the following Corporate Governance criteria. The present report on the bank's Corporate Governance reflects that 'QIB' has been always diligent to apply the best relevant practices that ensure the Bank's effective control and management.

## Business Organisation Structure



In application of Clause (30) of Corporate Governance Rules issued by Qatar Financial Markets Authority (QFMA), this report has been prepared based on the Bank's commitment to the sound Governance rules which lay the basis for the rights and responsibilities of Shareholders, BOD and, Executive Management to enable them to exercise efficient control and management in a way that enhances Shareholders' value as follows:

- Adoption of a general form for Governance report to be shared by Compliance Dept., Audit & Policies Committee, Risk Group, Media & Marketing Dept. under full coordination with the top Management.
- Governance procedures in the Bank have been regularly evaluated and necessary remedial actions taken to ensure full compliance with same.
- BOD Committees and the Executive Committees in charge of improving Governance practices.
- Observance of Ethics, Conduct and professional behaviour criteria.

The context of this report emphasizes also the bank's commitment to the sub-clauses of said Clause, along with clarifications as necessary or in case of violations, in addition to mentions to the BOD, Board members, Committees, Internal Control departments procedures.

## BOD and Board Members' Role

In application of Clause (5) of Corporate Governance Rules Issued by QFMA, The Board oversees the conduct of the Bank's business. It is primarily responsible for ensuring the effective dominance of Governance over the Bank's key affairs, including appointment of the Executive Management, approval of the Business strategies, evaluation of performance and assessment of the major risks facing the Bank.

For realizing its duties, the Board has to exercise governance to the best interests of the Bank and may rely on the Bank's Executive Management to apply the approved business strategies, resolve the day-to-day operational issues, maintain and promote high ethical standards.

To this end, the Board holds at least six meetings annually to review and approve the Annual balance sheet, business plans, and all Capital Expenses. The Board reviews as well the achievements performed against its Strategy and dynamically modifies it, as required. It is also the Board responsibility to ensure the implementation of a control framework covering Risk Management, Internal Audit and Compliance.

### Board Structure

In application of Clause (9) of Corporate Governance Rules Issued by QFMA, the election and constitution of BOD must be according to the Bank's Articles of Association and the Companies Act clauses. Therefore, structure of the Board is subject to following conditions:

- The Board must include Executive, non-Executive and Independent Members to ensure that a single individual or small group will not control the Board's resolution-taking process.

- At least one third of the BOD members must be Independent and the majority to be non-Executive members.
- Chairman and Managing Director's posts cannot be occupied by the same person.
- Board members must possess adequate knowledge and experience to carry out their tasks effectively to the best benefits of the Bank and, should devote sufficient time and interest to such tasks as Board Members.

The Board should collectively possess the adequate professional knowledge, Commercial expertise, Banking Industry knowledge and financial awareness that enable it to carry out its responsibilities. Board members must possess sufficient experience and technical skills that enable them to assume their tasks for the best interests of the Bank.

### Electing and Appointing of Board Members

The Board reviews the appropriate skills and particulars required for Board Members from time to time and the qualifications of eventual nominees. Board members are selected among the shareholders interested to such posts upon direct election, subject to specific criteria as stated in the Bank's Articles of Association and the Companies Act, according to article (96) which stipulates the Board election should be based on secret /Confidential Voting and each share should be for one vote among shareholders subject to fulfil the required terms and conditions and, to receive a simple majority of votes cast in the election at the shareholders meeting.

Board Member's Membership shall cease if, amongst other things, he is convicted in an offence of dishonour or breach of trust or is declared bankrupt.

Pursuant to Clause (10) of Corporate Governance Rules Issued by QFMA, non-Executive Board members duties include:

- Attending Board meetings and giving an independent opinion on the issues of Strategy, policies, performance, accountability, resources, key appointments and work criteria.
- Ensuring priority is according to the benefits of the Bank and its Shareholders in case of any conflict of interests.
- Participating in Audit Committee
- Monitoring the Bank's performance towards the achievement of its agreed goals and targets and, reviewing its annual, half-annual and quarterly performance reports.
- Supervising the development of the Bank's procedure rules relative to Corporate Governance in order to follow up their implementation in pace with such rules.
- Putting their skills, expertise, rich specifications and, qualifications at the disposal of the Board or its Committees by regularly attending the Board meetings, effectively participating in the General Assembly's meetings and understanding shareholders opinions fairly and equitably.
- A majority of non-Executive members may seek the opinion of an independent Consultant at the expense of the Bank, in any issue regarding the Bank.

## Board Members Responsibilities

In application of Clause (4) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, the Bank has adopted a Chart for the Board members detailing the Board's and the Board members functions and duties subject to their full commitment to such functions & duties.

Responsibilities of the Chairman and Board members is as drawn in the Bank's Articles of Association and the Policies & Procedures issued by the Board from time to time, with due respect to Clause (6) of Corporate Governance rules, which detail the Board members developmental duties as follows:

- Every Board member is committed towards the Company to perform his duties with due diligence and abidance with the institutional authority as it is stated in the relevant laws and regulations including the present and the Board's charts.
- Board members must at all times, act on the basis of clear, well intentioned information, with the necessary due diligence and care to the interest of the Company and all its shareholders.
- Board members must act efficiently to put into effect their commitment towards the Company.

## Board of Directors

As at 31st December 2016, the Board of Directors was constituted of the following members:

Name	Membership's Capacity		No. Of Shares	% of capital
Sheikh Jassim Bin Hamad Bin Jassim Bin Jabr Al Thani Representing Al Mirqab Capital	Chairman	Executive, Non-Independent	10,860,383	4.60%
Mr. Abdullatif Bin Abdulla Al Mahmoud. Representing Group Dar Alsharq	Vice-Chairman	Non-Executive, Non-Independent	316,000	0.14%
Mr. Mohamed Bin Issa Al Mohannadi	Board Member	Non-Executive, Non-Independent	250,000	0.11%
Mr. Abdul Rahman Abdulla Abdul Ghani Al Abdul Ghani	Board Member	Non-Executive, Non-Independent	250,636	0.11%
Mr. Mansour Mohammed Al Musleh	Board Member	Non-Executive, Non-Independent	385,388	0.16%
Mr. Issa Bin Rabia Al Kuwari Representing Golden ball Corporation	Board Member	Non-Executive, Non-Independent	1,346,705	0.64%
Mr. Abdulla Bin Saeed Al Eidah Representing Brooq Trading Company	Board Member	Non-Executive, Non-Independent	1,346,705	0.83%
Mr. Nasser Rashid S. Al-Kaabi Representing AlSraiya Group	Board Member	Non-Executive, Non-Independent	250,000	0.11%
Sheikh Ali Bin Ghanem Bin Ali Al Thani Representing Ali Bin Ghanem Bin Ali Althani Group	Board Member	Non-Executive, Non-Independent	250,000	0.11%

## Chairman's Duties:

In application of Clause (7) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, the Bank totally segregates between the posts of Chairman and Chief Executive Officer, as each of the two posts is occupied by an appointed person.

In application of Clause (8) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, Chairman is in charge of ensuring the smooth running of the Board activities using adequate and efficient means, including permitting the Board members to have access to full and integral information at the proper time. Chairman may not as well be a member in any of the Board Committees. His duties include also:

- Ensure the Board has discussed all the basic issues effectively and in the proper time.
- Approve every Board meeting's Agenda, taking in consideration any issue raised by a Board member. He may delegate such task to a Board member. However, the Chairman will remain responsible for the adequacy such delegated member had performed the assignment.
- Encourage all members to effectively take part in handling the Board's matters, in order to ensure the Board had acted to the favour of the Bank interests.
- Ensure the proper communication with shareholders to escalate their views to the board.
- Permit non-Executive members in particular, to actively participate in the Board's activities and encourage the establishment of constructive relationships between Executive and non-Executive members.
- Ensure an annual Board's performance report is made.

**Sheikh Jassim Bin Hamad Bin Jassim Bin Jaber Al Thani  
Chairman**

Member in 'QIB' BOD since 22/06/2004, Sheikh Jassim Bin Hamad Bin Jaber Al Thani acceded to the post of Chairman since April 2005. Graduated from Sandhurst Royal Military College in the United Kingdom, He received a series of advanced training courses in Leadership. He is also Chairman of: Q-Invest which represents the first Islamic Investment Bank in Qatar, and, the 'Damaan' Islamic Insurance Co., in addition to being Board member in several establishments and financial/ investment companies (e.g. Qatar Maritime Co., Qatar Insurance, Credit Suisse-Zurich).

**Mr. Abdullatif Bin Abdulla Al Mahmoud  
Vice-Chairman**

Member in 'QIB' BOD since April 1996, Mr. Abdullatif Al Mahmoud holds a B.Sc. in Economics & Business Administration from Seattle Pacific University (USA) in 1982. He progressively occupied several leading posts in Qatar General Petroleum Corp. (QGPC) since his Graduation till 2002. He was Board member of 'Al Jazeera' Financing Co., and then CEO of it till 2008. Headed an Audit Committee in QIB (2001-2005), and took part in several conferences and scientific seminars in the field of Energy. In addition to the issues relative to Islamic Banking, At present, he is the GCEO of the 'Al Sharq' Printing & Distribution Co, since 1989 to date. Further, he was Chief Editor of the 'Al Sharq' daily newspaper (2003 -2010).

**Mr. Mohamed Bin Issa Al Mohannadi  
Board Member**

Member in 'QIB' BOD since 1996, Mr. Al Mohannadi, is the chairman of the Audit & Risks Committee and member in Nomination and Remuneration Committee. He holds a Bachelor's degree in Business Management from Cairo University on 1977 and an MBA from Seattle University (USA) on 1983. Mr. Mohannadi held several administrative positions in the Emiri Diwan of Qatar, where he finally became Minister in charge of the Council of Ministers Affairs (2002-2005). Afterwards, Mr. Mohannadi turned to his own private business activities. At present, he is the Board member in Ooredoo.

**Mr. Abdul Rahman Abdulla Abdul Ghani Nasser  
Board Member**

Member in 'QIB' BOD (since 1996), in the Executive Committee and QIB Policies Committees, Mr. Abdul Ghani holds a B.Sc. (with Honors) in Economics from Boston University, USA. He is Board member in several national companies, such as the Qatar Industrial Manufacturing Company (QIMCO), and the United Development Company (UDC). Mr. A. Abdul Ghani possesses a large experience in the field of business Management and a range of investments. Chairman of Abdullah Abdul Ghani & Sons Trading and Contracting Group.

**Mr. Mansour Mohamed A. Fattah Al Musleh  
Board Member**

Member in 'QIB' BOD since 1996 and he is a member in several Committees including the Executive Committee, and the Zakat Committee in QIB, Mr. Musleh holds a Bachelor Degree in Social Science from Qatar University. He occupied several posts in the Ministries of Interior and Defence. At present Moved to the General Secretariat of the Council of Ministers He also has a multitude of investment activities and businesses in Real Estate sector, Aqar Company CEO and a Board member in other BOD's. Mr. Al Musleh is Board member in Aljazeera Finance.

**Mr. Issa R. Al Rabia Al Kuwari  
Board Member**

Member in 'QIB' BOD since April 2002, Mr. Issa Al Kuwari has a respectable experience in the Public Affairs domain. At present he is the Deputy Chairman of the Qatari Advisory Council ('Al Shourah') where he was a deputy since 1990. He also member in numerous formal Committees relevant to the Ministry of Interior, the Committee for Complaints and Compensations Committee at the Ministry of Municipal Affairs and Agriculture in which he served for a long time. Further, Mr. Al Kuwari has a large economic activity in the fields of Trade, Contracting, Transport and Distribution of Petroleum products.

**Mr. Abdulla Bin Saeed Al Eidah  
Board Member**

Member in 'QIB' BOD since April 2005, member of the Audit & Risks Committee and in the QIB Privileges & Compensations Committee, Mr. Al Eidah received long training courses and various programs in Administration from specialized centers in UK. At present, he is the General Manager of Brooq Trading Company. Mr. Al Eidah is also involved in various other business ventures including Investment & Real estate management and, is the Deputy Chairman of 'Al Seyleyah' Club.

**Mr. Nasser Rashid S. Al-Kaabi  
Board Member**

Member in 'QIB' BOD since 2008 and, in several Committees including the Executive Committee and the 'Privileges & Compensations Committee', which he presides, Mr. Al-Kaabi has a long history of successful business ventures dating back to the Seventies. He is the founder and owner of Al Sraiya Group Holdings, which is now a well-known, large conglomerate. Mr. Al-Kaabi has been a member of the 'Shourah' (Advisory) Council since 1995 and a member of a host of other organizations including: the Advisory Body of the GCC Supreme Council in addition to his membership in many Boards of Directors and Specific Committees (including Aqar) relative to his activities in business and property development fields.

**Sheikh Ali Bin Ghanem Bin Ali Al Thani**

Holder of a Masters degree in Management from Cambridge University. Chairman of Ali Bin Ghanem Al Thani Group & Vice Chairman of Ghanem Holding Co.'s BOD. Board Member of three joint Stock companies: 'Al Salam Holding' joined 'QIB' BOD in Feb2014, Doha Insurance Company, Deputy Chairman of Gulf Investment Group & Former BOD Member of 'United Development' Company. Supporting member in the 'Center for Arab Unity Studies' Has many published articles in the commercial sector.

**3.5 Board Meetings**

The Board holds its meetings at least once every two months upon an invitation from the Chairman or upon the request of two thirds of the Board Members in case of emergency. The Chairman's invitation should include the meeting Agenda, duly approved by him.

Board Members are expected to endeavour to attend, in person, all the scheduled Board and Board Committees meetings (for those were they are members). Any member is entitled to request the inclusion of any specific issue in the Agenda. A Board meeting shall be considered as valid if attended by 50% of the members, including the Chairman or his Deputy, provided at least five Members are present.

Voting in Board meetings shall be in accordance with the Bank's Articles of Association, on majority of voting cast basis. Minutes of all matters discussed and decisions taken in the meeting shall be recorded and kept by the Secretary of the Board. Companies dept. of the Ministry of Businesses & Commerce to be provided with said Minutes for approval.

In application of Clause (11) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, the Bank's Articles of Association and Memorandum of Association, under Clause 25, Chapter III of the Company's Management state that BOD shall hold its meetings at least once every two months (six times early). The meeting shall take place upon invitation from the Chairman and may be upon the request of two thirds of the Board members in case of emergency. The call to the meeting must comprise an Agenda for the meeting approved by the Chairman and any Board member has the right to include any other issue to the meeting Agenda.

Board Secretary:

In application of Clause (12) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, a Board Secretary is appointed by the Board. His functions include the recording, coordinating and, maintaining all the minutes, records, books and reports of the Board which are submitted to or issued by it. He is charged also, under the supervision of the Chairman, to ensure the proper communication and dispatching of the information and to coordinate between the Board members, the Board and the other interested parties in the Company, including Shareholders, the Management and the staff members. To this end, the Board Secretary:

- Shall make sure that Board members can have full and swift access to all Board meetings minutes, information, documents and records of the Company.
- Ensure that all Board members make use of his services and consultancy.
- His appointment of, or dismissal takes effect only vide a resolution by the Chairman.
- To be preferably a member in a renown professional accountants body or in a Board of Trustees of a chartered company or, an advocate or, to be bearer of a University degree from a renown university or the equivalent of such certificate and, to have at least (3) years experience in handling the affairs of a public company listed in the Stock market.

In application of Clause (13) of Corporate Governance Rules issued by QFMA, commitment to the "Policy of 'Conflict of Interests' & Dealings" with sub-contractors is ensured:

- Approve and announce general rules and procedures regulating any commercial transaction proposed to enter with a concerned party (the Company's Policy in terms of Concerned Parties). In any way, it is not permitted to engage in any commercial transaction with a concerned party (or getting contracted with it) without taking full consideration of the 'Related Parties Policy' which ensures the principles of Transparency, Equity

and Disclosure, subject to approval of shareholders majority, provided such concerned party not being a party in the vote.

- If any case of conflict of interests or a commercial transaction between the Bank and a Board member or any concerned party is raised in a Board meeting, the case must be discussed in absence of the concerned member who will have no right at all to take part in the vote on said transaction. In any way, the transaction must be executed at market price, on purely commercial basis and should not include any terms/conditions contradicting with the Bank's interests.
- Board members trading in the Bank's stocks, must be disclosed. The Bank must as well adopt clear policies & procedures controlling the members and staff dealings in QIB shares.

In application of Clause (14) of Corporate Governance Rules issued by QFMA, the BOD shall have the following additional duties:

- Board members must be allowed to have full and immediate access to the business-related information. The Executive Committee should provide the Board and its Committees with all requested documents and information.
- Board members must ensure the presence of the Committees of: Recruitment, Remunerations & Bonuses and, oversee the Internal Auditors, representatives of External Auditors for the General Assembly.
- The Board must adopt an awareness program for its newly appointed members to ensure that, upon being elected by voting, they enjoy adequate understanding of how the business's operations are running and what to ensure they are totally aware of their responsibilities.
- Board members are responsible for possessing a good understanding of their roles and duties; undergo a self-training task about financial, commercial and industrial operations and about the Bank's operations and businesses. To this end, the Board has to organize adequate formal awareness courses aiming to consolidate its members' skills and knowledge.
- The Board must keep its members updated with the latest developments in the area of Governance. It may delegate such task to the Audit Committee, the Governance Committee or any other party as deemed proper.
- The Company's Articles of Association comprise clear statements on the termination of the Board members in case of absence from attending its meetings.

In application of Clause (15) of Corporate Governance Rules issued by QFMA, appointment of Board members- the Nomination Committee: QIB is process of the formation of the Committee.

In application of Clause (16) of Corporate Governance Rules issued by QFMA

- Nomination and appointment of Board members must be according to strict and transparent formal procedures.
- The Board shall constitute a Nomination Committee, headed and formed by Independent members who will suggest the appointment and re-nomination of the Board members to be voted by the General Assembly. Nomination by mentioned Committee does not mean depriving any shareholder from exercising his right to record himself, or to propose someone else for appointment.
- Nominees should take into consideration, among other things, the candidates' capability to allocate sufficient time for assuming their duties as Board members, in addition to possessing the required skills, know-how, professional, technical and academic qualifications and their personalities,

based on the “Adequate Guiding Norms for nominating Board Members”.

- Upon its constitution, the Nomination Committee should approve and publish its framework in a way that clearly indicates its powers and roles.
- The Committee’s function should include as well making an annual performance appraisal for the Board.
- The Bank should respect any terms or requirements relative to the Nominee’s election or appointment of Board members issued by Qatar Central Bank or any other authority.

In application of Clause (17) of Corporate Governance Rules issued by Qatar Financial Markets Authority, the Bank has constituted a Nomination and Remuneration Committee’ to define the policies of disbursing bonuses and link same to the Bank’s long term performance. Also, the Bank’s Articles of Association and Memorandum of Association state under Clause 33 that the aggregate sum that the Board member may receive under this capacity, as a lump sum salary paid to him regardless of the Company’s profit or loss or meetings attendance allowance, shall not exceed QR 20,000 (Twenty thousand Qatari Riyals).

In application of Clause (18) of Corporate Governance Rules issued by QFMA, the Bank has constituted an Audit Committee to which shall be relevant the following functions:

- Internal Audit
- Compliance
- Risk

Disclosure Principle:

In application of Clause (21, Clause-1) of Corporate Governance Rules Issued by QFMA in terms of Disclosure, the Bank is bound to all disclosure requisites, including the submission of financial reports and the disclosure of the number of stocks held by each Board member, Executive officer, or prominent shareholder. It discloses as well the necessary information on the Board members including their respective CV’s with details on their educational background, profession, memberships in other BOD’s and, the names of the various Board Committees’ members and structures.

In application of Clause (22) of Corporate Governance Rules Issued by QFMA in terms of Shareholders General Rights and Basis Ownership Elements: shareholders enjoy all the rights granted to them by the relative Laws and Regulations, including the Governance Chart, Articles of Association and the Board’s commitment to respect Shareholders rights to the extent that achieves equity and equality.

In application of Clause (23) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, the Title records of the Bank as a Qatari Shareholding Company are correct, accurate and regularly updated, as per its Articles of Association, to clarify the ownership of stocks. A shareholder is entitled to peruse and get access to the Company’s Shareholders Record, free of charge, during official Work hours. He is also entitled to get copies of the following documents: Shareholders record, Board record, the Company’s Articles/Memorandum of Association, Encumbrances documents, Concerned Parties’ Contracts or any other documents as stated by Qatar Markets Authority from time to time against charges as decided by said Authority.

In application of Clause (24) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, in respect of

Shareholders rights to get information in a way that preserves their rights to get clear and detailed information: the Bank’s Articles/Memorandum of Association guarantees under Clause (27) – Chapter 3: Management of the Company, that the Board of Directors shall, three days at least before the meeting of the General Assembly convened to consider the Company’s balance sheet and the Board’ Statement, put at the disposal of Shareholders, a detailed list of all the amounts disbursed to the Chairman and Board members in addition to the physical distinctions and remunerations proposed for distribution, as well as the amounts allocated for each member (salary, reserve, compensation), the operations contradicting with the Bank’s interests, publicity expenses and donations, all approved by the Bank’s Auditor.

All information and disclosures are also published on the Bank’s Internet site.

In application of Clause (25) of Corporate Governance Rules Issued by Qatar Financial Markets Authority, the Bank’s Articles/ Memorandum of Association states, under Clause (39), Shareholders right to call for a General Assembly meeting and the Bank should respond immediately to such call. Shareholders have further the right to discuss or raise any item in General Assembly meeting’s Agenda, address inquiries and get corresponding answers or apply as a group of shareholders representing 10% at least of the Capital to include a specific issue in the Agenda.

In application of Clause (26) of Corporate Governance Rules Issued by QFMA , regarding fair treatment of shareholders and the exercise of the voting right, the Bank’s Articles/ Memorandum of Association states, under Clause (16) – (Company’s Capital) – stated that each share give the right to a quota equal other, without distinction, in the ownership of the Company’s Assets and Dividends. Similarly, clause (35) – (General Assembly) – confirms every shareholder’ right to attend the General Assembly meetings in person or as delegation. Minors and person placed under custody will be represented by their delegates.

In application of Clause (27) of Corporate Governance Rules issued by Qatar Financial Markets Authority, Board members have been appointed conforming to the Bank’s Articles/ Memorandum of Association provisions, their qualifications & previous experiences, all being as appended on the Bank’ website. It happens also that some shareholders obtain such information from Shareholders Affairs Dept. Finally, details of such information are included in the Corporate Governance Report that is distributed to Shareholders in the General Assembly meeting.

In application of Clause (28) of Corporate Governance Rules issued by QFMA Dividend Distribution Policy: said distribution takes place in line with the Bank’s Articles/Memorandum of Association takes place pursuant to shareholders’ absolute majority basis approving the profit shares (dividends) to be distributed during the General Assembly meeting which is held once yearly within four months of the year following the end of the Company’s financial year, in presence of the External Auditor and QCB representative.

In application of Clause (29) of Corporate Governance Rules Issued by QFMA, Capital is stated in the Bank's Articles/Memorandum of Association under Clause (12)://Company's Capital//, which provides the protection of minority interests- rights, as shareholders are only committed up to each share's value and cannot increase that commitment. Clause (44)-(General Assembly), state that it is not permissible to take any resolutions on Capital increase or the Company's Contract extending its term, liquidate or sell in full only through Extraordinary General Assembly Meeting.

In application of Clause (30) of Corporate Governance Rules issued by QFMA, the Bank's Articles/Memorandum of Association under clause (27) guarantees that Interested Parties may be provided with reliable adequate and connected information regularly and in reasonable times. Furthermore, the Bank treats all employees on a pari-passu basis. It has created a Nomination and Remuneration Committee assigned to disburse incentives to the staffs and the Management to the benefit of the Bank, taking in consideration the Bank's performance on the long term. Finally, the Bank has delegated several contact channels to report any violations and has adopted Board-approved policies and procedures to safeguard and protect the staff confidentiality in case of report in any suspicious activity.

## Board Committees

To appropriately manage its duties the Board of Directors are assisted by five specialised committees that report directly to it and perform functions on its behalf to support efficient management practices. These committees include:

### i. Board Executive Committee

The Board Executive Committee is represented by six Board Members with the participation of CEO and senior employees of the Bank who hold the responsibility of transferring information and under discussion data between the management level and the Board of Directors. The Executive Committee serves as a tool to coordinate the business. It has, as its prime 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 grant credit decisions within its jurisdiction. The Board Executive Committee works to develop the Bank's business plan to be or presented to the Board.

### ii. Audit, Risk & Compliance Committee

The primary objective of the Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities related to the Bank. This includes financial reporting, internal control system, management of material business risks, the internal and external audit functions and the process for monitoring compliance with laws and regulations and the Bank's code of business conduct. Specifically, the Committee's role is to report to the Board and provide appropriate advice and recommendations on matters relevant to the Audit and Risk & Compliance Committee Charter in order to facilitate decision making by the Board.

The Committee is authorised by the Board to investigate any activity. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any

requests made by the Committee. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the assistance of outsiders with relevant experience and expertise if it considers this necessary but only after consultation with the Chairman of the Board.

The Committee has unlimited access to both the internal and external auditors and to the Senior Management of the Bank. The Committee is established by the Board to review, evaluate and make recommendations to the Board in relation to: General Risk and Accounting, Internal Control, Risk and Control Environment, Financial Reporting, Internal Audit, External Audit and Compliance.

### iii. Policies and Procedures Committee

The primary objective of this committee is to study, prepare and develop strategies, objectives, policies, systems, plans, budgets and working procedures directories. The Committee ensures that QIB 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 responsible to monitor the QIB quarterly performance against strategy, business plan and budgets. This includes review and consolidation of business development, product alignment and resources distribution across QIB. The Committee also 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 QIB's corporate social responsibility strategy in light of QIB's brand values.

### iv. Remuneration & Compensation Committee

The Committee is responsible to evaluation of top executive Management and board nominees also to develop a remuneration policy to attract, retain and motivate staff, management of the highest calibre 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 for remuneration functions as required, As a strict policy no person shall be present when his or her remuneration or contractual arrangements are discussed.

### v. Zakat Committee

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

## Meetings of Board of Directors and Board Committees

The Board of Directors meetings are held regularly, according to the Bank's Articles of Association and Companies Law, at least six times a year. The meetings are held Upon an invitation from chairman or based on a request of two of its members. The Board met eight (8) times during 2016 with the Chairman attending and presiding at all meetings. The number of meetings held by the Board and its Committees are detailed below:

Board and Board Committees	Meetings during 2016
Board of Directors	8
Executive Committee	0
Audit, Risk & Compliance Committee	6
Policies & Procedures Committee	4
Nomination and Remuneration Committee	2
Zakat Committee	5

## Shari'a Supervision

### Shari'a Supervisory Board

The Shari'a Supervisory Board is primarily responsible for monitoring the Bank's operations compliance with the Islamic Shari'a principles and review the processes and products presented. It acts as an independent body of specialist jurists in Fiqh-Al-Muamalat. The Board is responsible for the following:

- Provide Islamic advice and guidance based on QIB's management request.
- Review Auditors' Reports in compliance with Shari'a and report to members about that subject.
- Determine whether contracts, transactions and dealings presented to the board complies with Shari'a.
- Approve QIB marketing materials that is presented to the board.
- Ensure with possible means that all earnings realised from sources or by means prohibited by Shari'a are disposed of to charitable causes.

Shari'a Executive Committee	Position
His Eminence Sheikh Walid Bin Hadi	Chairman
Prof. Abdul Sattar Abou Ghodda	Member
Dr. Mohamad Ahmaine	Member

## Segregation of Duties

A balance between the roles and responsibilities of the Board of Directors and Management is achieved through duty segregation. The Board of Directors provide the overall strategic direction and oversight through the review and approval of major strategic direction and oversight and through the review and approval of major strategic initiatives, policies and objectives while day-to-day management of the Bank is entrusted to the Chief Executive Officer.

## Executive Management Team

Executive Management, defined as the group of persons with operational responsibility for the Bank and appointed by the Board, is responsible for the overall day-to-day management of the Bank. The Executive Management is headed by the Chief Executive Officer (CEO) and a experienced executive management team supports the CEO.

As of 31st December 2014, the Executive Management of the Bank comprised of the following persons:

Executive Management Team	Position
Mr. Bassel Gamal	Group CEO
Mr. Tarek Youssef Fawzi	GM - Wholesale Banking Group
Mr. Rakesh Sanghvi	Group Chief Risk Officer
Mr. Gourang Hemani	Chief Financial Officer
Mr. Constantinos Constantinides	Chief Strategy Officer
Mr. Khalifa Al Mesallam	GM - Human Capital Group
Mr. Dorai Anand	GM - Personal Banking Group
Mr. Krishna Kumar	Chief Operating Officer, Operations & IT Group
Mr. Salah El-Sheikh	Head of Legal
Mr. Atef Abdul Khalek Mohamed Ali	Head of Internal Audit
Mr. Samir El-Ghandour	Head of Compliance

### Mr. Bassel Gamal Group Chief Executive Officer

Mr. Bassel Gamal, holds the position of QIB's Group CEO since February 2013; having amassed over 22 years of experience in the banking and finance industry. His career started with Commercial International Bank (Chase National Bank) in Egypt, in 1990 for more than a decade.

In 2001, he joined Ahli United Bank Group in Bahrain during which he held many positions, last of which was Senior Deputy Group CEO - Banking Group. He was Ahli Bank's Deputy CEO in Qatar from 2004 until 2006, at which point he moved on to become the CEO until early 2009.

### Mr. Tarek Youssef Fawzi General Manager - Wholesale Banking Group

Senior banking executive with over 32 years of international experience predominantly in Corporate Banking, Investment and Treasury domains with reputable international & regional banks. He holds Bachelor of Economics and Business Administration from The American University in Cairo. Tarek started his banking career with Arab African International Bank in Egypt and progress his career with leading banks such as Chase International Bank, Misr America International Bank, Burgan Bank - Kuwait, National Bank of Oman in Sultanate Oman, Mashreq Bank UAE. His last position prior to joining QIB was CEO and Country Head of Mashreq Bank - Egypt.

**Mr. Rakesh Sanghvi**  
**Group Chief Risk Officer**

Rakesh is a Chartered Accountant (FCA) from the Institute of Chartered Accountants of India and a CISA qualification holder from the USA. He carries 29 years of rich experience in Risk, Corporate Banking and Corporate Finance with the "Big 4" accounting firms and banks in the region. He worked with Ernst & Young in Bahrain for its audit and consulting practice. Before joining QIB in 2013 he was the Group Head of Risk Management at Ahli United Bank in Bahrain. He led the Corporate Finance unit of the bank and spent over 10 years in Corporate Banking in Bahrain; and with Ahli Bank in Qatar dealing with a wide variety of industry sectors and clients.

**Mr. Gourang Hemani**  
**Chief Financial Officer**

He holds 22 years of accounting and Finance experience with international banks and with leading audit firms. Gourang started his carrier with PricewaterhouseCoopers – India and progressed through Standard Chartered Bank – India followed by long standing career with Banque Saudi Fransi in Saudi Arabia for 15 years handling various roles including Asset Liability Management, Treasury Middle Office, and Financial Planning. His last assignment, prior to joining QIB was with Banque Saudi Fransi as Deputy Chief Financial Officer. He is a CFA charter holder, FRM, Chartered Accountant of India.

**Mr. Constantinos Constantinides**  
**Chief Strategy Officer**

Constantinos Constantinides (Dinos) joined QIB as Chief Strategy Officer to lead the Bank's transformation program. Prior to that Dinos held various senior roles at Al Rajhi Bank for the last eight years. Since 2007, he has been the General Manager of Strategy responsible for business development and regional expansion. Previously he was Deputy General Manager in Retail Banking. As a management consultant with Accenture, he has led several strategic initiatives for European banks and financial institutions. He Holds an MBA in international Strategy from University of Birmingham.

**Mr. Khalifa Al Mesallam**  
**GM – Human Capital Group General**

Khalefa has around 14 years of banking experience, with a blend of retail banking and human capital management expertise gained with leading international and regional banks. He started his banking career with HSBC Qatar in the Retail Banking division and progressed to various lead roles in Customer Service, Branches and Human Resource Quality Control. He also held leading positions in Retail Banking in the Commercial Bank of Qatar and his last assignment prior to joining QIB was as Group Recruitment Manager with Al Khaliji Bank. He joined QIB In 2011 as Head of Talent Acquisition & Manpower Planning – a division within the Human Capital Group – from where he progressed to his current role.

**Mr. Dorai Anand**  
**General Manager – Personal Banking Group**

Mr. Anand has over 20 years' experience in banking industry, particularly in retail banking, consumer assets business, customer service & operations. Mr. Anand has held various senior Management roles during his tenure with both world's leading conventional and Islamic banks. Most of his career has been with Citibank however for the last 8 years he has been associated with Al Rajhi Bank –Saudi Arabia. Prior to joining QIB Anand was GM – Retail Banking Group with Al Rajhi Bank.

**Mr. Krishna Kumar**  
**Chief Operating Officer, Operations & IT Group :**

He is a senior banking executive with over 24 years of experience across Corporate, Retail, Service Quality, Operations, IT and support functions. He started his banking career with Standard Chartered Bank – India and progressed with many leading banks such as: HSBC- India, Times Bank - India, Commercial Bank of Kuwait, National Bank of Dubai, Ahli Bank QSC and National Bank of Egypt. As part of a consulting practice he has last been engaged in an Advisory capacity with Dubai Healthcare City. During his longstanding tenure with international & regional banks, he successfully spearheaded technology transformation projects, organizational restructuring programs, process reengineering and automation initiatives. He holds an MBA in Marketing & Finance from XLRI, Jamshedpur, India, and Bachelor of Technology (Mechanical) from College of Engineering, Trivandrum, India, in addition to Advanced Management Program from Harvard Business School, Boston, USA.

## Bank Management Committees

### QIB Management Committee

The Management Committee is responsible for the review, recommendation and decision on major issues affecting the business performance and the operations of the Bank. The committee manages the ongoing business of the Bank, reviews and assesses actual performance and the implementation of the Bank's strategy, objectives and business plans. It is responsible for monitoring and reviewing the Human Capital strategy, strategic initiatives and projects, regulatory and compliance matters, risk indicators as well as customer service and operational KPIs and SLAs.

### Assets and Liabilities Committee – ALCO

The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. The ALCO has responsibility for setting limits on the arbitrage of borrowing in the short-term markets, while lending long-term instruments within the risk framework approved by the Board. Among the factors considered are liquidity risk, market rates and external events that may affect the bank's forecast and strategic balance-sheet allocations. The ALCO is responsible for identifying funding requirements for each business group, study the cost of funds, profit margin & maturity gap & re-pricing reports.

## CAPEX Committee

The CAPEX Committee's primary goal is to evaluate large capital expenditure requests and provide recommendations for approval by the GCEO or Executive Committee (Board of Directors), depending on the prevailing delegation of authority. The role of the Capex Committee is to evaluate the business case presented by each Group for large capital expenditures which includes review of the cost-benefit analysis and vendor selection criteria and process and to assess alternative options for all its proposals.

## 4. Credit and Investment Committee

The Credit & Investment Committee is responsible for approving credit up to a maximum predetermined One Obligor Total and non-strategic investments up to certain limit. The role of the Credit and Investment committee is to endorse changes to credit and investment policy for approval of board, approve credit and non-strategic investments. The committee monitors and reviews investments' performance and issues and approve credit requests. Credit and Investment Committee is responsible to review and evaluate the investment policies and ensure compliance with the Credit policy.

## Credit Committee

The Committee is responsible for approving credit up to a maximum predetermined Net One Obligor Total. The Credit committee approves all credits as per the credit approving authorities.

## Special Assets Committee

The committee is responsible for managing problematic finance and investments including the Bank's subsidiaries. The Committee reviews and approves recommendations made by the relevant business lines and instructs the necessary actions on restructuring of non-performing finance and investments such as re-scheduling the repayment, early settlement and dropping part of the profit, sell part or full guarantees for repayment and proposing granting of additional financings. In addition, the committee is responsible of reviewing and Recommending write-offs and provisioning to approving authorities i.e. Board and Qatar Central Bank.

## Operational Risk Committee

The Operational Risk Management Committee mandate is to oversee and ensure the efficient and effective management of Bank's Operational Risks. It has the responsibility to prepare and consolidate operational risk losses reports as well as action plans to mitigate deficiencies in controls, in addition the committee reports to the board a summarized account of Bank's risk and the risk management activities. The mandate also includes approving and reviewing the Risk Assessments (RA) and Risk and Control Self-Assessments (RCSA) deployment plan, results and action plans.

## New Product Committee

The New Product Committee mandate is to oversee performance of QIB businesses through product and service development initiatives, including reviewing and approving of plans, standard tariff table of the bank, pricing, fees and cross sell targets. The mandate also includes monitoring the implementation of all projects related to the development and roll out of products and services as well as enhancements to existing products and services.

## Risk Management

Risk management is exercised at all levels of the Bank, including the Board of Directors, Board Committees, and senior management team and through various management and bank committees. A comprehensive, centralized and proactive risk approach effectively minimizes exposures on all fronts and mitigates credit, market, liquidity risks, as well as operational and business continuity risks, balanced against business growth. Conservative Credit Policy

The Bank has always implemented and followed a conservative credit policy to ensure full understanding of potential risk through a diverse product range and client base, and a wider geographical and industrial spread. This approach, coupled with a periodic stress testing and scenario analysis and an appetite to proactively manage all risks continue to yield positive results in strengthening the solidness of QIB's Overall Credit Portfolio. Improved Liquidity Ratios

The Bank, on a continuous basis, applies diversified approaches to improve its liquidity ratios. The Bank continues to maintain a capital adequacy ratio well above the minimum accepted ratio set by Qatar Central Bank and the Basel Committee's banking supervision requirements.

## Enterprise-wide Risk Management System

The Bank has implemented a number of initiatives across the board which constitutes stronger and granular MIS tool, improved limit and threshold controls, better portfolio management.

## Operational Risk

To minimize potential losses from operational risks, the Bank has developed and implemented policies and procedures to methodically identify, assess, control, manage and report system vulnerabilities. Controls include effective duty segregation, access limits, effective authorisation and reconciliation procedures and ongoing staff education and assessment processes. In addition, a new sophisticated operational risk system has been deployed to manage all risk indicators, including database risk and loss events.

Recognising the increasing threats the Information Security unit has taken several initiatives to improve the overall control and protection of Bank's information assets; and to prevent external threats to IT systems and bank data.

New policies and procedures have been implemented to handle any contingencies and continue with the Bank's operations as part of the Business Continuity Management unit in the Risk Group. This included training staff and senior management through various media including classroom training, simulation exercises and e-learning.

## Internal Audit

The Bank's internal audit function continues to adapt its audit methodology to respond effectively to the Bank's expansion and to conduct independently, planned and unplanned internal audit engagements, in order to recommend changes that enhance governance, risk management, internal controls and compliance. During the year the role of audit transformed from being outsourced to a fully functional internal audit capability of the Bank. Operationally, the audit team supports individual unit managers by routinely analyzing audit reports and identifying areas of vulnerability. This process will be further enhanced in the coming year with the implementation of a self assessment checklist that will enable staff to avoid common oversights and promote flawless processes. The process will minimize routine errors and will be expanded to develop appropriate training tools for staff in the future. The Internal Audit function also provides valuable input on internal controls, processes, and service quality and advises on how to enrich the Bank's training curriculum and development plans so that appropriate preventive focus is brought to bear on the risks faced by the Bank.

## Compliance

The Bank's Compliance Team reports directly to the Head of Audit, Risk & Compliance Committee. The Bank's governance structure ensures that it benefits extensively from expert advice and the support of compliance in order to ensure that all areas of domestic and international operations are in full compliance with relevant local and international jurisdictional and statutory requirements. These include, but are not limited to Basel Committee on Compliance Requirements, Financial Action Task Force (FATF) recommendations on Anti Money Laundering and Counter-Terrorist Financing (AML/CTF) and other international standards on corporate governance as well as QCB instructions and regulations. Over the past year the Bank's Compliance Team has an active role in reviewing the policies, codes and terms of reference of the Board to ensure full compliance with Qatar Central Bank's and QFMA's requirements. The Compliance Team responds on a continuous basis to all bank inquiries seeking clarification on applicable regulations and standards and continues to provide a wide range of advisory services, including studies, comments, suggestions, recommendations and appropriate reviews.

## External Audit

Ernst & Young was the appointed external auditors to audit the financial statements of Qatar Islamic Bank for the financial year 2014 inclusive, to report on the outcome of these audits to the Board of Directors and to provide an audit opinion on the financial statements of Qatar Islamic Bank. Furthermore, PwC also audited and reported on the effectiveness of internal control over financial reporting on 31 December 2014. The external auditors attended the meetings of the Audit Committee and the Shareholders' Meeting held in 2014.

After a maximum period of five years of performing the financial audit of Qatar Islamic Bank, the external audit firm responsible for reviewing the audits, have to be replaced by another external audit firm. The external auditors may be questioned at the Annual General Assembly Meeting about their audit opinion on the annual accounts. The external auditors will therefore attend and be entitled to address the meeting.

The external auditors may only provide audit and non-audit services to Qatar Islamic Bank with the permission of the Audit and Risk Committee. The Audit and Risk Committee generally pre-approves certain types of audit, audit-related and non-audit services to be provided by the Bank's external audit firms on an annual basis. Services that have not been generally pre-approved by the Audit and Risk Committee should not be provided by the external auditor or should be specifically pre-approved by the Audit and Risk Committee after the recommendation of the QIB management.

The Audit and Risk Committee also sets the maximum annual amount that may be spent for pre-approved services. Throughout the year the external audit firm and the Bank monitors the amounts paid versus the pre-approved amounts.

## Corporate Social Responsibility

The Bank, as a responsible corporate citizen, recognises its social responsibility to the community in which the Bank operates. The Bank is committed to promoting sustainable development, protection and conservation of human life, health, natural resources and the environment, and adding value to the communities in which we operate. In doing so, the Bank recognises the importance of both financial and non-financial commitment and contribution.

The QIB Zakat Committee, which reports to the Board of Directors, provide assistance to a wide range of beneficiaries which included various educational, cultural and health care activities; sports clubs; social causes; charity societies; scholarships; conferences; exhibitions and sporting events.

## Environmental Policy

The Bank is committed to environmental management in ensuring that no harm should come to the environment when performing its operations. In keeping with these beliefs and commitments, the Bank endeavours to ensure that all the management and employees comply with the following environmental policies.

1. Conduct business in an environmentally responsible manner.
2. Comply with all applicable environmental laws and regulations.
3. Promote the efficient use of resources and reducing (and where possible eliminating) waste through recycling and pursuing opportunities to reuse waste.
4. Notify the Board of any pertinent environmental issues and how QIB contributes towards those issues.

## Health Policy

The Bank recognises that good health and safety management has positive benefits to an organisation, and thus is committed to providing and maintaining a healthy, safe and secure working environment for all employees. The Bank is committed to:

1. Ensuring the health, safety, security of all its employees whilst at work.
2. Ensuring that visitors to the Bank's premises are not exposed to risks to their health and safety.
3. Identifying hazards, assessing risks and managing those risks. Pursuant to this the Bank has in place a comprehensive Fire, Health and Safety Insurance and Policy and provides extensive Medical and Health Insurance through a recognised insurance provider for the benefit of all permanent staff.

## Penalties or Fines Imposed on the Bank by Regulatory Authorities

Fines aggregating to QR 812,548 /- were imposed on the Bank till 31/12/2016 by Qatar Central Bank in respect of breaches of Qatar Central Bank regulations.

## Material Issues Regarding the Bank's Employees and Stakeholders

There are no material issues regarding the Bank's employees and stakeholders to be disclosed in this report.

## Communication with Stakeholders & Investors and Shareholders

The Bank keeps Qatar Exchange, QFMA and Qatar Central Bank updated on matters and developments that may affect its share price performance.

Transparency and full disclosure are the cornerstones of the Bank's communication efforts. The Board values clear, comprehensive and timely communication with shareholders and stakeholders.

At the General Assembly Meetings, the Chairman of the Board of Directors presents the shareholders with detailed information and data on the Bank's performance and its achievements during the prior year, along with an outline of the major business plans and objectives of the current year.

The Bank's Articles of Association and by-laws include provisions that ensure the shareholders' right to call for a General Assembly and the Bank should ensure that the same is conducted in a timely manner. Also the shareholders have a right to place items on the agenda, discuss matters listed on the agenda and address questions and receive answers thereupon.

# SHARI'A

## SUPERVISORY BOARD REPORT

### FOR THE FISCAL YEAR ENDING ON 31ST DECEMBER 2016

All Praise be to Allah and may His peace and blessings be upon His messenger and bondsman our Prophet Mohammad, his family and his companions.

Upon reviewing the submitted products and transactions, and examining the financial statements and profit and loss statement for the fiscal year 2016, the QIB's Shari'a Supervisory Board has concluded that they do not violate the principles of Islamic Shari'a. In addition, and upon conducting Shari'a audit via direct supervision of the bank activities to ensure compliance with the Board's decisions, The Shari'a Supervisory Board deems said activities compliant with the Shari'a Supervisory Board rules. May Allah guide us all to what pleases Him.

#### **Shari'a Supervisory Board**

His Eminence Sheikh Walid Bin Hadi  
Chairman, Shari'a Supervisory Board

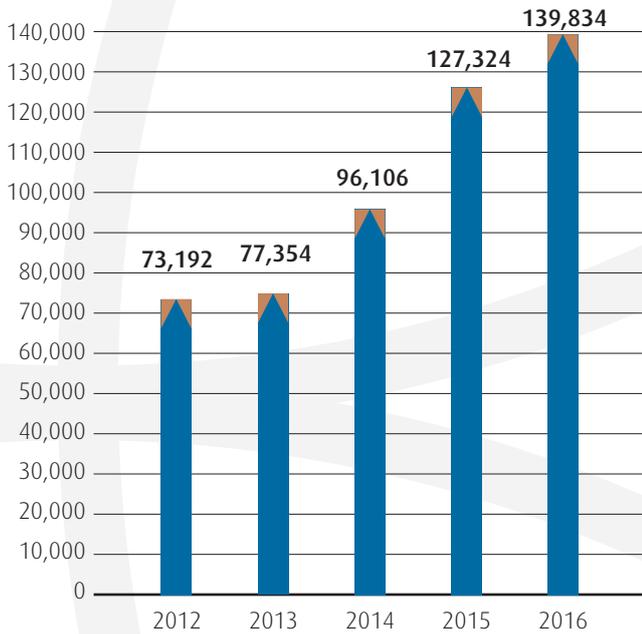
Dr. Mohamad Ahmaine  
Administrative Member

Prof. Abdul Sattar Abou Ghodda  
Member

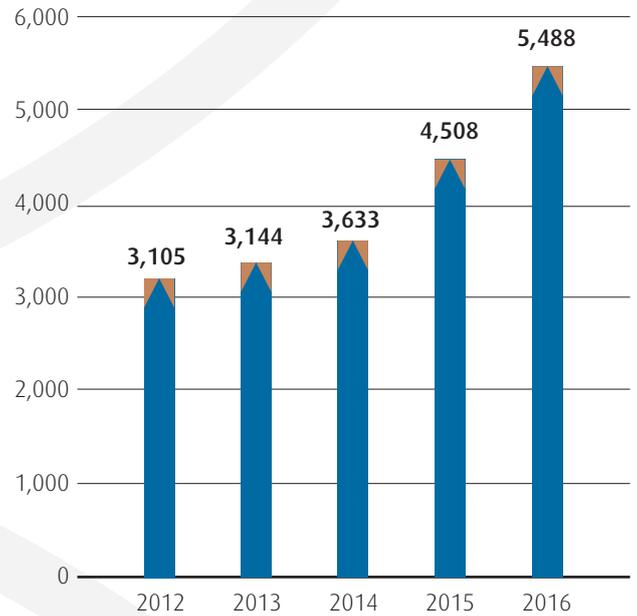
# QIB FINANCIAL HIGHLIGHTS

	2016	2015	2014	2013	(Million QR) 2012
<i>(2016-2012)</i>					
Total assets	<b>139,834</b>	127,324	96,106	77,354	73,192
Deposits	<b>95,397</b>	91,521	66,605	50,363	43,147
Financing & investments	<b>119,934</b>	108,459	77,819	63,829	58,436
Operating income	<b>5,488</b>	4,508	3,633	3,144	3,105
General and administrative expenses	<b>1,001</b>	969	846	785	793
Provisions and depreciation	<b>536</b>	406	343	433	551
Net profit	<b>2,155</b>	1,954	1,601	1,335	1,241
Earnings per share (QR)	<b>8.55</b>	8.06	6.78	5.65	5.25
Total shareholders' equity	<b>14,238</b>	13,376	12,478	11,860	11,474
Share capital	<b>2,363</b>	2,363	2,363	2,363	2,363
Unrestricted investment accounts	<b>81,342</b>	77,327	51,480	37,893	34,065
Customers' accounts & Others	<b>14,055</b>	14,194	15,125	12,470	9,082

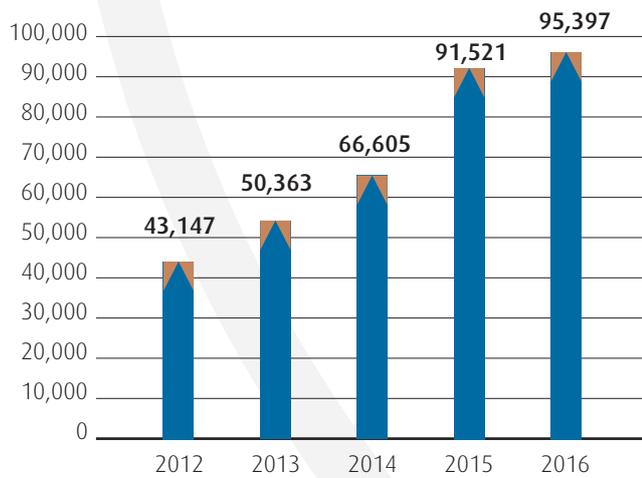
### Assets (Million QR)



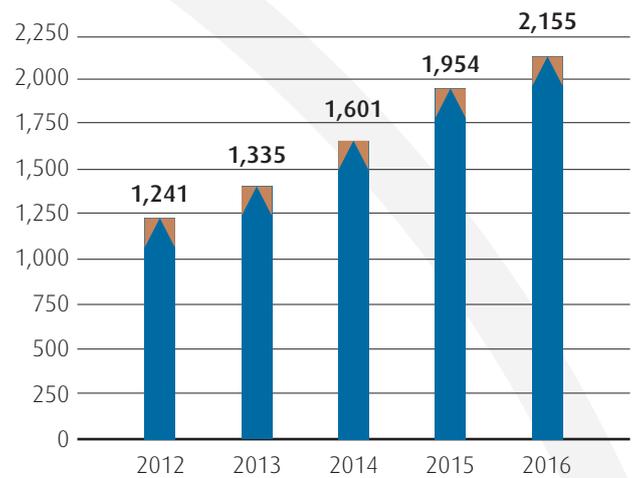
### Operating Income (Million QR)



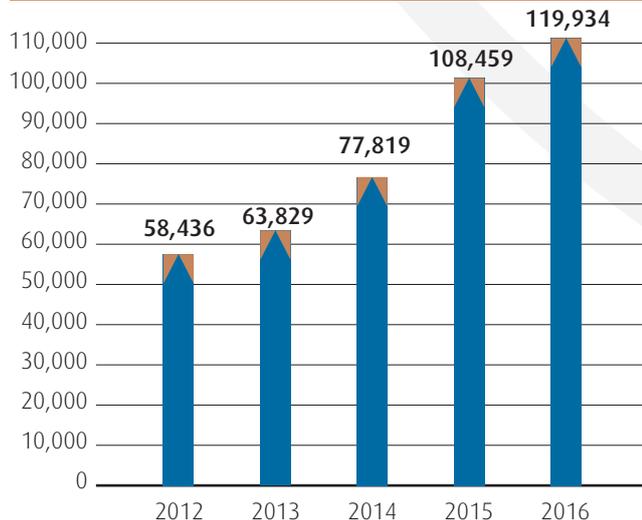
### Deposits (Million QR)



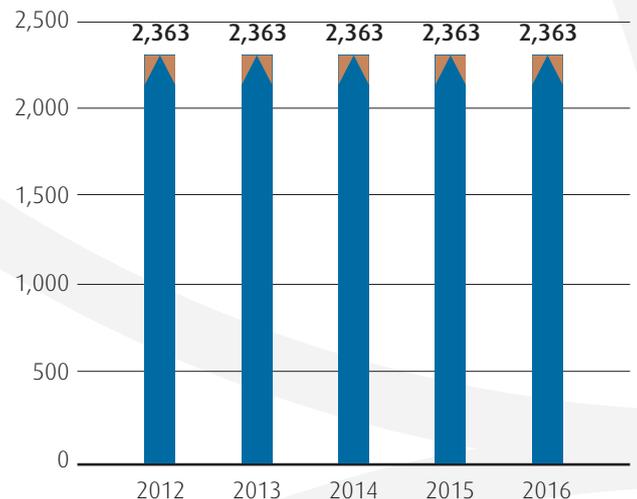
### Net Profit (Million QR)

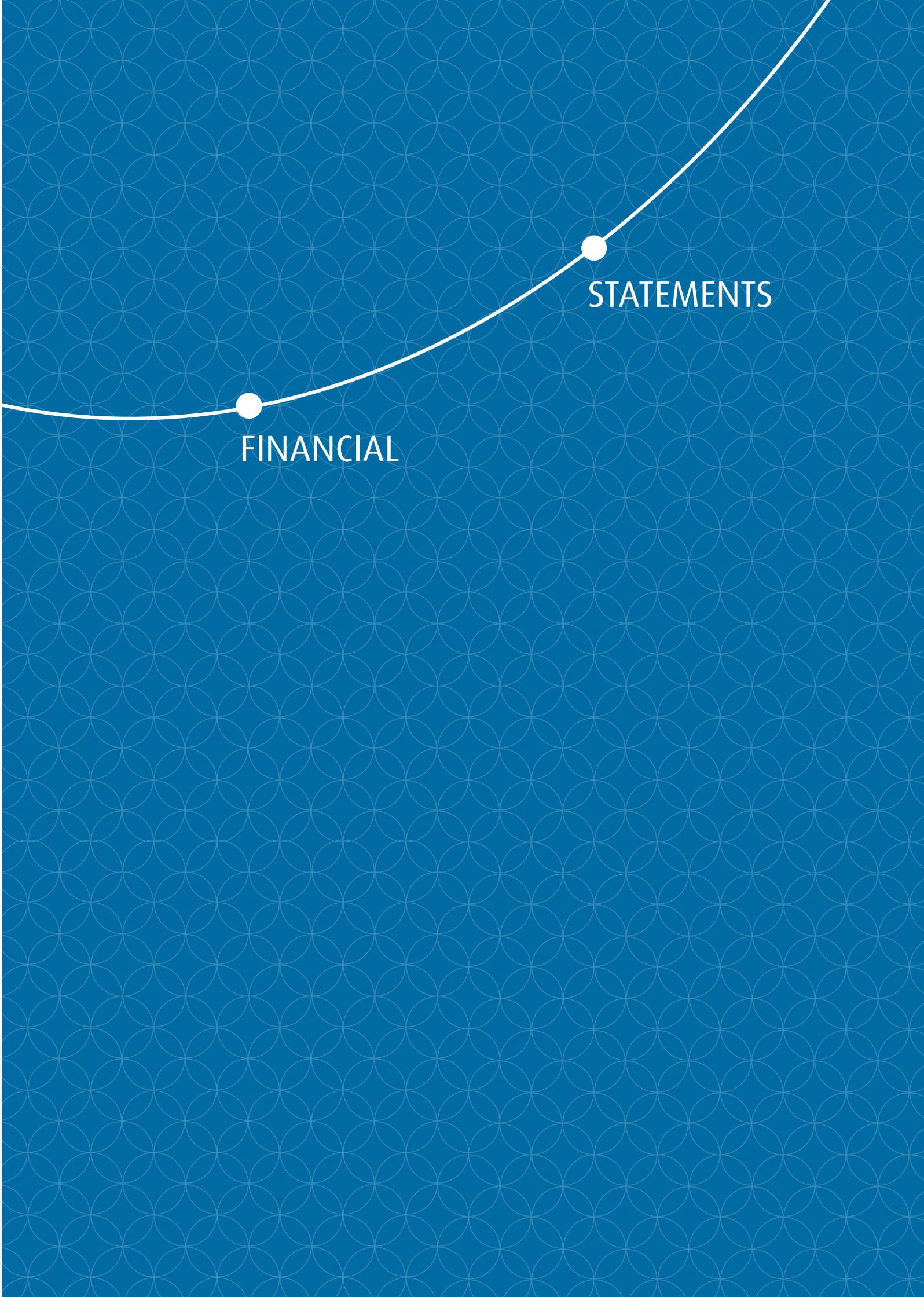


### Financing & Investments (Million QR)



### Share Capital (Million QR)





FINANCIAL

STATEMENTS

# INDEPENDENT AUDITORS' REPORT

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

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the accompanying consolidated financial statements of Qatar Islamic Bank (Q.P.S.C.) (the 'Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the applicable provisions of Qatar Central Bank regulations ('QCB regulations').

### Basis for Opinion

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

### Key Audit Matters

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

<p><u>Impairment of financing assets</u> - refer to notes 3(f), 4(b)(iii), 5(a)(i) and 10 in the consolidated financial statements</p>	<p><u>How the matter was addressed in our audit</u></p>
<p>We focused on this area because:</p> <ul style="list-style-type: none"> <li>• Financing assets are QAR 98,171 million, representing 70 % of the Group's total assets as at 31 December 2016, hence a material portion of the consolidated statement of financial position. The net impairment charge on financing assets during the year was QAR 221.3 million.</li> <li>• The Group makes complex and subjective judgments over both the timing of recognition of impairment and the estimation of the amount of such impairment.</li> </ul>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>• Our team used their local knowledge to assess the trends in their local credit environment and considered the likely impact on the Group's financing assets portfolio to focus their testing on key risk areas.</li> <li>• For the corporate portfolio: <ul style="list-style-type: none"> <li>- we tested the key controls over the credit grading and monitoring process;</li> <li>- we tested the governance controls over the impairment processes, including the continuous re-assessment by the Group that impairment policies remain appropriate for the risks within the Group's financing assets portfolio;</li> <li>- we performed detailed credit assessments of a sample of performing and non-performing financing assets in line with QCB regulations;</li> <li>- as part of our credit assessments for these selected financing assets, we critically challenged the reasonableness of the forecast of recoverable cash flows, realization of collateral and other possible sources of repayment. We tested the consistency of key assumptions and compared them to progress against business plans and our own understanding of the relevant industries and business environments. We also agreed them where possible to externally derived evidence.</li> </ul> </li> <li>• For the retail portfolio, the impairment process is based on historical payment performance of each segment within the portfolio, adjusted for current market conditions. We tested the accuracy of key variables relevant for the retail loans portfolio (e.g. year-end balances, repayment history, past-due status) and we assessed the appropriateness of the impairment calculation methodology. We evaluated whether the output is consistent with historical payment performance, and we challenged the appropriateness of the Group's adjustments to reflect current market and economic conditions.</li> </ul>
<p><u>Impairment of financing assets</u> - refer to notes 3(f), 4(b)(iii), 5(a)(i) and 10 in the consolidated financial statements</p>	<p><u>How the matter was addressed in our audit</u></p>
	<ul style="list-style-type: none"> <li>• For the collective impairment calculation, our work included testing controls over the appropriateness of the methodology and models used to calculate the charge, the process of determining key assumptions and the identification of financing assets to be included within the calculation.</li> <li>• We assessed the adequacy of the Group's disclosure in relation to impairment of financing assets by reference to the requirements of the relevant accounting standards and QCB regulations.</li> </ul>

<u>Valuation of investment securities</u> - refer to notes 3(c), 5(b)(i) and 11 in the consolidated financial statements	<u>How the matter was addressed in our audit</u>
<p>We focused on this area because:</p> <ul style="list-style-type: none"> <li>• Investment securities are QAR 19,959 million or 14.3% of the Group's total assets as at 31 December 2016, hence a material portion of the consolidated statement of financial position.</li> <li>• of the total investment securities, 6.6% comprise unquoted equity securities at fair value, the measurement of which requires use of estimates and judgements.</li> </ul>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>• Testing controls over the process of valuation of investment securities.</li> <li>• Agreeing the valuation of the quoted equity and debt securities to externally quoted prices.</li> <li>• For unquoted equity securities, assessing the appropriateness of the valuation methodology and challenging the key underlying assumptions, such as pricing inputs and discount factors.</li> <li>• Testing, for a selection of pricing inputs used, that they were externally sourced and were correctly input into the pricing models;</li> <li>• We assessed the adequacy of the Group's disclosure in relation to the valuation of investment securities by reference to the requirements of the relevant accounting standards and QCB regulations.</li> </ul>

### Other Matter

The consolidated financial statements of the Bank as at and for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 7 February 2016.

### Other Information

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

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

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

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

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

### Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

#### **Report on Other Legal and Regulatory Requirements**

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We have read the report of the Board of Directors to be included in the annual report, and the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the provisions of the Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Articles of Association and the amendments thereto having occurred during the year which might have had a material adverse effect on the Bank's consolidated financial position or performance as at and for the year ended 31 December 2016.

**18 January 2017**  
**Doha**  
**State of Qatar**

**Gopal Balasubramaniam**  
**KPMG**  
**Audit Registration No. 251**

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		<b>QAR '000s</b>	
<b>As at 31 December</b>		<b>2016</b>	<b>2015</b>
	Notes		
<b>Assets</b>			
Cash and balances with central banks	8	5,447,183	5,085,840
Due from banks	9	10,149,896	9,494,044
Financing assets	10	98,170,520	87,515,388
Investment securities	11	19,958,717	18,840,086
Investment in associates	12	875,034	1,047,869
Investment properties	13	929,826	1,055,181
Assets of a subsidiary held for sale	14	-	4,460
Fixed assets	15	517,257	575,402
Intangible assets	16	431,923	410,610
Other assets	17	3,353,772	3,295,102
<b>Total assets</b>		<b>139,834,128</b>	<b>127,323,982</b>
<b>Liabilities, equity of unrestricted investment account holders and equity</b>			
<b>Liabilities</b>			
Due to banks	18	13,606,908	11,198,827
Customers' current accounts	19	14,055,114	14,193,927
Sukuk financing	20	6,791,178	5,450,820
Liabilities of a subsidiary held for sale	14	-	3,399
Other liabilities	21	4,040,625	1,975,658
<b>Total liabilities</b>		<b>38,493,825</b>	<b>32,822,631</b>
<b>Equity of unrestricted investment account holders</b>	22	<b>81,341,642</b>	<b>77,326,587</b>
<b>Equity</b>			
Share capital	23(a)	2,362,932	2,362,932
Legal reserve	23(b)	6,370,016	6,370,016
Risk reserve	23(c)	2,170,280	1,993,090
General reserve	23(d)	81,935	81,935
Fair value reserve	23(e)	195,089	134,013
Foreign currency translation reserve	23(f)	(194,335)	(28,964)
Other reserves	23(g)	216,820	216,820
Proposed cash dividends	23(h)	1,122,393	1,004,246
Share-based payment reserve	23(i)	10,223	6,216
Retained earnings		1,902,780	1,236,137
<b>Total equity attributable to equity holders of the bank</b>		<b>14,238,133</b>	<b>13,376,441</b>
Non-controlling interests	24	1,760,528	1,798,323
Sukuk eligible as additional capital	25	4,000,000	2,000,000
<b>Total equity</b>		<b>19,998,661</b>	<b>17,174,764</b>
<b>Total liabilities, equity of unrestricted investment account holders and equity</b>		<b>139,834,128</b>	<b>127,323,982</b>

These consolidated financial statements were approved by the Board of Directors on 18 January 2017 and were signed on its behalf by:

**Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani**  
Chairman

**Bassel Gamal**  
Group Chief Executive Officer

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

**CONSOLIDATED STATEMENT OF INCOME****QAR '000s****For the year ended 31 December**

	Notes	2016	2015
<b>Continuing operations</b>			
Net income from financing activities	26	<b>4,016,100</b>	3,201,258
Net income from investing activities	27	<b>741,003</b>	691,261
<b>Total net income from financing and investing activities</b>		<b>4,757,103</b>	3,892,519
Fee and commission income		<b>642,313</b>	585,760
Fee and commission expense		<b>(123,452)</b>	(107,707)
<b>Net fee and commission income</b>	28	<b>518,861</b>	478,053
Net foreign exchange gain	29	<b>176,138</b>	82,401
Share of results of associates	12	<b>10,864</b>	33,291
Other income		<b>25,259</b>	22,062
<b>Total income</b>		<b>5,488,225</b>	4,508,326
Staff costs	30	<b>(629,366)</b>	(620,666)
Depreciation and amortisation	15,16	<b>(87,921)</b>	(75,425)
Sukuk holders' share of profit		<b>(156,351)</b>	(162,322)
Other expenses	31	<b>(371,863)</b>	(347,970)
<b>Total expenses</b>		<b>(1,245,501)</b>	(1,206,383)
Net impairment losses on investment securities	11	<b>(225,725)</b>	(222,000)
Net impairment losses on financing assets	10	<b>(221,339)</b>	(104,936)
Other impairment losses		<b>(728)</b>	(4,033)
<b>Net profit for the year from continuing operations before tax and return to unrestricted investment account holders</b>		<b>3,794,932</b>	2,970,974
Less: Return to unrestricted investment account holders	22	<b>(1,679,400)</b>	(951,511)
<b>Profit from continuing operations before tax</b>		<b>2,115,532</b>	2,019,463
<b>Discontinued operations</b>			
Profit from a subsidiary held for sale	14	<b>5,266</b>	21,208
<b>Net profit for the year before tax</b>		<b>2,120,798</b>	2,040,671
Tax expense	32	<b>(10,074)</b>	(10,331)
<b>Net profit for the year</b>		<b>2,110,724</b>	2,030,340
<b>Net profit for the year attributable to:</b>			
Equity holders of the Bank		<b>2,155,104</b>	1,954,324
Non-controlling interests	24	<b>(44,380)</b>	76,016
<b>Net profit for the year</b>		<b>2,110,724</b>	2,030,340
<b>Earnings per share</b>			
Basic / diluted earnings per share (QAR per share)	35	<b>8.55</b>	8.06

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

QAR '000s

For the year ended 31 December

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

QAR '000s

For the year ended 31 December

	Share capital	Legal reserve	Risk reserve	General reserve	Fair value reserve	Foreign currency translation reserve	Other reserves	Proposed cash dividends	Share-based payment reserve	Retained earnings	Total equity attributable to the shareholders of the Bank	Non-controlling interests	Sukuk eligible as additional capital	Total equity
Balance at 1 January 2015	2,362,932	6,370,016	1,369,247	81,935	93,199	(29,157)	216,820	1,004,246	-	1,008,760	12,477,998	1,693,668	-	14,171,666
Foreign currency translation reserve movement	-	-	-	-	-	193	-	-	-	-	193	-	-	193
Sukuk eligible as additional capital (note 25)	-	-	-	-	-	-	-	-	-	-	-	-	2,000,000	2,000,000
Fair value reserve movement	-	-	-	-	40,814	-	-	-	-	-	40,814	-	-	40,814
Net profit for the year	-	-	-	-	-	-	-	-	-	1,954,324	1,954,324	76,016	-	2,030,340
Total recognised income and expense for the year	-	-	-	-	40,814	193	-	-	-	1,954,324	1,995,331	76,016	2,000,000	4,071,347
Cash dividends paid to shareholders (Note 23)	-	-	-	-	-	-	-	(1,004,246)	-	-	(1,004,246)	-	-	(1,004,246)
Transfer to risk reserve (Note 23)	-	-	623,843	-	-	-	-	-	-	(623,843)	-	-	-	-
Proposed cash dividends (Note 23)	-	-	-	-	-	-	-	1,004,246	-	(1,004,246)	-	-	-	-
Social and Sports Fund appropriation (Note 40)	-	-	-	-	-	-	-	-	-	(48,858)	(48,858)	-	-	(48,858)
Profit on Sukuk eligible as additional capital (Note 25)	-	-	-	-	-	-	-	-	-	(50,000)	(50,000)	-	-	(50,000)
Share-based payment reserve (Note 23)	-	-	-	-	-	-	-	-	6,216	-	6,216	6,184	-	12,400
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	22,455	-	22,455
Balance at 31 December 2015	2,362,932	6,370,016	1,993,090	81,935	134,013	(28,964)	216,820	1,004,246	6,216	1,236,137	13,376,441	1,798,323	2,000,000	17,174,764

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

CONSOLIDATED STATEMENT OF CASH FLOWS		QAR '000s	
For the year ended 31 December		2016	2015
<b>Cash flows from operating activities</b>	Notes		
Net profit for the year before tax		2,120,798	2,040,671
<b>Adjustments for:</b>			
Net impairment losses on financing assets	10	221,339	104,936
Net impairment losses on investment securities	11	225,725	222,000
Other impairment losses		728	4,033
Depreciation and amortisation	15,16	87,921	75,425
Net gain on sale of investment securities	27	(10,896)	335
Share of results of associates	12	(10,864)	(33,291)
Amortization of premium/discount on Sukuk		9,729	584
Gain from investment securities revaluation	27	(33,246)	(77,594)
Gain on sale of investment property	27	(130,686)	(132,322)
Employees end of service benefits charge	21	32,276	41,988
Share based payment expense	23(i)	7,989	12,400
<b>Profit before changes in operating assets and liabilities</b>		<b>2,520,813</b>	<b>2,259,165</b>
Change in reserve account with Qatar Central Bank		(389,073)	(1,083,893)
Change in due from banks		772,950	430,986
Change in financing assets		(10,876,472)	(27,645,315)
Change in other assets		28,545	189,295
Change in due to banks		2,408,081	3,094,615
Change in customers' current accounts		(138,812)	(930,947)
Change in other liabilities		1,911,178	(136,165)
Taxes paid		(10,075)	(10,331)
Employees' end of service benefits paid	21	(18,086)	(21,987)
<b>Net cash used in operating activities</b>		<b>(3,790,951)</b>	<b>(23,854,577)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(5,526,603)	(7,117,144)
Proceed from sale / redemption of investment securities		4,188,871	4,171,499
Acquisition of fixed assets		(105,115)	(131,491)
Acquisition of investment in associates	12	-	(59,163)
Net movement in investment properties		319,998	156,871
Dividends received from associate companies		11,100	25,500
<b>Net cash used in investing activities</b>		<b>(1,111,749)</b>	<b>(2,953,928)</b>
<b>Cash flows from financing activities</b>			
Change in equity of unrestricted investment accountholders		4,015,055	25,846,598
Net movement in non-controlling interest		2,603	28,639
Cash dividends paid to shareholders	23(h)	(1,004,246)	(1,004,246)
Profit paid on sukuk eligible as additional capital		(50,000)	-
Proceeds from sukuk issue		1,340,358	-
Proceeds from issuance of sukuk eligible as additional capital		2,000,000	2,000,000
<b>Net cash from financing activities</b>		<b>6,303,770</b>	<b>26,870,991</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,401,070</b>	<b>62,486</b>
Cash and cash equivalents at 1 January		9,255,437	9,192,951
<b>Cash and cash equivalents at 31 December</b>	36	<b>10,656,507</b>	<b>9,255,437</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS**

QAR '000s

For the year ended 31 December

**Movements during the year**

<b>Investment</b>	<b>At 1 January 2016</b>	<b>Investment (withdrawals)</b>	<b>Revaluation</b>	<b>Gross income</b>	<b>Dividends paid</b>	<b>Admin expense</b>	<b>Bank's fee as an agent</b>	<b>At 31 December 2016</b>
Real Estate Portfolio	73,164	-	-	-	-	-	-	73,164
Equity Securities Portfolio	578,183	307,648	(853)	10,165	(437)	(43)	(1,807)	892,856
	651,347	307,648	(853)	10,165	(437)	(43)	(1,807)	966,020

**Movements during the year**

<b>Investment</b>	<b>At 1 January 2015</b>	<b>Investment (withdrawals)</b>	<b>Revaluation</b>	<b>Gross income</b>	<b>Dividends paid</b>	<b>Admin expense</b>	<b>Bank's fee as an agent</b>	<b>At 31 December 2015</b>
Real Estate Portfolio	85,175	(12,011)	-	-	-	-	-	73,164
Equity Securities Portfolio	103,203	481,497	(9,246)	8,666	(157)	(47)	(5,733)	578,183
	188,378	469,486	(9,246)	8,666	(157)	(47)	(5,733)	651,347

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

## CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY FUND

QAR '000s

For the year ended 31 December

2016

2015

**Source of charity fund**

Earnings prohibited by Sharia'a during the year

3662,657**Use of charity fund**

Researches, donations and other uses during the year

(4,060)(5,341)**Decrease of sources over uses**(3,694)(2,684)

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



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# Notes to the Consolidated Financial Statements

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As at and for the year ended 31  
December 2016

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****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 2016 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 27 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 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 18 January 2017.

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

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

	Country of Incorporation	Principal Business Activity	Effective Percentage of Ownership	
			2016	2015
Arab Finance House	Lebanon	Banking	99.99%	99.99%
Aqar Real Estate Development and Investment Company W.L.L. ("Aqar") (i)	Qatar	Investment in real estate	49%	49%
Durat Al Doha Real Estate Investment and Development W.L.L. (ii)	Qatar	Investment in real estate	39.87%	39.87%
QIB Sukuk Ltd (iii)	Cayman Islands	Sukuk issuance	-	-
QIB Sukuk Funding Limited	Qatar	Financing company	100%	100%
QIB (UK)	United Kingdom	Investment banking	99.66%	99.66%
QInvest LLC	Qatar	Investment banking	50.13%	50.13%
Q West S.A.S.	France	Equity Investments	-	50.13%
Verdi Luxembourg SARL (iv)	Luxembourg	Investment in real estate	50.13%	50.13%
Q Business Services (iv)	Cayman Islands	Investment holding company	50.13%	50.13%
Q Liquidity Limited (iv)	Cayman Islands	Placements	50.13%	50.13%
QInvest Holding Mauritius (iv)	Mauritius	Investment holding company	50.13%	50.13%
Q Exhibit (iv)	Mauritius	Investment holding company	50.13%	50.13%
QInvest Luxembourg S.a.r.l. (iv)	Luxembourg	Investments	50.13%	50.13%
Q Green	Cayman Islands	Investment holding company	-	50.13%
Q Invest Saudi Arabia (iv)	Saudi Arabia	Investment holding company	-	50.13%
QI St Edmund's Terrace 2 Limited (iv)	Cayman Islands	Investment holding company	50.13%	50.13%
QInvest Marina LLC	Qatar	To provide financing facility	-	50.13%
QInvest Admiral LLC	Qatar	To provide financing facility	-	50.13%
QInvest Denmark LLC	Qatar	To provide financing facility	-	50.13%
QInvest IBFin LLC (Previously known as Qinvest Comms Holding LLC) (iv)	Qatar	To provide financing facility	50.13%	50.13%
QI One Wall Street Invest Co. (iv)	Cayman Islands	Investment holding company	50.13%	50.13%
QInvest Canyon LLC	Qatar	To provide financing facility	-	50.13%
QEthika 1 (iv)	Cayman Islands	Investment holding company	50.13%	50.13%
QNGPV1 (iv)	Cayman Islands	Investment holding company	50.13%	50.13%
QInvest Terabyte LLC	Qatar	To provide financing facility	-	50.13%
QInvest Charger LLC	Qatar	To provide financing facility	-	50.13%
QInvest Euro PE QFC LLC (iv)	Qatar	Investment holding company	50.13%	50.13%
QInvest Rio LLC (iv)	Qatar	Investment holding company	31.6%	50.13%
Rio income s.a.r.l. (iv)	Luxembourg	Investment in lease	45.12%	50.13%
QInvest Poultry LLC	Qatar	To provide financing facility	-	50.13%
Q Tomahawk LLC (iv)	Cayman Islands	Investment holding company	50.13%	50.13%
QInvest Refin LLC (iv)	Qatar	To provide financing facility	50.13%	50.13%
Q Alloy S.a.r.l (iv)	Luxembourg	To provide financing facility	50.13%	50.13%
QSeven 1 LP (iv)	Cayman Island	Investment in real estate	45.62%	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 1. REPORTING ENTITY (continued)

	Country of Incorporation	Principal Business Activity	Effective Percentage of Ownership	
			2015	2014
Q Lake (iv)	Cayman Island	To provide financing facility	<b>50.13%</b>	-
Q Anthem (iv)	Cayman Island	To provide financing facility	<b>50.13%</b>	-
Qinvest Portfoy Yonetimi A.S. (iv)	Turkey	Asset Management	<b>50.13%</b>	-

## Notes:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****2. BASIS OF PREPARATION****a) Statement of compliance**

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

**b) Basis of measurement**

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

**c) Functional and presentational currency**

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

**d) Use of estimates and judgments**

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Basis of consolidation****i. Business combinations**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****a) Basis of consolidation (continued)****i. Business combinations (continued)**

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

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

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

**ii. Business combinations and goodwill**

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**iii. Associates**

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

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

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

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

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

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

**iv. Funds management**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****b) Foreign currency****i. Foreign currency transactions and balances**

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

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

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

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

**ii. Foreign operations**

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

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

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

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

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

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

**c) Investment securities**

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

**i. Classification**

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

**Debt-type instruments**

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

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

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

**Equity-type instruments**

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****c) Investment securities (continued)****i. Classification (continued)**

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

**ii. Recognition and derecognition**

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

**iii. Measurement****Initial recognition**

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

**Subsequent measurement**

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

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

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

**iv. Measurement principles****Amortised cost measurement**

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

**Fair value measurement**

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

**d) Financing assets**

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

**Murabaha and Musawama**

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

**Mudaraba**

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

**Musharaka**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****d) Financing assets (continued)****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.

**e) Other financial assets and liabilities****i. Recognition and initial measurement**

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

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

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

**ii. De-recognition of financial assets and financial liabilities**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. On derecognition of a financial

asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in consolidated statement of income.

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

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

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

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

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

**iii. Offsetting**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****f) Impairment of financial assets**

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

**Equity-type investments classified as fair value through equity**

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

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

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

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

**g) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from

the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

**h) Investment properties**

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

**i) Risk Management Instruments**

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

**j) Fixed assets****Recognition and measurement**

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****j) 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:

	Years
Buildings	20
IT equipment	3-5
Fixtures and fittings	5-7
Motor vehicles	5

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

**k) Intangible assets**

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

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

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

embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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

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

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

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

**l) Impairment of non-financial assets**

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****l) Impairment of non-financial assets (continued)**

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.

**m) Customer current accounts**

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

**n) Equity of unrestricted investment account holders**

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

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

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

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

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

**p) Restricted investment accounts**

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

**q) Sukuk financing**

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

**r) Provisions**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****s) Employee benefits****i. Defined contribution plans**

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

**ii. Employees' end of service benefits**

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

**iii. Short-term employee benefits**

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

**iv. Share-based payment transactions**

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

**Equity-settled transactions**

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

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

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

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

**t) Share capital and reserves****Dividends on ordinary shares**

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

**u) Revenue recognition****Murabaha and Musawama**

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

**Mudaraba**

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

**Musharaka**

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

**Ijara**

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

**Istisna'a**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****u) Revenue recognition (continued)****Wakala**

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

**Income from investment banking services**

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

**Fees and commission income**

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

**Dividend income**

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

**v) Tax expense**

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

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

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

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

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

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

**w) Earnings per share**

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

**x) Segment reporting**

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

**y) Fiduciary activities**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****z) Repossessed collateral**

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

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

**aa) Earnings prohibited by Shari'a**

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

**bb) Assets and liabilities held for sale**

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

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

**cc) Wakala payables**

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

**dd) Financial guarantees**

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

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

**ee) Contingent liabilities**

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

**ff) Comparatives**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****gg) Derivatives (continued)****Derivatives Held for Risk management Purposes and Hedge Accounting**

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

**Fair Value Hedges**

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

**Cash Flow Hedges**

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of

the derivative is recognised immediately in profit or loss. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to the consolidated statement of income as a reclassification adjustment.

**hh) New standards and interpretations****i. New standards, amendments and interpretations effective from 1 January 2016**

Financial Accounting Standard No. 27 (FAS 27): Investment Accounts

FAS 27 updates and replaces previous accounting standards relating to investment accounts – FAS 5: Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Account Holders as well as FAS 6: Equity of Investment Account Holders and Their Equivalent.

This standard applies to investment accounts based on Mudaraba contracts which represent "equity of investment accountholders and on Mudaraba contracts that are placed on "short-term basis" (overnight, seven days, one month basis) by other financial institutions as "interbank-bank deposits" for the purpose of liquidity management. However, it is not applicable to own equity instruments, wakala contracts, reverse murabaha, musharaka or sukuk.

During the year, the Group applied FAS 27 as it is effective from financial periods beginning from 1 January 2016. Accordingly, adoption of FAS 27 did not have a significant impact on the Group's consolidated financial statements.

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

International Financial Reporting Standard No. 9 (IFRS 9): Financial Instruments

The final version of IFRS 9 was issued in July 2014, replacing the earlier versions of introducing new classification and measurement requirements (issued in 2009 and 2010) and a new hedge accounting model (issued in 2013) and has an effective date of 1 January 2018. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****hh) New standards and interpretations (continued)****ii. New standards, amendments and interpretations issued but not yet effective (continued)**

The application of IFRS 9 may have significant impact on amounts reported in the consolidated financial statements and will result in more extensive disclosures in the consolidated financial statements. However, the Group is currently in the process of evaluating and implementing the required changes in its systems, policies and processes to comply with IFRS 9 and regulatory requirements, and hence it is not practical to disclose a reliable quantitative impact until the implementation programme is further advanced.

**4. FINANCIAL RISK MANAGEMENT****a) Introduction and overview****Financial instruments**

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

**Risk Management**

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

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

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

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

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

**Risk management framework**

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

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

The Board Executive Committee is represented by Board Members with the Group Chief Executive Officer participation, and senior executives of the Bank who bear the responsibility of information under discussion. The 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.

Compensation & Benefits Committee consists of Board Members, Group Chief Executive Officer and GM Human Capital. Its main responsibility is to select & evaluate applicants for senior executive posts, and provides recommendations thereof to the Board of Directors. In addition, it determines senior staff rewards and privileges, and distributes the same as per performance appraisals. Besides, the Committee looks into recommendations of promotions and salary increments to verify their alignment to the approved budget.

Zakat Committee is responsible to promote interdependence and integration among members of the Muslim community by channeling contributions of Zakat. The Committee identifies key players in the field of humanitarian aid, general development and other channels that can be used to distribute Zakat proceeds.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****4. FINANCIAL RISK MANAGEMENT (continued)****a) Introduction and overview (continued)****Risk management framework (continued)**

The Committee is responsible to develop good relationships with charitable, humanitarian aid groups and institutions that provide assistance in general development in order to evaluate recipients who would receive Zakat proceeds.

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

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.

**b) Credit risk**

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

The Group's credit risk management framework includes:

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

The Credit Committee is responsible for sanctioning high value credits and for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

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

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

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

	2016	2015
Balances with central banks	4,854,203	4,450,331
Due from banks	10,149,896	9,494,044
Financing assets	98,170,520	87,515,388
Investment securities - debt	18,461,089	17,208,344
Other assets	684,574	603,155
	<u>132,320,282</u>	<u>119,271,262</u>

**Other credit risk exposures**

Guarantees	10,187,579	11,036,519
Unutilised financing facilities	5,539,823	8,758,508
Letters of credit	3,105,980	1,929,350
	<u>18,833,382</u>	<u>21,724,377</u>

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (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 2016

## Assets recorded on the consolidated statement of financial position:

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

## 31 December 2015

## Assets recorded on the consolidated statement of financial position:

	Qatar	Other GCC	Other Middle East	Others	Total
Balances with central banks	4,304,405	-	120,651	25,275	4,450,331
Due from banks	5,491,361	1,989,611	726,114	1,286,958	9,494,044
Financing assets	77,494,041	2,703,673	495,328	6,822,346	87,515,388
Investment securities - debt	14,199,911	1,125,881	447,290	1,435,262	17,208,344
Other assets	339,810	9,279	30,989	223,077	603,155
	<u>101,829,528</u>	<u>5,828,444</u>	<u>1,820,372</u>	<u>9,792,918</u>	<u>119,271,262</u>

## Off balance sheet items

## 31 December 2016

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

## 31 December 2015

	Qatar	Other GCC	Other Middle East	Others	Total
Guarantees	10,966,265	47,866	6,367	16,021	11,036,519
Unutilised financing facilities	8,501,045	-	13,626	243,837	8,758,508
Letters of credit	1,918,957	-	-	10,393	1,929,350
	<u>21,386,267</u>	<u>47,866</u>	<u>19,993</u>	<u>270,251</u>	<u>21,724,377</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 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 2016	Net exposure 2015
<b>Funded and unfunded:</b>		
Government	26,630,258	21,287,655
Non-banking Financial Institutions	7,610,897	6,981,012
Industry	6,691,524	6,529,556
Commercial	14,490,017	14,548,890
Services	25,922,141	22,033,998
Contracting	4,609,898	2,930,251
Real estate	20,805,581	18,857,937
Personal	23,499,627	23,203,573
Others	2,060,338	2,898,390
Contingent liabilities	18,833,383	21,724,377
<b>Total</b>	<b>151,153,664</b>	<b>140,995,639</b>

## Credit risk exposure

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

	2016	2015
Equivalent grades		
AAA to AA-	28,250,567	24,398,704
A+ to A-	9,028,649	7,025,809
BBB to BBB-	1,223,545	927,037
BB+ to B-	298,765	547,996
Unrated	112,352,138	108,096,093
<b>Total</b>	<b>151,153,664</b>	<b>140,995,639</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

## (iii) Credit quality

The following table provides the details for the credit quality:

	Financing assets		Due from banks		Investment securities	
	2016	2015	2016	2015	2016	2015
<b>Neither past due nor impaired:</b>						
Gross amount	103,610,122	95,734,035	10,158,182	9,499,452	-	-
Deferred profit	(7,149,002)	(10,542,027)	(8,286)	(5,408)	-	-
<b>Carrying amount</b>	<b>96,461,120</b>	<b>85,192,008</b>	<b>10,149,896</b>	<b>9,494,044</b>	<b>-</b>	<b>-</b>
<b>Past due but not impaired:</b>						
<b>Carrying amount</b>	<b>1,558,765</b>	<b>2,367,226</b>				
<b>Impaired</b>						
Substandard (overdue > 3 months)	519,474	115,319			-	-
Doubtful (overdue > 6 months)	42,941	36,586			-	-
Loss (overdue > 9 months)	452,444	449,634			-	-
	1,014,859	601,539			-	-
Specific impairment allowance	(735,947)	(552,975)			-	-
Collective impairment allowance	(63,335)	(26,978)			-	-
Suspended profit	(64,942)	(65,432)			-	-
	(864,224)	(645,385)			-	-
<b>Carrying amount (net)</b>	<b>150,635</b>	<b>(43,846)</b>				
<b>Investment securities</b>						
At fair value through income statement	-	-			46,507	109,688
At amortised cost	-	-			18,427,309	17,098,656
	-	-			18,473,816	17,208,344
<b>Impairment</b>					(12,727)	-
<b>Carrying amount (net)</b>					<b>18,461,089</b>	<b>17,208,344</b>
<b>Total carrying amount</b>	<b>98,170,520</b>	<b>87,515,388</b>	<b>10,149,896</b>	<b>9,494,044</b>	<b>18,461,089</b>	<b>17,208,344</b>

**Impaired financing assets and investment in debt-type securities**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)****(iii) Credit quality (continued)****Financing assets past due but not impaired**

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

	2016	2015
Up to 30 days	1,325,132	1,300,347
30 to 60 days	171,260	827,896
60 – 90 days	62,373	238,931
More than 90 days	-	52
<b>Gross</b>	<b>1,558,765</b>	<b>2,367,226</b>

**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 2016 amounted to QAR 20.6 million (2015: QAR 76 million). These mainly represent Ijarah and Istisna' financing that have been restructured upon completion of underlying assets and based on the expected future cash flows.

**(iv) Collateral**

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

The Group has collateral in the form of blocked deposits, pledge of shares, mortgage interests over properties, and guarantees or legal mortgage against the past dues financing assets. The aggregate collateral is QAR 1,171 million (2015: QAR 1,100 million).

**(v) Repossessed collateral**

Repossessioned 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. The Group generally does not use the non-cash collateral for its own operations.

**(vi) Write-off policy**

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

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

**c) Liquidity risk**

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

**(i) Management of liquidity risk**

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

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

**(ii) Exposure to liquidity risk**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (Continued)

## c) Liquidity risk (continued)

## (iii) Maturity analysis

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

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
<b>2016</b>						
Cash and balances with central banks	985,675	1,462	-	4,460,046	-	5,447,183
Due from banks	9,670,832	87,683	391,381	-	-	10,149,896
Financing assets	24,536,477	17,344,454	6,311,588	20,591,302	29,386,699	98,170,520
Investment securities	3,603,172	1,064,067	234,830	7,127,835	7,928,813	19,958,717
Investment in associates	-	-	-	-	875,034	875,034
Investment properties	-	-	-	-	929,826	929,826
Assets of a subsidiary held for sale	-	-	-	-	-	-
Fixed assets	145	436	73,293	19,609	423,774	517,257
Intangible assets	38	69	1,327	25,468	405,021	431,923
Other assets	310,377	124,309	239,932	439,510	2,239,644	3,353,772
<b>Total assets</b>	<b>39,106,716</b>	<b>18,622,480</b>	<b>7,252,351</b>	<b>32,663,770</b>	<b>42,188,811</b>	<b>139,834,128</b>

## Liabilities and equity of unrestricted investment account holders

## Liabilities

Due to banks	10,298,018	1,670,513	958,757	679,620	-	13,606,908
Customers' current accounts	14,055,114	-	-	-	-	14,055,114
Sukuk financing	-	-	2,721,658	1,339,520	2,730,000	6,791,178
Liabilities of a subsidiary held for sale	-	-	-	-	-	-
Other liabilities	1,391,069	2,053,480	291,342	144,917	159,817	4,040,625
<b>Total liabilities</b>	<b>25,744,201</b>	<b>3,723,993</b>	<b>3,971,757</b>	<b>2,164,057</b>	<b>2,889,817</b>	<b>38,493,825</b>
<b>Equity of unrestricted investment account holders</b>	<b>58,141,215</b>	<b>11,059,730</b>	<b>8,974,015</b>	<b>2,029,107</b>	<b>1,137,575</b>	<b>81,341,642</b>
<b>Total liabilities and equity of unrestricted investment account holders</b>	<b>83,885,416</b>	<b>14,783,723</b>	<b>12,945,772</b>	<b>4,193,164</b>	<b>4,027,392</b>	<b>119,835,467</b>
<b>Maturity gap</b>	<b>(44,778,700)</b>	<b>3,838,757</b>	<b>(5,693,421)</b>	<b>28,470,606</b>	<b>38,161,419</b>	<b>19,998,661</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (Continued)

## c) Liquidity risk (continued)

## (iii) Maturity analysis (continued)

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
2015						
Cash and balances with central banks	1,018,920	30,690	-	4,036,230	-	5,085,840
Due from banks	9,248,319	219,972	25,753	-	-	9,494,044
Financing assets	12,070,482	9,268,603	7,397,916	18,915,520	39,862,867	87,515,388
Investment securities	1,996,540	458,060	698,265	7,765,328	7,921,893	18,840,086
Investment in associates	-	-	-	-	1,047,869	1,047,869
Investment properties	-	-	-	-	1,055,181	1,055,181
Assets of a subsidiary held for sale	-	4,460	-	-	-	4,460
Fixed assets	8	341	60,034	22,986	492,033	575,402
Intangible assets	54	1,301	119,311	23,887	266,057	410,610
Other assets	348,901	83,251	141,311	242,178	2,479,461	3,295,102
Total assets	<u>24,683,224</u>	<u>10,066,678</u>	<u>8,442,590</u>	<u>31,006,129</u>	<u>53,125,361</u>	<u>127,323,982</u>
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks	8,183,377	1,274,195	23,872	1,717,383	-	11,198,827
Customers' current accounts	14,193,927	-	-	-	-	14,193,927
Sukuk financing	-	-	-	2,725,603	2,725,217	5,450,820
Liabilities of a subsidiary held for sale	-	3,399	-	-	-	3,399
Other liabilities	1,108,046	226,654	330,210	96,433	214,315	1,975,658
Total liabilities	<u>23,485,350</u>	<u>1,504,248</u>	<u>354,082</u>	<u>4,539,419</u>	<u>2,939,532</u>	<u>32,822,631</u>
Equity of unrestricted investment account holders	<u>55,676,671</u>	<u>10,370,363</u>	<u>9,857,369</u>	<u>818,927</u>	<u>603,257</u>	<u>77,326,587</u>
Total liabilities and equity of unrestricted investment account holders	<u>79,162,021</u>	<u>11,874,611</u>	<u>10,211,451</u>	<u>5,358,346</u>	<u>3,542,789</u>	<u>110,149,218</u>
Maturity gap	<u>(54,478,797)</u>	<u>(1,807,933)</u>	<u>(1,768,861)</u>	<u>25,647,783</u>	<u>49,582,572</u>	<u>17,174,764</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****4. FINANCIAL RISK MANAGEMENT (continued)****d) Market risks**

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

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

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

**(i) Management of market risks**

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

**(ii) Exposure to market risks – trading portfolios**

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

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

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

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

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

	At 31 December	Average	Maximum	Minimum
<b>2016</b>				
<b>Equity price risk 10-day VaR @99%</b>	<b>564</b>	<b>424</b>	<b>564</b>	<b>308</b>
<b>2015</b>				
<b>Equity price risk 10-day VaR @99%</b>	<b>382</b>	<b>280</b>	<b>382</b>	<b>208</b>

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****4. FINANCIAL RISK MANAGEMENT (continued)****d) Market risks (continued)****(iii) Exposure to profit rate risk – non-trading portfolios (Continued)**

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

	Carrying amount	Repricing in:					Non-profit sensitive	Effective profit rate
		Less than 3 months	3-12 months	1-5 years	More than 5 years			
<b>2016</b>								
Cash and balances with central banks	5,447,183	930,156	1,462	50,441	-	4,465,124	-	-
Due from banks	10,149,896	9,481,119	668,777	-	-	-	-	1.00%
Financing assets	98,170,520	50,141,522	31,689,203	12,685,530	3,654,265	-	-	4.21%
Investment securities	19,958,717	3,096,850	1,363,564	10,032,677	4,053,260	1,412,366	-	3.19%
	133,726,316	63,649,647	33,723,006	22,768,648	7,707,525	5,877,490	-	-
Due to banks	13,606,908	10,296,575	2,629,270	679,619	1,444	-	-	1.60%
Sukuk financing	6,791,178	1,339,520	2,721,658	2,730,000	-	-	-	2.58%
	20,398,086	11,636,095	5,350,928	3,409,619	1,444	-	-	-
<b>Equity of unrestricted investment account holders</b>								
	81,341,642	59,685,154	20,031,198	1,625,290	-	-	-	2.14%
	101,739,728	71,321,249	25,382,126	5,034,909	1,444	-	-	-
<b>Profit rate sensitivity gap</b>	31,986,588	(7,671,602)	8,340,880	17,733,739	7,706,081	5,877,490	-	-
<b>Cumulative profit rate sensitivity gap</b>	-	31,986,588	39,658,190	31,317,310	13,583,571	5,877,490	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (continued)

## d) Market risks (continued)

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

	Carrying amount	Less than 3 months	3-12 months	Repricing in:		Non-profit sensitive	Effective profit rate
				1-5 years	More than 5 years		
2015							
Cash and balances with central banks	5,085,840	923,093	30,690	-	-	4,132,057	-
Due from banks	9,494,044	9,224,736	269,308	-	-	-	0.54%
Financing assets	87,515,388	35,764,370	24,580,236	18,926,844	7,950,460	293,478	4.20%
Investment securities	18,840,086	1,746,155	1,113,397	11,359,399	2,973,042	1,648,093	2.90%
	120,935,358	47,658,354	25,993,631	30,286,243	10,923,502	6,073,628	-
Due to banks	11,198,827	8,172,718	1,284,854	1,741,255	-	-	0.70%
Sukuk financing	5,450,820	-	-	5,450,820	-	-	3.02%
	16,649,647	8,172,718	1,284,854	7,192,075	-	-	-
Equity of unrestricted investment account holders	77,326,587	55,676,672	20,227,731	1,422,184	-	-	1.42%
	93,976,234	63,849,390	21,512,585	8,614,259	-	-	-
Profit rate sensitivity gap	26,959,124	(16,191,036)	4,481,046	21,671,984	10,923,502	6,073,628	-
Cumulative profit rate sensitivity gap	-	26,959,124	43,150,160	38,669,114	16,997,130	6,073,628	-

## 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
2016			
At 31 December		19.62 million	(19.62 million)
2015			
At 31 December		(64.59 million)	64.59 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 4. FINANCIAL RISK MANAGEMENT (Continued)

## (d) Market risks (Continued)

## (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 2016  
in QAR '000

	2016	2015
Net foreign currency exposure:		
Sterling Pounds	(5,439)	(13,817)
USD	(3,414,219)	(4,363,461)
Euro	12,107	6,174
Other currencies	159,567	126,082

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

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

	Increase / (decrease)	
	2016	2015
5% change in currency exchange rate		
Sterling Pound	(272)	(691)
USD	(170,711)	(218,173)
Euro	605	309
Other currencies	7,978	6,304

## 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	
		2016	2015	2016	2015
Qatar Exchange	+/- 10%	14,293	24,543	572	436
Bahrain Stock Exchange	+/- 10%	955	3,268	-	-
Damascus Securities Exchange	+/- 10%	-	5,799	-	-
France	+/- 10%	-	3,673	-	-

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****4. FINANCIAL RISK MANAGEMENT (Continued)****e) Operational risks (Continued)**

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

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

**f) Capital management****Regulatory capital**

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also 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:

	2016	2015
	Basel III	Basel III
Tier 1 capital	17,060,991	14,380,548
Tier 2 capital	514,347	377,811
Total regulatory capital	<u>17,575,338</u>	<u>14,758,359</u>

**Risk weighted assets**

	2016	2015
	Basel III	Basel III
Risk weighted assets for credit risk	97,915,186	98,384,667
Risk weighted assets for market risk	748,427	586,144
Risk weighted assets for operational risk	6,448,871	5,886,356
Total risk weighted assets	<u>105,112,484</u>	<u>104,857,167</u>
Regulatory capital	<u>17,575,338</u>	<u>14,758,359</u>
Risk weighted assets as a percentage of regulatory capital (capital ratio)	<u>16.7%</u>	<u>14.1%</u>

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

- Minimum limit without capital conservation buffer is 10%;
- Minimum limit including capital conservation buffer is 12.5%; and
- Minimum Total Capital plus Conservation Buffer plus Domestic Systemic Important Bank buffer is 12.75%.

**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**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****5. USE OF ESTIMATES AND JUDGMENTS (continued)****(b) Critical accounting judgements in applying the Group's accounting policies****(a) Key sources of estimation uncertainty (continued)****i. Allowance for credit losses (Continued)**

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

**ii. Determining fair values**

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

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

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

**i. Valuation of financial instruments**

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

## ii. Financial asset classification

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

	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>2016</b>				
<b>Assets measured at fair value:</b>				
<b>Investments securities:</b>				
Quoted equity-type investments classified as fair value through income statement	5,719	5,719	-	-
Quoted debt-type investments classified as fair value through income statement	46,507	46,507	-	-
Unquoted equity-type investments classified as fair value through income statement	972,889	-	222,796	750,093
Quoted equity-type investments classified as fair value through equity	166,759	166,759	-	-
Unquoted equity-type investments classified as fair value through equity	352,261	-	-	352,261

	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>2015</b>				
<b>Assets measured at fair value:</b>				
<b>Investments securities:</b>				
Quoted equity-type investments classified as fair value through income statement	4,357	4,357	-	-
Quoted debt-type investments classified as fair value through income statement	109,688	109,688	-	-
Unquoted equity-type investments classified as fair value through income statement	771,354	-	244,282	527,072
Quoted equity-type investments classified as fair value through equity	255,575	255,575	-	-
Unquoted equity-type investments classified as fair value through equity	410,756	-	-	410,756

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. The details of the Group's classification of financial assets and liabilities are disclosed in note 7.

There have been no transfers between level 1 and level 2 during the years ended 31 December 2016 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

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

	At 1 January 2015	Total gain recorded in consolidated income statement	Purchases	Sales/ transfers	At 31 December 2015
Equity investments					
at fair value through equity	404,785	-	289,905	(283,934)	410,756
at fair value through income statement	268,857	97,344	305,754	(144,883)	527,072
	<u>673,642</u>	<u>97,344</u>	<u>595,659</u>	<u>(428,817)</u>	<u>937,828</u>

## 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 6. OPERATING SEGMENTS (continued)

## Information about operating segments

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 6. OPERATING SEGMENTS (continued)

## Information about operating segments (continued)

	Corporate banking	Personal banking	Group function	Local & international subsidiaries	Total
2015					
External revenue:					
Total net income from financing and investing activities	2,057,788	1,041,592	365,076	428,063	3,892,519
Net fee and commission income	229,524	147,764	32,327	68,438	478,053
Net foreign exchange gain	-	-	79,015	3,386	82,401
Share of results of associates	-	-	35,985	(2,694)	33,291
Other income	-	-	-	22,062	22,062
Inter segment revenue	(498,686)	219,866	278,820	-	-
Profit from subsidiary held for sale	-	-	-	21,208	21,208
<b>Total segment income</b>	<b>1,788,626</b>	<b>1,409,222</b>	<b>791,223</b>	<b>540,463</b>	<b>4,529,534</b>
Staff costs, other expenses and depreciation and amortisation	(231,972)	(394,337)	(146,470)	(271,282)	(1,044,061)
Sukuk holders' share of profit	-	-	(162,322)	-	(162,322)
Net return to unrestricted investment account holders	(552,663)	(186,789)	(165,008)	(47,051)	(951,511)
Other material non-cash items:					
Net impairment losses on investment securities	-	-	(222,000)	-	(222,000)
Net impairment losses on financing assets	4,424	(77,224)	(4,464)	(27,672)	(104,936)
Other impairment losses	-	-	-	(4,033)	(4,033)
<b>Reportable segment net profit before tax</b>	<b>1,008,415</b>	<b>750,872</b>	<b>90,959</b>	<b>190,425</b>	<b>2,040,671</b>
<b>Reportable segment assets</b>	<b>68,114,062</b>	<b>17,481,757</b>	<b>36,485,935</b>	<b>5,242,228</b>	<b>127,323,982</b>
<b>Reportable segment liabilities and equity of unrestricted investments account holders</b>	<b>46,460,044</b>	<b>27,032,625</b>	<b>33,029,961</b>	<b>3,626,588</b>	<b>110,149,218</b>

## Note:

Certain segment income and expenses for the year ended 31 December 2015 were reclassified in the consolidated financial statements to conform to the presentation and classification adopted in the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 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
<b>2016</b>					
Cash and balances with central banks	-	-	5,447,183	5,447,183	5,447,183
Due from banks	-	-	10,149,896	10,149,896	10,149,896
Financing assets	-	-	98,170,520	98,170,520	98,170,520
Investment securities:					
- Measured at fair value	519,020	1,025,115	-	1,544,135	1,544,135
- Measured at amortised cost	-	-	18,414,582	18,414,582	18,027,867
Other assets	-	-	684,574	684,574	684,574
	<u>519,020</u>	<u>1,025,115</u>	<u>132,866,755</u>	<u>134,410,890</u>	<u>134,024,175</u>
Due to banks	-	-	13,606,908	13,606,908	13,606,908
Customers' current accounts	-	-	14,055,114	14,055,114	14,055,114
Sukuk financing	-	-	6,791,178	6,791,178	6,791,178
Other liabilities	-	-	4,040,625	4,040,625	4,040,625
Equity of unrestricted investment account holders	-	-	81,341,642	81,341,642	81,341,642
	<u>-</u>	<u>-</u>	<u>119,835,467</u>	<u>119,835,467</u>	<u>119,835,467</u>

	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
<b>2015</b>					
Cash and balances with central banks	-	-	5,085,840	5,085,840	5,085,840
Due from banks	-	-	9,494,044	9,494,044	9,494,044
Financing assets	-	-	87,515,388	87,515,388	87,515,388
Investment securities:					
- Measured at fair value	856,031	885,399	-	1,741,430	1,741,430
- Measured at amortised cost	-	-	17,098,656	17,098,656	16,824,656
Other assets	-	-	603,155	603,155	603,155
	<u>856,031</u>	<u>885,399</u>	<u>119,797,083</u>	<u>121,538,513</u>	<u>121,264,513</u>
Due to banks	-	-	11,198,827	11,198,827	11,198,827
Customers' current accounts	-	-	14,193,927	14,193,927	14,193,927
Sukuk financing	-	-	5,450,820	5,450,820	5,450,820
Other liabilities	-	-	1,975,658	1,975,658	1,975,658
Equity of unrestricted investment account holders	-	-	77,326,587	77,326,587	77,326,587
	<u>-</u>	<u>-</u>	<u>110,145,819</u>	<u>110,145,819</u>	<u>110,145,819</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 8. CASH AND BALANCES WITH CENTRAL BANKS

	2016	2015
Cash in hand	592,980	635,509
Cash reserve with QCB (i)	4,409,600	4,036,234
Other balances with QCB	255,048	164,169
Balances with other central banks	189,555	249,928
	<u>5,447,183</u>	<u>5,085,840</u>

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

## 9. DUE FROM BANKS

	2016	2015
Commodity murabaha receivable	4,927,832	3,098,792
Wakala placements	4,330,834	4,784,390
Mudaraba placements	75,797	483,529
Current accounts	815,433	1,127,333
	<u>10,149,896</u>	<u>9,494,044</u>

## 10. FINANCING ASSETS

## (a) By type

	2016	2015
Receivables and balances from financing activities:		
Murabaha	66,323,646	62,584,057
Musawama	15,474,002	15,146,418
Ijarah Muntahia Bittamleek	20,733,166	18,984,693
Istisna'a	445,736	689,751
Mudaraba	631,700	627,970
Others	2,575,496	669,911
<b>Total financing assets</b>	<b>106,183,746</b>	<b>98,702,800</b>
Less: Deferred profit	7,149,002	10,542,027
Specific impairment of financing assets	735,947	552,975
Collective impairment of financing assets	63,335	26,978
	<u>799,282</u>	<u>579,953</u>
Suspended profit	64,942	65,432
<b>Net financing assets</b>	<b>98,170,520</b>	<b>87,515,388</b>

The impaired financing assets net of deferred profit amounted to QAR 996 million as at 31 December 2016 representing 1% of the total financing assets net of deferred profit (31 December 2015: QAR 572 million, representing 0.7% of the total financing assets net of deferred profit).

## Impairment distribution by nature of the customer is as follow:

	2016	2015
Corporate	355,396	146,203
Retail and others	443,886	433,750
	<u>799,282</u>	<u>579,953</u>

## (b) Movement in impairment of financing assets is as follows:

	2016	2015
Balance at 1 January	579,953	514,849
Charge for the year	349,014	240,374
Recoveries during the year	(127,675)	(135,438)
Net impairment losses during the year	221,339	104,936
Written off during the year	(3,155)	(11,836)
Adjustments	1,145	(27,996)
<b>Balance at 31 December</b>	<b>799,282</b>	<b>579,953</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 10. FINANCING ASSETS (continued)

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

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

	Corporates	SMEs	Retail	Real Estate Mortgages	Total
<b>2015</b>					
Balance at 1 January 2015	138,876	5,758	306,495	63,720	514,849
Charge for the year	69,728	4,316	161,832	4,498	240,374
Recoveries during the year	(33,215)	(3,575)	(69,672)	(28,976)	(135,438)
Written off during the year	(221)	(243)	(2,015)	(9,357)	(11,836)
Adjustments	(28,965)	(881)	(4,561)	6,411	(27,996)
<b>Balance at 31 December 2015</b>	<b>146,203</b>	<b>5,375</b>	<b>392,079</b>	<b>36,296</b>	<b>579,953</b>

## (d) By sector

	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
<b>2016</b>							
Government and related entities	7,683,036	850	2,664,033	7,325	-	266	10,355,510
Non-banking financial institutions	7,742,232	-	6,898	-	-	45	7,749,175
Industry	5,081,413	11,112	1,293,837	1,977	500	16,505	6,405,344
Commercial	11,914,571	347,845	2,071,383	98,261	14,111	113,204	14,559,375
Services	8,048,671	52,065	187,554	1,593	50,000	2,216,895	10,556,778
Contracting	3,642,200	230,723	328,383	9,445	562,715	29,011	4,802,477
Real estate	10,365,355	199,909	13,257,352	298,524	-	37,503	24,158,643
Personal	10,449,285	14,588,304	624,502	28,410	-	149,916	25,840,417
Others	1,396,883	43,194	299,224	201	4,374	12,151	1,756,027
<b>Total financing assets</b>	<b>66,323,646</b>	<b>15,474,002</b>	<b>20,733,166</b>	<b>445,736</b>	<b>631,700</b>	<b>2,575,496</b>	<b>106,183,746</b>
Less: Deferred profit							7,149,002
Provision for impairment of financing assets							735,947
Collective impairment of financing assets							63,335
Suspended profit							64,942
<b>Net financing assets</b>							<b>98,170,520</b>

Note:

Details of financing assets related to Sukuk backed assets as at 31 December 2016 are disclosed in Note 20 to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 10. FINANCING ASSETS (continued)

## (d) By sector (continued)

	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
2015							
Government and related entities	6,330,882	-	-	-	-	74	6,330,956
Non-banking financial institutions	7,155,410	-	-	-	-	36,444	7,191,854
Industry	4,290,079	52,688	1,892,119	2,322	-	2,190	6,239,398
Commercial	13,714,010	394,544	363,034	4,607	13,879	34,201	14,524,275
Services	7,389,700	893,920	-	4,120	-	7,758	8,295,498
Contracting	2,050,132	305,149	16,179	6,920	569,321	6,366	2,954,067
Real estate	5,016,051	156,352	16,713,361	671,782	-	45,564	22,603,110
Personal	14,099,560	13,274,907	-	-	2,878	147,026	27,524,371
Others	2,538,233	68,858	-	-	41,892	390,288	3,039,271
Total financing assets	<u>62,584,057</u>	<u>15,146,418</u>	<u>18,984,693</u>	<u>689,751</u>	<u>627,970</u>	<u>669,911</u>	<u>98,702,800</u>
Less: Deferred profit							10,542,027
Provision for impairment of financing assets							552,975
Collective impairment of financing assets							26,978
Suspended profit							65,432
Net financing assets							<u>87,515,388</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 11. INVESTMENT SECURITIES

	2016			2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
<i>Investments classified as fair value through income statement</i>						
• equity-type investments (iii)	5,719	972,889	978,608	4,357	771,354	775,711
• debt-type investments						
- Fixed rate	46,507	-	46,507	109,688	-	109,688
	<u>52,226</u>	<u>972,889</u>	<u>1,025,115</u>	<u>114,045</u>	<u>771,354</u>	<u>885,399</u>
<i>Debt-type investments classified at amortised cost (i)</i>						
- State of Qatar Sukuk and QCB Murabaha	2,051,196	13,722,650	15,773,846	1,686,441	12,701,835	14,388,276
- Fixed rate	2,481,418	14,851	2,496,269	2,424,259	145,846	2,570,105
- Floating rate	-	144,467	144,467	131,175	198,800	329,975
	<u>4,532,614</u>	<u>13,881,968</u>	<u>18,414,582</u>	<u>4,241,875</u>	<u>13,046,481</u>	<u>17,288,356</u>
<i>Equity-type investments classified as fair value through equity (iv)</i>						
	166,759	352,261	519,020	255,575	410,756	666,331
	<u>4,751,599</u>	<u>15,207,118</u>	<u>19,958,717</u>	<u>4,611,495</u>	<u>14,228,591</u>	<u>18,840,086</u>

**Notes:**

Notes:

(i) The fair value of the investments carried at amortised cost as at 31 December 2016 amounted to QAR 18,027 million (2015: QAR 16,824 million).

(ii) The fair value hierarchy and the transfers between categories of fair value hierarchy are disclosed in Note 5 (b).

(iii) QInvest, a subsidiary of the Bank has an investment in QIT DF Hold Co, which was classified as an investment in associate. Qinvest has evaluated its investment relationship with QIT DF in April 2016 and since it no more exercises significant influence over the investee, the investment in QIT DF Hold Co has been classified as fair value through income statement in these consolidated financial statements.

(iv) QInvest, as subsidiary of the Bank has 10% ownership of Al Damaan Islamic Insurance Company (DIIC), which was classified as investment securities (fair value through equity). QInvest, along with its parent company exercise significant influence in DIIC. From 1 April 2016, the investment in DIIC has been classified as an investment in associate in these consolidated financial statements

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:

	2016	2015
Balance at 1 January	929,869	859,589
Charge during the year	225,725	222,000
Write off / reversals / transfers during the year	(236,548)	(151,720)
<b>Balance at 31 December</b>	<b>919,046</b>	<b>929,869</b>

Note:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 12. INVESTMENT IN ASSOCIATES

Associates' movement during the year is as follows:

	2016	2015
Balance at 1 January	1,047,869	966,777
Foreign currency translation and other movements	(114,173)	14,138
Investments (transferred) / acquired during the year	(58,426)	59,163
Share of results	10,864	33,291
Cash dividend	(11,100)	(25,500)
<b>Balance at 31 December</b>	<b>875,034</b>	<b>1,047,869</b>

Name of the Company	Country of Incorporation	Company's Activities	Ownership %	
			2016	2015
Al Jazeera Finance Company (Q.S.C)	Qatar	Financing	30.00%	30.00%
Al Daman Islamic Insurance	Qatar	Insurance	30.01%	25.00%
Retaj Marketing and Project Management	Qatar	Real Estate	20.00%	20.00%
Retaj Hotels and Hospitality W.L.L.	Qatar	Real Estate	20.00%	20.00%
Retaj Real Estate W.L.L.	Qatar	Real Estate	20.00%	20.00%
Retaj Hotels and Hospitality W.L.L Istanbul	Qatar	Real Estate	20.00%	20.00%
Panmure Gordon & Co. PLC	United Kingdom	Brokerage	43.70%	43.70%
Ambit Corporate Finance	India	Financial Service	30.77%	29.90%
QIT DF Hold Co	Netherland	Investment Co.	-	27.90%
Asian Finance Bank Berhad	Malaysia	Banking	60.00%	60.00%

The financial position, revenue and result of associates based on its financial statements, as at and for the year ended 31 December 2016 and 2015 are as follows:

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

31 December 2015	Al Jazeera	Al Daman	Retaj	Panmure Gordon	Ambit Corporate Finance	QIT DF Hold Co	Asian Finance Bank
Total assets	1,368,563	839,655	237,244	266,849	382,365	360,608	1,521,221
Total liabilities	466,565	561,791	90,353	99,003	64,223	3,196	2,065,873
Total revenue	73,245	46,754	296,202	127,698	64,561	848	28,916
Net profit	35,832	32,279	34,041	(18,524)	12,410	768	4,715
Share of profit	15,724	15,594	2,680	(8,594)	3,038	182	4,667

Notes:

- Panmure Gordon & Co. PLC is listed on the Alternative Investment Market (AIM) in the UK. The closing share price of Panmure Gordon was QAR 258 as at 31 December 2016 (31 December 2015: QAR 362) having fair value of QAR 40 million. (31 December 2015: QAR 55 million). The other associate companies are not listed in any stock market.
- The financial statements for the four entities of Retaj have been presented together.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****13. INVESTMENT PROPERTIES**

	2016	2015
Balance at 1 January	1,055,181	1,216,420
Disposals	(332,709)	(100,659)
Addition	218,177	1,254
Changes in fair value	19,524	(5,708)
Exchange rate revaluation	(30,347)	(56,126)
<b>Balance at 31 December</b>	<b>929,826</b>	<b>1,055,181</b>

Note:

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

**14. ASSETS OF A SUBSIDIARY AND LIABILITIES DIRECTLY ASSOCIATED WITH SUCH ASSETS CLASSIFIED AS HELD FOR SALE**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	-	786
Other assets	-	3,674
<b>Total assets</b>	<b>-</b>	<b>4,460</b>
<b>Liability</b>		
Other liabilities	-	3,399
<b>Total liabilities</b>	<b>-</b>	<b>3,399</b>
<b>Profit for the year</b>	<b>5,266</b>	<b>21,208</b>

During 2014, the Group had classified all the assets and liabilities of its 100% owned subsidiary "QWest S.A.S.", a limited liability company incorporated under the laws of France, as held for sale. During the year 2015, most of the assets owned by QWest S.A.S. were disposed. The Group completed the disposal of remaining assets in July 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 15. FIXED ASSETS

	Land and buildings	IT equipments	Fixtures and fittings	Motor vehicles	Work in progress	Total
<b>Cost:</b>						
Balance at 1 January 2016	469,897	158,251	275,365	6,591	58,927	969,031
Additions	12,656	11,774	42,121	-	17,702	84,253
Disposals	(50,916)	(149)	(508)	(30)	(42,919)	(94,522)
Foreign Currency Translation	(12,732)	(355)	(3,353)	-	-	(16,440)
<b>Balance at 31 December 2016</b>	<b>418,905</b>	<b>169,521</b>	<b>313,625</b>	<b>6,561</b>	<b>33,710</b>	<b>942,322</b>
Balance at 1 January 2015	469,897	147,339	226,876	6,339	46,267	896,718
Additions	-	10,912	48,582	252	12,660	72,406
Disposals	-	-	(93)	-	-	(93)
Balance at 31 December 2015	469,897	158,251	275,365	6,591	58,927	969,031
<b>Accumulated depreciation:</b>						
Balance at 1 January 2016	79,696	127,375	181,178	5,380	-	393,629
Depreciation charged during the year	6,388	14,228	24,718	383	-	45,717
Disposals	(11,882)	(27)	(432)	-	-	(12,341)
Foreign Currency Translation	(254)	(319)	(1,367)	-	-	(1,940)
<b>Balance at 31 December 2016</b>	<b>73,948</b>	<b>141,257</b>	<b>204,097</b>	<b>5,763</b>	<b>-</b>	<b>425,065</b>
Balance at 1 January 2015	72,478	111,790	152,518	4,981	-	341,767
Depreciation charged during the year	7,218	15,585	28,730	399	-	51,932
Disposals	-	-	(70)	-	-	(70)
Balance at 31 December 2015	79,696	127,375	181,178	5,380	-	393,629
<b>Carrying amounts:</b>						
Balance at 1 January 2015	397,419	35,549	74,358	1,358	46,267	554,951
Balance at 31 December 2015	390,201	30,876	94,187	1,211	58,927	575,402
<b>Balance at 31 December 2016</b>	<b>344,957</b>	<b>28,264</b>	<b>109,528</b>	<b>798</b>	<b>33,710</b>	<b>517,257</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 16. INTANGIBLE ASSETS

	Goodwill	Trade marks	Software	Work in Progress	Total
Balance at 1 January 2016	239,026	1,875	52,568	117,141	410,610
Additions	1,758	219	178,946	44,982	225,905
Transfer	-	-	-	(162,123)	(162,123)
Foreign currency translation	-	(239)	(26)	-	(265)
Amortisation during the year	-	(724)	(41,480)	-	(42,204)
<b>Balance at 31 December 2016</b>	<b>240,784</b>	<b>1,131</b>	<b>190,008</b>	<b>-</b>	<b>431,923</b>
Balance at 1 January 2015	239,026	671	66,892	68,406	374,995
Additions	-	1,452	8,921	48,735	59,108
Amortisation during the year	-	(248)	(23,245)	-	(23,493)
Balance at 31 December 2015	239,026	1,875	52,568	117,141	410,610

## 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 2016. The recoverable amount of the investment in QInvest was determined using the dividend discount method.

## Key assumptions used in the valuation

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

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

## Arab Finance House

Goodwill acquired through the step acquisition of Arab Finance House (AFH) has been allocated to its CGU, which is retail banking and corporate banking. An impairment testing of the goodwill was undertaken by management as at 31 December 2016. The recoverable amount of the investment in AFH was determined using the dividend discount method.

## Key assumptions used in the valuation

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

## 17. OTHER ASSETS

	Note	2016	2015
Accrued profit		288,265	247,389
Projects under development		32,829	63,667
Repossessed collateral (i)		63,343	63,343
Derivative financial instruments (net)	17.1	600,880	170,596
Deferred tax assets		14,904	17,205
Prepayments and advances		60,473	104,544
Others (ii)		2,293,078	2,628,358
		<b>3,353,772</b>	<b>3,295,102</b>

Notes:

(i) This represents the net value of the property acquired in settlement of financing assets which is stated at its acquisition value less impairment allowance. The estimated market values of this property as at 31 December 2016 amounted to QAR 92 million (2015: QAR 92 million).

(ii) Others include properties under development of a subsidiary company amounting to QAR 1,851,770 (2015: QAR 2,597,731).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****17.1 Derivative financial instruments**

The table below shows the positive and negative fair values of derivative financial 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 derivatives. Derivative contracts are Shari'a compliant and were approved by the Shari'a Supervisory Board of the Group.

	2016			2015		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
<b>a) Held for trading derivatives</b>						
Forward foreign exchange contracts	351,037	7,316	2,314,904	14,524	-	9,040,710
<b>b) Derivatives held as cash flow hedges:</b>						
Forward foreign exchange contracts	103,216	122,578	18,067,262	72,478	-	13,092,286
Profit rate swaps	17,475	-	1,339,520	-	-	-
Cross currency swaps	22,465	-	-*	-	-	-
<b>c) Derivatives held as hedge of net investment in foreign operation</b>						
Forward foreign exchange contracts	41,236	367	773,510	6,516	3,884	721,219
<b>d) Derivatives held as fair value hedges</b>						
Cross currency swaps	195,096	-	1,098,495	94,612	14,236	1,754,849
Forward foreign exchange contracts	616	-	68,468	586	-	89,646
	<b>731,141</b>	<b>130,261</b>	<b>23,662,159</b>	<b>188,716</b>	<b>18,120</b>	<b>24,698,710</b>

\*Notional amount disclosed under fair value hedges QAR 1,098,495.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****18. DUE TO BANKS**

	2016	2015
Wakala payable	7,965,302	6,487,860
Commodity murabaha payable	5,476,484	4,556,768
Current accounts	165,122	154,199
	<u>13,606,908</u>	<u>11,198,827</u>

Wakala payables include various facilities with maturities up to two months and carries a profit rate of 0.25% to 1.75% (2015: maturities up to three months and carrying profit rate of 0.3% to 2.85%)

**19. CUSTOMERS' CURRENT ACCOUNTS**

	2016	2015
Current accounts by sector:		
- Government	1,045,136	385,646
- Non-banking financial institutions	289,338	612,955
- Corporate	3,384,392	4,235,601
- Individuals	9,336,248	8,959,725
	<u>14,055,114</u>	<u>14,193,927</u>

**20. SUKUK FINANCING**

Instrument	Issuer	Issued amount	Issued on	Maturity	Profit rate
Sukuk	QIB Sukuk Limited	QAR 2,730 million	October 2012	October 2017	Annual fixed profit rate of 2.5% payable semi-annually
Sukuk	QIB Sukuk Limited	QAR 2,725 million	October 2015	October 2020	Annual fixed profit rate of 2.754% payable semi-annually
Sukuk	QIB Sukuk Limited	QAR 1,339 million	August 2016	August 2019	Floating profit rate (3 month LIBOR plus 1.5%) payable on a quarterly basis

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

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

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

At 31 December	2016	2015
Murabaha	4,840,946	2,239,857
Ijarah	3,858,296	1,580,567
Wakala	-	1,793,000
Mudaraba	-	976,606
<b>Total financing assets to the Sukuk</b>	<u>8,699,242</u>	<u>6,590,030</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 21. OTHER LIABILITIES

Note	2016	2015	By type:	2016	2015
Accrued expenses	349,691	224,433	Term accounts	66,370,039	61,919,597
Manager cheques	248,873	161,964	Saving accounts	12,294,132	11,834,898
Customers advances	38,188	62,184	Call accounts	2,642,820	3,555,507
Provision for employees' end of service benefits (i)	135,830	121,640	<b>Total (b)</b>	<b>81,306,991</b>	<b>77,310,002</b>
Naps and visa settlements	294,122	134,577	By sector:		
Cash margins	137,550	152,640	Retail	22,362,918	22,065,362
Accrued profit to Sukuk holders	32,896	29,307	Corporate	23,647,449	23,510,056
Contribution to Social and Sports fund	53,778	48,859	Non-banking financial institution	14,303,463	15,199,318
Dividend payable	14,322	20,408	Government	18,218,503	13,402,575
Clearing cheques	3,601	4,820	Banks	2,774,658	3,132,691
Pension fund	410	189	<b>Total (b)</b>	<b>81,306,991</b>	<b>77,310,002</b>
Others (ii)	2,731,364	1,014,637			
	<b>4,040,625</b>	<b>1,975,658</b>			

Notes:

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

	2016	2015
Balance at 1 January	121,640	101,639
Charge for the year (Note 30)	32,276	41,988
Payments made during the year	(18,086)	(21,987)
<b>Balance at 31 December</b>	<b>135,830</b>	<b>121,640</b>

(ii) Others include acceptances amounting to QAR 2,328,113 (2015: QAR 293,478).

## 22. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2016	2015
Unrestricted investment account holders balance before share of profit	80,821,405	76,822,914
Add: Profits for unrestricted investment account holders for the year (a)	1,679,400	951,511
Less: Profit paid during the year	(1,193,814)	(464,423)
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	<b>81,306,991</b>	<b>77,310,002</b>

## 23. EQUITY

## (a) Share capital

	2016	2015
At 1 January	2,362,932	2,362,932
<b>At 31 December</b>	<b>2,362,932</b>	<b>2,362,932</b>

At 31 December 2016 the authorised and issued share capital comprised of 236 million ordinary shares (2015: 236 million), having a par value of QAR 10 per share.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

## 23. EQUITY (Continued)

## (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 circular 102/2011, a risk reserve should be created to cover contingencies on both the public and private sector financing assets, with a minimum requirement of 2.5% of the total private sector exposure inside and outside Qatar after the exclusion of the specific provisions and profit in suspense, to be appropriated from shareholders' profit. The finance provided to / or secured by the Ministry of Finance – Qatar or finance against cash guarantees is excluded from the gross direct finance. The total amount transferred to the risk reserve amounted to **QAR 177.2 million** (2015: QAR 623.8 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.

## (e) Fair value reserve

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

2015	Net movement during the year
Opening balance	93,199
Changes in fair value of cash flow hedges	3,940
Share of other comprehensive income of associates	24,293
Investments carried as fair value through equity:	
Movement in fair value through fair value reserve	32,938
Plus: Share of equity of unrestricted investment account holders	5,062
Revaluation of investment properties:	
Movement in investment property fair value	(3,772)
Less: Share of equity to unrestricted investment account holders	(21,647)
	134,013

## (f) Foreign currency translation reserve

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

## (g) Other reserves

Other reserves represent the Group's share in the undistributed profit from investments in associate companies after deducting the received dividends. During the year QAR Nil was transferred to other reserves from retained earnings (2015: QAR Nil was transferred to other reserves from retained earnings).

## (h) Proposed cash dividends

The Board of Directors in its meeting dated 18 January 2017 has proposed a cash dividend of 47.5% of the paid up share capital amounting to QAR 1,122 million – QAR 4.75 per share (2015: 42.5% of the paid up share capital amounting to QAR 1,004 million – QAR 4.25 per share) which is subject to approval at the Annual General Meeting of the shareholders of the Bank.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****23. EQUITY (Continued)****(i) Share-based payment reserve**

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

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

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

For the year ended 2016, the Group has recognised QAR 8 million as share-based payment expense in the statement of income (2015: QAR 12 million).

**24. NON-CONTROLLING INTERESTS**

This represents the Group's non-controlling interests in QInvest LLC (49.87%), QIB (UK) (0.34%), Aqar Real Estate Development & Investment (51%), Arab Finance House (0.007%) and Durat Al Doha Real Estate Investment & Development Company (60.13%).

**25. SUKUK ELIGIBLE AS ADDITIONAL CAPITAL**

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. 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.

**26. NET INCOME FROM FINANCING ACTIVITIES**

	2016	2015
<b>Income from:</b>		
Murabaha	2,297,458	1,619,825
Musawama	890,684	857,019
Ijarah Muntahia Bittamleek	767,532	666,745
Istisna'a	37,220	28,753
Mudaraba	22,999	22,499
Others	207	6,417
	<u>4,016,100</u>	<u>3,201,258</u>

**27. NET INCOME FROM INVESTING ACTIVITIES**

	2016	2015
Income from investment in debt-type instruments	543,335	476,269
Gain / (loss) on sale of equity-type investments	530	(4,820)
Net (cost) / income of inter-bank with / from Islamic banks	(57,333)	3,524
Net gain on sale of debt-type investments	10,366	4,485
Net gain on sale of investment properties	130,686	132,322
Fair value gain on investment securities carried as fair value through income statement	33,246	24,247
Rental income from investment properties	49,613	36,080
Dividend income	30,560	19,154
	<u>741,003</u>	<u>691,261</u>

**28. NET FEE AND COMMISSION INCOME**

	2016	2015
Feasibility study / management fees	185,227	178,994
Fees on letters of credit and guarantees	72,727	77,085
Banking services fees	251,199	222,368
Advisory fees	35,763	43,084
Others	97,397	64,229
	<u>642,313</u>	<u>585,760</u>
Fee and commission expense	(123,452)	(107,707)
Net fee and commission income	<u>518,861</u>	<u>478,053</u>

**29. NET FOREIGN EXCHANGE GAIN**

	2016	2015
Dealing in foreign currencies	17,331	10,113
Foreign exchange swap income	103,266	9,946
Revaluation of assets and liabilities	55,541	62,342
	<u>176,138</u>	<u>82,401</u>

**30. STAFF COSTS**

	2016	2015
Salaries and other benefits	589,292	570,175
Staff pension fund costs	7,798	8,503
Staff indemnity costs (Note 21)	32,276	41,988
	<u>629,366</u>	<u>620,666</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****31. OTHER EXPENSES**

	2016	2015
Legal and professional fees	53,529	32,455
Rent	49,406	48,646
Service expenses	49,385	51,632
Board of Directors' remuneration	18,000	18,000
IT expenses	61,076	58,532
Advertising and marketing expenses	31,221	32,267
Communication and utilities	36,830	35,505
Subscription fees	5,006	5,296
Repairs and maintenance	6,591	5,749
Insurance costs	4,020	5,291
Other expenses	56,799	54,597
	<u>371,863</u>	<u>347,970</u>

**32. TAX EXPENSE**

	2016	2015
<b>Current tax expense</b>		
Current year	10,074	10,331
Total tax expense	<u>10,074</u>	<u>10,331</u>

**33. CONTINGENT LIABILITIES AND COMMITMENTS**

	2016	2015
<b>a) Contingent liabilities</b>		
Unutilised financing facilities	5,539,823	8,758,508
Guarantees	10,187,579	11,036,519
Letters of credit	3,105,980	1,929,350
	<u>18,833,382</u>	<u>21,724,377</u>
<b>b) Commitments</b>		
Investment commitment	254,420	191,979
Forward foreign exchange contracts	21,224,144	22,943,861
Cross currency swaps and profit rate swaps	2,438,015	1,754,849
	<u>23,916,579</u>	<u>24,890,689</u>
<b>Total</b>	<u>42,749,961</u>	<u>46,615,066</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:

	2016	2015
Within one year	32,592	18,059
After one year but not more than five years	58,705	76,914
More than five years	124,267	117,374
	<u>215,564</u>	<u>212,347</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

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

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

	Qatar	Other GCC	Europe	North America	Others	Total
<b>2016</b>						
<b>Assets</b>						
Cash and balances with central banks	5,235,709	-	2,089	-	209,385	5,447,183
Due from banks	4,922,552	3,161,691	1,069,982	23,072	972,599	10,149,896
Financing assets	84,460,043	4,864,925	7,481,213	780,348	583,991	98,170,520
Investment securities	16,429,150	1,285,160	510,445	626,564	1,107,398	19,958,717
Investment in associates	456,815	-	62,968	-	355,251	875,034
Investment properties	258,039	-	671,787	-	-	929,826
Assets of a subsidiary held for sale	-	-	-	-	-	-
Fixed assets	425,211	-	71,116	-	20,930	517,257
Intangible assets	406,309	-	901	-	24,713	431,923
Other assets	2,223,110	122,108	915,916	19,508	73,130	3,353,772
<b>Total assets</b>	<b>114,816,938</b>	<b>9,433,884</b>	<b>10,786,417</b>	<b>1,449,492</b>	<b>3,347,397</b>	<b>139,834,128</b>
<b>Liabilities and equity of unrestricted investment account holders</b>						
<b>Liabilities</b>						
Due to banks	5,961,350	5,539,083	1,882,276	14,553	209,646	13,606,908
Customers' current accounts	13,628,911	67,060	80,833	-	278,310	14,055,114
Sukuk financing	6,791,178	-	-	-	-	6,791,178
Liabilities of a subsidiary held for sale	-	-	-	-	-	-
Other liabilities	1,530,131	4,873	2,420,555	5,219	79,847	4,040,625
<b>Total liabilities</b>	<b>27,911,570</b>	<b>5,611,016</b>	<b>4,383,664</b>	<b>19,772</b>	<b>567,803</b>	<b>38,493,825</b>
<b>Equity of unrestricted investment account holders</b>	<b>54,639,404</b>	<b>22,726,879</b>	<b>3,663,404</b>	<b>246,525</b>	<b>65,430</b>	<b>81,341,642</b>
<b>Total liabilities and equity of unrestricted investment account holders</b>	<b>82,550,974</b>	<b>28,337,895</b>	<b>8,047,068</b>	<b>266,297</b>	<b>633,233</b>	<b>119,835,467</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016

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

	Qatar	Other GCC	Europe	North America	Others	Total
<b>2015</b>						
<b>Assets</b>						
Cash and balances with central banks	4,815,000	-	2,808	-	268,032	5,085,840
Due from banks	5,850,965	1,989,975	151,167	193,148	1,308,789	9,494,044
Financing assets	77,494,041	2,703,673	5,594,952	396,045	1,326,677	87,515,388
Investment securities	15,164,621	1,378,202	647,859	562,859	1,086,545	18,840,086
Investment in associates	415,554	-	75,404	-	556,911	1,047,869
Investment properties	512,583	-	542,598	-	-	1,055,181
Assets of a subsidiary held for sale	-	-	4,460	-	-	4,460
Fixed assets	426,082	9	87,510	-	61,801	575,402
Intangible assets	385,572	106	1,589	-	23,343	410,610
Other assets	3,021,520	91,849	122,623	4,771	54,339	3,295,102
<b>Total assets</b>	<b>108,085,938</b>	<b>6,163,814</b>	<b>7,230,970</b>	<b>1,156,823</b>	<b>4,686,437</b>	<b>127,323,982</b>
<b>Liabilities and equity of unrestricted investment account holders</b>						
<b>Liabilities</b>						
Due to banks	4,188,001	6,067,727	781,531	-	161,568	11,198,827
Customers' current accounts	13,969,020	1,929	340	190	222,448	14,193,927
Sukuk financing	5,450,820	-	-	-	-	5,450,820
Liabilities of a subsidiary held for sale	-	-	3,399	-	-	3,399
Other liabilities	1,659,589	23,084	61,144	4,646	227,195	1,975,658
<b>Total liabilities</b>	<b>25,267,430</b>	<b>6,092,740</b>	<b>846,414</b>	<b>4,836</b>	<b>611,211</b>	<b>32,822,631</b>
Equity of unrestricted investment account holders	58,056,479	18,305,899	645,637	249,367	69,205	77,326,587
<b>Total liabilities and equity of unrestricted investment account holders</b>	<b>83,323,909</b>	<b>24,398,639</b>	<b>1,492,051</b>	<b>254,203</b>	<b>680,416</b>	<b>110,149,218</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****35. EARNINGS PER SHARE**

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

	2016	2015
Profit for the year attributable to equity holders of the Bank	2,155,104	1,954,324
Less: profit attributable to sukuk eligible as additional capital	<b>(135,000)</b>	(50,000)
<b>Profit for EPS computation</b>	<b><u>2,020,104</u></b>	<b><u>1,904,324</u></b>
<b>Weighted average number of shares outstanding during the year</b>	<b><u>236,293</u></b>	<b><u>236,293</u></b>
<b>Basic / diluted earnings per share (QAR)</b>	<b><u>8.55</u></b>	<b><u>8.06</u></b>

**36. CASH AND CASH EQUIVALENTS**

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

	2016	2015
Cash and balances with central banks (excluding restricted QCB and other central banks reserve account)	985,675	1,013,406
Due from banks	<b><u>9,670,832</u></b>	<b><u>8,242,031</u></b>
	<b><u>10,656,507</u></b>	<b><u>9,255,437</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****37. RELATED PARTIES**

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

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

	2016			2014		
	Associate companies	Board of Directors	Others	Associate companies	Board of Directors	Others
<b>Assets:</b>						
Financing assets	<b>351,840</b>	<b>1,166,128</b>	<b>1,590,533</b>	441,264	881,810	1,553,726
<b>Equity of unrestricted investment account holders</b>	<b>12,643</b>	<b>561,695</b>	<b>87,813</b>	38,888	211,904	156,750
<b>Off balance sheet items:</b>						
Contingent liabilities, guarantees and other commitments	-	<b>121,696</b>	<b>2,129</b>	-	240,699	1,887
<b>Consolidated statement of income items:</b>						
Financing income	<b>14,737</b>	<b>49,890</b>	<b>60,223</b>	13,478	19,583	50,469
Profit paid on deposits	<b>640</b>	<b>7,178</b>	<b>3,397</b>	435	1,697	5,690
Net income from investing activities	-	<b>(72,106)</b>	-	-	-	-
Others	-	-	-	-	-	15,602

Key management personnel compensation for the year comprised:

	2016	2015
Short term employee benefits	<b>77,947</b>	77,889
Other long term benefits	<b>12,320</b>	19,839
	<b>90,267</b>	97,728

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS As at and for the year ended 31 December 2016****38. ZAKAH**

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

**39. SHARI'A SUPERVISORY BOARD**

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

**40. SOCIAL AND SPORTS FUNDS APPROPRIATION**

The Group discharges its social responsibilities through donations to charitable causes and organizations when profits are reported. The Group has created provisions during the year of 2016 by QAR 53.8 million (2015: QAR 49 million) which represents 2.5% of net profit as per law No.13 for year 2008 and explanatory notes issued for 2010.

**41. COMPARATIVE FIGURES**

The comparative figures presented for 2015 have been reclassified where necessary to preserve consistency with the 2016 figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

## SUPPLEMENTARY INFORMATION At 31 December 2016

## FINANCIAL STATEMENT OF THE PARENT BANK

## A. STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK

As at 31 December	2016	2015
<b>ASSETS</b>		
Cash and balances with central banks	5,235,708	4,814,996
Due from banks	9,678,597	8,971,045
Financing assets	96,645,860	86,287,254
Investment securities	20,536,004	19,464,787
Investment in associates	587,148	682,329
Investment properties	470,414	791,354
Fixed assets	416,232	414,717
Intangible assets	188,743	167,743
Other assets	972,787	487,529
<b>TOTAL ASSETS</b>	<b>134,731,493</b>	<b>122,081,754</b>
<b>LIABILITIES</b>		
Due to banks	12,859,501	10,401,294
Customers' current accounts	13,680,294	13,974,537
Sukuk financing	6,791,178	5,450,820
Other liabilities	3,801,272	1,664,906
<b>TOTAL LIABILITIES</b>	<b>37,132,245</b>	<b>31,491,557</b>
<b>EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS</b>	<b>79,101,655</b>	<b>75,031,073</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	2,362,932	2,362,932
Legal reserve	6,353,459	6,353,459
Risk reserve	2,170,280	1,993,090
General reserve	79,485	79,485
Fair value reserve	129,861	36,981
Foreign currency translation reserve	(187,578)	(18,838)
Other reserves	212,058	212,058
Proposed cash dividends	1,122,393	1,004,246
Retained earnings	2,254,703	1,535,711
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>14,497,593</b>	<b>13,559,124</b>
Sukuk eligible as additional capital	4,000,000	2,000,000
<b>Total equity</b>	<b>18,497,593</b>	<b>15,559,124</b>
<b>TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND SHAREHOLDERS' EQUITY</b>	<b>134,731,493</b>	<b>122,081,754</b>

**SUPPLEMENTARY INFORMATION At 31 December 2016**  
**FINANCIAL STATEMENT OF THE PARENT BANK (continued)**

**B. STATEMENT OF INCOME OF THE PARENT BANK**

<b>For the year ended 31 December</b>	<b>2016</b>	<b>2015</b>
Net income from financing activities	<b>3,765,323</b>	2,992,175
Net income from investing activities	<b>639,804</b>	498,025
<b>Total net income from financing and investing activities</b>	<b>4,405,127</b>	3,490,200
Fee and commission income	<b>547,492</b>	517,178
Fee and commission expense	<b>(123,302)</b>	(107,563)
<b>Net fee and commission income</b>	<b>424,190</b>	409,615
Net foreign exchange gain	<b>152,932</b>	79,015
Share of results of associates	<b>7,308</b>	35,985
<b>Total income</b>	<b>4,989,557</b>	4,014,815
Staff costs	<b>(442,114)</b>	(441,098)
Depreciation and amortization	<b>(76,920)</b>	(62,363)
Sukuk holder's share of profit	<b>(156,351)</b>	(162,322)
Other expenses	<b>(276,955)</b>	(269,318)
<b>Total expenses</b>	<b>(952,340)</b>	(935,101)
Net impairment loss on investment securities	<b>(215,401)</b>	(222,000)
Net impairment loss on financing assets	<b>(93,114)</b>	(77,264)
Other impairment losses	-	-
<b>Profit for the year before return to unrestricted investment account holders</b>	<b>3,728,702</b>	2,780,450
Less: Return to unrestricted investment account holders	<b>(1,572,749)</b>	(904,460)
<b>Profit for the year</b>	<b>2,155,953</b>	1,875,990

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