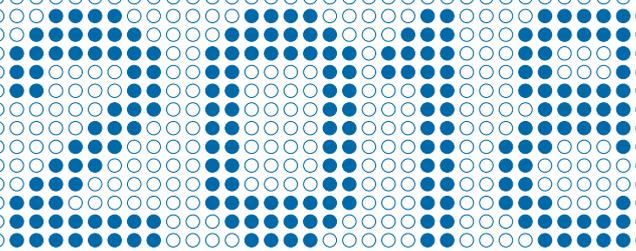


ANNUAL REPORT



المصرف



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

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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



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



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



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



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



Mr. Mansour Al Muslah
Board Member



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



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



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



**Sheikh Abdulla Bin Khaled
Bin Thani Al Thani**
Board Member



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. Constantinos Constantinides
Chief Strategy Officer



Mr. Khalefa Al Mesalam
Head of Human Capital Group



Mr. Rakesh Sanghvi
Chief Risk Officer



Mr. Gourang Hemani
Chief Financial Officer



Mr. Lav Kataria
Chief Operating Officer,
Operations & IT Group

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 to the General Assembly Meeting

I would like to welcome you all and thank you for attending. On behalf of the Board of Directors, I am pleased to present to you the QIB annual report for fiscal year 2018.

For the second successive year, our national economy has achieved higher-than-expected GDP growth in 2018, at a time when global growth began to slow down in several developed markets. While oil prices recovered on the regional level in early 2018, they sharply dropped later due to slow global growth. Qatar outperformed its regional counterparts in 2018 despite the current political crisis, which the State managed to turn from a challenge to an opportunity for revival and positive initiatives. One evidence was the flow of foreign funds into the banking sector, and the strong performance of the securities markets. Amid all this, your Bank maintained its leading position as Qatar's first and largest Islamic bank, with a market share of 42.3% of total Islamic assets. The Bank's assets increased in multiples to reach 153.2 billion riyals, and its profitability grew at a compounded average growth rate of 15.6% in the past five years, allowing the bank to occupy the second position among its peer national banks.

The Bank managed the liquidity pressure that resulted from the political situation over the last 18 months efficiently and competently. In addition to the State's direct support to financial and banking institutions to build their capacities, your Bank expanded its cooperation with financial and banking institutions in many Asian and European countries as well. We took internal initiatives to broaden the base of our activities in order to have a balanced liquidity position while maintaining the financial ratios required by local and international regulatory authorities.

In 2018, our Bank laid the foundations for transformation into digital banking, taking the lead in the local market. Long hours of business design, IT development and organizational preparations were spent in cooperation with specialists from a highly qualified international consultancy firm. We invested financial and human efforts in the ICT infrastructure to create additional capabilities, provide and upgrade modern technologies, support new solutions, and secure cutting-edge information security systems. QIB took the lead in providing retail and corporate financial services via its advanced mobile and internet applications, in addition to the integrated services it provides through the call center, which uses the latest technologies.

QIB also worked to improve the performance and results of its local and foreign subsidiaries and associates. The bank affiliate entities in the UK, Lebanon and Sudan achieved satisfactory results. And as you know, the Bank, based on its foreign investment strategy, exited successfully its investment in the Asian Finance Bank.

We continued to modernize and add policies and procedures to ensure the best governance practices and compliance with regulatory requirements, in addition to improving work procedures and documentation systems and management by using the most modern technologies. In 2018, QIB turned further attention to human resources, sponsoring many local talents to study and then join the bank. It also provided training opportunities, achieving more than 35,000 training hours during the year. It was also active in the field of CSR, leading and providing speakers for the «How Money Works» program, which trains secondary school and university students on how to manage their finances. The program was organized in collaboration with Injaz Qatar, a non-profit organization working on economic empowerment of the youth.

Amid these exceptional developments, 2018 was a good year of prosperity and growth for QIB. The Bank's assets increased by 2% compared to 2017, reaching QAR 153.2 Billion, customer deposits stand at QAR 100.6 billion and the total income amounted to QAR 6,899.7 million, representing a growth of 11.3% over the previous year. Moreover, the Bank was able to maintain the ratio of non-performing financing assets to total financing assets at about 1.2%, one of the lowest in the banking industry. It also continued to pursue a conservative impairment policy, with coverage ratio for the non-performing financing assets reaching 100% as of the end of 2018.

Thanks to these remarkable results, QIB's net profit in 2018 amounted to QAR 2,755.3 million, a growth rate of 14.5% compared to 2017. Based on these results, the Board of Directors recommend that your esteemed Assembly approve a dividend distribution to shareholders of 50% of the nominal share value, at QAR 5 per share.

Finally, on behalf of the Board of Directors, I would like to extend our sincerest gratitude and appreciation to His Highness the Amir, Sheikh Tamim Bin Hamad Bin Khalifa Al Thani, and to His Highness the Father Amir, Sheikh Hamad Bin Khalifa Al Thani, for their continuous support and encouragement to the banking sector in the State.

We would also like to thank and appreciate all officials concerned with the banking sector in Qatar, particularly Qatar Central Bank, for their continued support, all the components of the banking and economic activity to cope with the challenging situation, and to all our customers, investors, and shareholders for their confidence and loyalty. I also thank the Shari'a Supervisory Board for its efforts. I would like to specially thank our Group Chief Executive Officer for his exceptional efforts and initiatives, with the blessings from Allah and help from a loyal management team. Each one of you have helped the Bank reach a top position and achieve these outstanding results.

May Allah bless this leading Bank always.

Jassim Bin Hamad Bin Jassim Bin Jaber Al Thani
Chairman



Group Chief Executive Officer's Report

The 2018 financial year continued to be another challenging year for the regional economies which are still adjusting to lower oil prices, while overall global economic expansion has weakened at the back of increasing global trade tensions. In Qatar, the economy continued to be driven by the investments undertaken by the public and the private sectors as part of the country's 2030 National Vision. Overall, GDP growth of 2.7 percent is projected for 2019, while the underlying fiscal position continues to improve.

Despite the challenges this year had to offer, amplified also due to the un-preceded diplomatic tensions in the region, through the successful implementation of the Bank's business strategy, QIB continued its growth; reflecting a strong performance across all divisions. The Bank achieved positive financial results during the fiscal year of 2018 compared to 2017, registering strong earnings and returns for the shareholders. The net profit increased by 14.5% to reach QR 2,755.3 million for the 2018 compared to QR 2,405.4 million in 2017. Total Assets peaked by 2% compared to 2017, reaching QR153.2billion. Financing activities stand at QR 102.2 Billion. Investment securities reached QAR 31.1 Billion having added QR 743 Million, representing a 2.4% growth over 2017. Customer Deposits of the Bank stand at QR 100.6 Billion. Total Income for the year ended 31 December 2018 was QR 6,899.7 million registering 11.3% growth compared to QR 6,199.3 million for the previous year, reflecting a healthy growth in the Bank's core operating activities. Total Shareholders' Equity of the Bank increased by 1% as compared to December 2017 and reached QR 15.4 billion. Total Capital adequacy of the Bank under Basel III guidelines is 18.8% as of

December 2018, higher than the regulatory minimum requirements prescribed by Qatar Central Bank and the Basel Committee.

QIB maintained a low ratio of non-performing financing assets to total financing assets of only 1.2%, one of the lowest in the industry, reflecting the quality of the Bank's financing assets portfolio and its effective risk management framework. QIB continued to pursue its conservative impairment policy with the coverage ratio for non-performing financing assets reaching 100% by end of 2018.

The Bank continued to manage its Sukuk issuance program to generate longer term funding from a diversified base of investors. In 2018, the Bank raised over USD 575 million at efficient profit rates through private placements of Sukuks with investors across Asia, Europe and Middle-East. Based on its exceptional financial performance this year, QIB received strong ratings from multiple international ratings agencies. In January 2019, Moody's Investors Service, (Moody's) affirmed long-term deposit ratings to QIB at "A1" with a Stable outlook. In December 2018, Standard & Poor's (S&P) affirmed the Bank's credit rating at 'A-' with a Stable outlook. In July 2018, Fitch Ratings affirmed QIB at 'A' with a Stable outlook and Capital Intelligence Ratings (CI) has affirmed the Bank's Financial Strength Rating (FSR) of 'A'.

During 2018, QIB has been recognized by many well-reputed international financial publications. Nine awards received from Global Finance include the “Best Financial Institution in the Middle East and Qatar,” “Best Consumer Digital Bank in Qatar” and “Safest Islamic Bank in Qatar”. QIB has also received the “Best Islamic Bank in Qatar” Award from The Banker, part of the Financial Times Group. Furthermore, QIB received the “Excellence in Mobile Banking” from the New Age Banking & Finance Awards, as well as three awards from the Assets magazine and three more from the Islamic Finance News (IFN). These awards recognize the significant progress QIB has made in establishing itself as a leading banking institution in the Middle East while strengthening its leadership position in Qatar.

Sustainable Growth (2013-2018)

With the 2018 financials, QIB continued registering increasing growth rates for the sixth consecutive year; reflecting the successful implementation of its long-term business strategy. Assets grew by an annual average of 14.6% over the past five years, reaching QAR 153.23 billion by the end of 2018, which is almost double the assets achieved by end of 2013, QAR 77.35 billion.

QIB financing activities grew by an annual average of 16.7% since 2013, reaching QAR 102.21 billion at the end of 2018, compared to QAR 47.14 billion at the end of 2013; while the customer deposits grew by an annual average of 14.8%, and now stand at QAR 100.60 billion, which is nearly double the amount reached by end of 2013, QAR 50.36 billion.

These results reflected positively on the Bank’s profitability, allowing QIB to register growth rates, which consistently outperformed the local banking sector. Over the past five years, QIB’s net profit grew by an annual average of 15.6%, reaching QAR 2.76 billion by end of 2018, which is more than double the net profit achieved at the end 2013 financial year, of QAR 1.33 billion.

The last five years have been a period of a complete turnaround and large-scale business and technological transformation for QIB.

Back in 2013, we have embarked on a bank wide transformation programme to build a stable and modern Bank that caters to the needs of all customer segments including individuals, government institutions, large corporates and SMEs by providing innovate Sharia-compliant banking solutions while securing growing and sustainable returns to our shareholders.

To this end, we started by restructuring our Wholesale and Personal Banking groups.

We have reorganized our Corporate Banking Divisions by sector for our specialized Relationship Managers to be up to date with all the latest developments and financial requirements in the industries in which their customers are operating. We have incorporated the Treasury team within the Wholesale Banking Group, thus ensuring that all the latest and the right Treasury tools, products and services are available to all our corporate customers. Having recognized the distinctive needs of the Small and Medium enterprises in Qatar, we have launched QIB’s “Aamaly” proposition offering dedicated relationship managers, 24-hour banking, payroll services, cash and cheque collection, overnight vaulting and time deposits, along with flexible financing options.

On the Retail Banking front, we have introduced a number of new products and services during the last few years including first of its kind for Qatar Certificate of Deposits, different fixed deposits variations, a new Sharia-compliant ‘Murabaha’ based credit card, a comprehensive Ladies Banking proposition and different types of prepaid cards. As a customer centric organization, we strongly believe that we can only differentiate our Bank through the quality of services we are providing to customers. As a result, we decided to adapt our branch format, channel mix and digital offerings to suit their fast-evolving needs and expectations.

Growth of QIB Key Financial Results (2013-2018) In Qatari Riyals

	2013	2014	2015	2016	2017	2018	5 Yrs CAGR
Assets	77,354,244	96,106,464	127,323,982	139,834,128	150,374,876	153,232,365	14.6%
Financing	47,139,466	59,681,531	87,515,388	98,170,520	102,613,499	102,209,930	16.7%
Deposits	50,363,007	66,604,862	91,520,514	95,396,756	101,814,551	100,597,983	14.8%
Net profit	1,335,400	1,601,432	1,954,324	2,155,104	2,405,425	2,755,311	15.6%

Today, QIB offers modular branches for its different customer segments. Affluent and Private Banking Centers for our high-net-worth individual clients are designed to ensure privacy, confidentiality and to allow for our bankers to provide financial advice. We also have 11 dedicated Ladies service areas for female customers providing them a comfortable, private setting where they are served by experienced female bankers.

In addition to extended service hours in many locations, we have opened branches in strategic locations, focusing on new malls around Qatar, to be closer to our customers. We have also opened our first 24x7 branch at the Hamad International Airport (HIA). The new branches' format caters for all the needs of our customers including a 24x7 "self-service" section where interested customers can perform most of their banking transactions at their own convenience.

In 2018, QIB's continued to invest in advanced technologies and innovative banking services to be able to service our customers in a timely manner and eliminating the need to visit a branch or even talk to a bank representative. The bank introduced a range of innovative digital products and services both on the Wholesale and Retail Banking fronts.

On the Retail Banking front, we have completed a major upgrade of our mobile banking application making our customers' banking experience convenient and safe. The new design of the mobile app is intuitive and allows the customer to complete any task faster, with much fewer steps. We have also added an array of new features including face and fingerprint recognition, new safety features concerning credit and debit cards, e-cash functionality, viewing customers' financial report, and the possibility to request an electronic queuing ticket for branch services.

We have also launched an end to end digital service on our mobile app that we call 'Instant' which is the fastest and simplest way to obtain a personal financing anytime and from anywhere in the world. This digital service enables existing pre-approved customers to get a personal finance with a few clicks, in a paperless and digital manner through our award-winning Mobile App. The Bank takes pride in being the first Bank in Qatar and the first Islamic Bank in the world that offers such a full digital experience which provides financing to its customers within minutes.

On the Wholesale banking front, the newly upgraded online corporate banking portal allows clients to have full digital control over their accounts. The portal enables QIB's corporate clients to manage their daily business banking transactions, in a timely, efficient and highly secured manner. Additionally, we have introduced an online automated solution as part of our Wage Protection System which enables all companies to manage the payment of monthly salaries to their employees fast, with no errors and from their own premises. Furthermore, the Bank introduced the first Islamic Point of Sale (POS) & Online Payment Gateway in Qatar which is proving very popular with hundreds of our corporate and SME customers.

We are now further developing our new Omni-Channel platform, as part of the Bank's strategy to allow customers to have the same banking experience across different channels, in a highly secured environment.

On the international business front, we have presence in UK, through our wholly owned subsidiary QIB- UK. We also have one branch in Sudan and presence in Lebanon through Arab Finance House. Concerning QIB-UK, during the last few years we have developed a new strategy and completely restructured the business and operating model to focus on serving our high-net-worth clients by addressing their financial needs and delivering business growth while effectively managing any risks. To support the new customer proposition, QIB-UK moved to a five-storey building at the heart of London's affluent Mayfair district.

All those business developments would not be possible without at the same time putting in order the backbone of the Bank, namely our IT & Operations organization.

Back in 2016, we have completed, in a record timeframe of 2 years, 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.

Furthermore, the majority of the Bank's core infrastructure went through a refresh to mitigate the risks associated with obsolete and out of support technologies. The technology transformation work stream involved a huge number of activities to revamp QIB's infrastructure landscape which included the replacement and upgrade of hardware, networks, security & communication upgrades as well as a brand-new middleware to connect the new core banking system with all QIB's channels and peripheral applications.

The new core banking system has allowed us to adopt international best practices and has been customized to match QIB's Sharia compliant processes and procedures as well as Qatar's Central Bank regulatory requirements.

QIB's Board of Directors has recognized that investment in technology is a critical component for upgrading the Bank's services and improving its operations. The new system deployment has already resulted in increased automation, risk mitigation, better controls, faster speed of service, improved productivity and efficiency gains as well as reduced overall cost providing value to all QIB's stakeholders namely customers, shareholders, employees and regulators.

We consider QIB's new core banking system along with our new omni channel platform as a good starting point for the Bank's future large-scale digitalization program, which will remarkably benefit all our customers. We are continuously working to improve the productivity and efficiency of our operations through technologically advanced solutions and process management aimed at centralization and simplification with the objective to increase process speed and service quality while keeping cost under control.

While experiencing a phenomenal business growth and investing in technology, the Bank continued implementing a very effective and conservative risk management policy managing proactively all types of risk (including market, credit and liquidity risks) while strengthening in particular our operational and information security infrastructure as well as business continuity capabilities to address new evolving threats around the globe.

We have also stepped up our efforts to make QIB a 'better place to work' for employees because we believe that becoming the 'best place to bank' for our customers starts from creating the best work environment for our employees. Thus, we devote systematic effort to inspire our employees, develop their full potential and continuously promote fair corporate values and ethical standards of behavior. At the same time, we continue our focus on Qatarization and the empowerment of national talent by launching a number of specific programmes designed to this end. In 2018, the Bank's Qatarization percentage reached 28%, after successfully hiring new skilled individuals. We continued to offer many programs attracting young Qatari talent including sponsorship programs, summer internships, and the new "Future Banker Program", which offers a fast-tracked career development training.

Finally, as part of our Corporate Social Responsibility activities, we have launched in collaboration with INJAZ Qatar an educational program called "How Money Works". The program is a five-week training with interactive and engaging sessions tailored specifically for high school students and university freshmen, aged from 15 to 19 years old. It explores ways to earn money and spend it wisely by budgeting, saving, and investing. Courses include the cautious use of credit cards, and protection of personal finances. Having started in 2018, we will offer the program to 1,250 university and high school students until 2021.

While we are proud for the successful journey of the last few years which enabled us to create real value for all our stakeholders, and this success encourages us to always strive for excellence despite all challenges. QIB customers and shareholders can look forward to continued innovation for your Bank to remain a pioneer of Sharia Banking in Qatar and beyond.

Bassel Gamal

Group Chief Executive Officer

Business Review





2018 has been a year of continued and all-time high growth for Qatar Islamic Bank (QIB), reflecting strong performance across all the Bank's divisions. QIB's Net Profit reached QR 2.76 Billion, representing a growth of 14.5% compared to 2017, while total assets of the Bank stood at QR 153.2 Billion, having increased 2% compared to the previous year.

Personal Banking Group

2018 was a productive year for the retail banking group, which saw QIB introduce and implement several 'first of its kind' products and services, pioneering Banking developments not only on the national but also the global level. Our strategic investments in the digitisation of products, services, and processes—both through electronic and traditional branch banking channels—have started to revolutionise customers' financial journeys. These initiatives translate into immense benefits for our customers in the form of reduced turnaround times with 24/7 access to Banking services that can entirely be completed online with the tap of a few buttons on customers' electronic devices.

As a testament to these improvements, QIB received numerous accolades in terms of customer feedback, awards, and recognitions. One accomplishment which stands out is being recognised as the World's First Islamic Bank to introduce 'Instant Finance' through an app. This service provides the complete journey of personal finance over the QIB Mobile Banking App, allowing our customers to accept the offer, adjusting their finance amount, signing the contract electronically via OTP, instant commodity purchase & sell and providing instant credit of the funds to their account. Further, the contract is electronically delivered to their email and existing finances are settled immediately, completing the entire process within minutes.

QIB also won the Best Consumer Digital Bank from 'Global Finance' Magazine, their first such award category since the introduction of the awards by the publication 19 years ago. QIB was awarded for the innovative Mobile App, designed to minimize the need for customers to visit the Bank, allowing them to access QIB's products and services instantly and conveniently. The prestigious award marks QIB's continuous efforts to introduce convenient solutions to meet the various needs of our customers.

Significant enhancement was brought about in additional account opening through our QIB Mobile App. We are now pioneers in providing our customers with the option of opening an additional Bank Account through a few simple steps that can be completed on our mobile app. This innovative feature further minimizes the need for customers to visit the branch or seek assistance from bank representatives, as the digital alternatives introduced by QIB offer the utmost speed and convenience to all the Bank's customers. QIB customers also enjoy the options of opening savings or current accounts, including the Misk Saving Account or the Fixed deposit/Certificate of Deposit (CD), through our award-winning mobile application.

Furthermore, we have added various functions to our existing call centre, ATM outlets, and other electronic banking channels. We migrated our call centre to the latest platform, providing additional and more efficient facilities to our customers. Our ITMs (Interactive Teller Machines) were made operational on a 24/7 and we have expanded the network by another 2 machines. We are now part of a few Banks to provide the 'E-Pin' Mobile Banking experience to our card customers. Customers can now set and activate their 4-digit PINs for their Debit and Credit Cards anytime by through QIB's Mobile Banking App or by visiting any QIB ATM location. Upon successful card activation and PIN generation, an SMS will be immediately sent to the customer's registered mobile number.

2018 also saw QIB launch one of the most comprehensive loyalty programs in Qatar, "Absher Rewards". This is our way of saying "Thank you" to our customers, who will now receive complementary Absher Rewards while availing a host of QIB products and services. These reward points can then be redeemed over a range of options: over 900 global airlines, over 450,000 hotels, and over a thousand electronic items or car rental services in over 150 cities worldwide. One of the best features of the program is its fully online capability. From the activation and access, and up to the time of reward redemption, the entire process is available online and at the customers' fingertips to benefit from the reward program wherever they are and whenever they want. Furthermore, customers are already enrolled in the system and only need to activate their accounts in order to benefit from the program. Within a short timespan from its launch, the 'Absher' program achieved a milestone of reaching 100 million Absher points, which customers accumulated through the usage of various products and services.

In collaboration with Mall of Qatar, we launched Qatar's first prepaid affinity card—"MOQ Gift card". Aimed for vibrant shoppers of Qatar, this card can be bought from multiple locations and used in approved stores inside the Mall of Qatar.

QIB also provided free Mybook application to its Affluent/Tamayuz customers. The app has immense popularity as it provides access to various discount promotions across 4,000 merchants in Qatar. Around 4,500 customers are using this app with estimated savings at around QR 350k in the form of redemptions.

This year, QIB was also able to secure the "Best Prepaid Product in Qatar" award from VISA for its reloadable Prepaid Card. The card received immense feedback from its users since its launch back in November 2017. The Prepaid card caters to customers allocating money to family members, including children studying abroad, and domestic helpers responsible for the daily household expenses and groceries. The card can also be used by corporate entities to manage the daily company expenses, bills, government fees, or general expenses of their employees. The Prepaid card encourages proper expense management and allows customers to monitor their spending habits, both personal and business-related.

QIB announced its 1st Millionaire Winner of the Misk Savings Account this year and marked the success of the enhanced version of the savings account. Year 2 for Misk was upgraded to a new version of the Account, in which every week five lucky winners are rewarded cash prizes worth 10,000 Qatari Riyals each for a span of 52 weeks, and a total of 260 winners. Additionally, two lucky winners will win a monthly prize of 50,000 Qatari Riyals for a span of 12 months and total of 24 winners. The grand prize draw for QR 1,000,000 will take place in November 2019. The total number of winners in this new version will be 285 winners and total prizes will reach a value QR 4.8 Million.

With an eye to further enhance Branch Banking and increase convenience in providing Banking services, we opened 3 additional branches in prominent shopping malls across Qatar. With these, we have now 6 mall branches in our network of 30 branches covering the entire country. QIB also relocated 3 branches with our new design, which has been welcomed by our customers over the past few years. All branches offer a full range of QIB products and services to meet both daily and specialized financial needs. Customers have access to branch services as well as online features that allow them to open bank accounts, apply for a suite of financing products and credit cards, and receive expert and personalized advice about Takaful services and other Islamic Banking services.

Wholesale Banking Group

2018 has been a very positive year for Corporate Banking Group where three new products were launched to provide additional services to our corporate clients. These services comprised full-fledged Corporate Internet Banking (**CIB**), Merchant Acquiring Services (**POS**) and On - Line Wages Protection System (**WPS**). We believe these additional services run in tandem with the digitalization program of the Bank to strengthen the services and products offered to our customers.

CIB will provide an easy and convenient digital platform for our corporate clients to transact their total requirements remotely through a secured and efficient environment. The POS offers the first Islamic Point of Sale solution in Qatar while still accepting all the major international credit cards (Visa, MasterCard, American Express, etc.). In addition, WPS is a mandatory electronic salary transfer system that allows companies to pay workers' wages via banks. The system, developed by Qatar Central Bank (QCB), allows the Ministry of Labor to create a database that records wage payments in the private sector to guarantee the timely and full payment of agreed-upon wages. The WPS covers all companies registered with the Ministry across all sectors and industries and will benefit different categories of labor, offering QIB's online solution make the payment extremely easy, efficient, and fast.

Wholesale Corporate Banking Group continued to achieve solid results reaping the benefits of the different initiatives executed previously for yet another strong performance outcome in 2018. The financing portfolio was on par compared to the previous year despite the challenging economic and political environment in the GCC. Throughout the year Corporate Banking Group maintained higher volumes contributing positively to the Bank's net income by achieving a growth of 5% versus the previous year, with a continued focus on business diversification and improving the quality of the portfolio. This is in order to maintain the non-performing financing portfolio to the same level of 2017, one of the lowest in the Qatari banking sector and the region. This positive performance was driven by sustainable growth from all units within the Group.

The Government related entities, Oil & Gas, and Cross Border Division through its strong and diversified relationships has achieved an increase in their deposit volume during the year. The division was very active and successful in initiating and maintaining a secondary market trading book focused on its regional financing.

The Contracting, Real Estate and Commercial Division continued in its uptrend trajectory during 2018 as it witnessed a healthy growth in the size of the portfolio and generated an increase in financing revenue of 17% and 14% respectively. The Contracting division continued focusing on infrastructure projects supporting the 2022 FIFA World Cup Qatar™ and Qatar's National Vision 2030. This was achieved through close association with core contractors providing them with their banking requirements services for major government, semi-government, and private corporations such as Q-Rail, Qatar Petroleum, Ashgal, Manateq, 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 economy. The Commercial Division continued delivering strong performance in 2018 with significant strides towards becoming more customer-centric with a particular focus on the services, automotive, logistics, and FMCG sectors for diversification purposes. The unit continued to transform its successful business model to tie business relationship with regional companies that are active in these industries. The Commercial Division continued delivering strong performance in 2018 with significant strides towards becoming more customer-centric with a particular focus on the services, automotive, logistics, and FMCG sectors for diversification purposes. The unit continued to transform its successful business model to tie business relationship with regional companies that are active in these industries.

The High Net-worth Individuals, Real Estate and General Coverage, and Business Banking Division recorded growth in the size of the financing portfolio and revenue of 17% and 16% respectively in 2018. QIB achieved considerable success in the Small & Medium Enterprises business (Business Banking). In 2018, QIB's SME division increased its market share by launching new products and signing partnership agreements to finance heavy equipment agencies in Qatar and facilitate capital expenditures for SMEs. It also formalized specific credit parameters for this sector to facilitate and speed up the finance process.

The Financial Institutions Division strengthened relationships with financial institutions across different 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 plays a key role in supporting the Bank's funding needs by working closely with its treasury to diversify the Bank's funding, and through arranging cost-effective bilateral facilities for the Bank and expanding treasury and corporate deposits relationships. The division maintains correspondent banking relationships with more than 500 banks worldwide, to ensure diversity and stable funding from different geographies across the globe. The division recently also diversified its U.S Dollar clearing accounts and rationalized other currency accounts.

The Treasury Division works closely with the corporate and retail banking relationship managers to deliver its services to all QIB customers. In addition, Treasury liaises with the group's local & foreign subsidiaries and associates for cross selling and funding activities. QIB's Treasury Division provides QIB customers with a full suite of products including deposits, foreign exchange, hedging solutions, and capital market products (investments and hedging). The Treasury business lines 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 Shari'a 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 trading to institutional, corporate, and private banking clients both on the primary and secondary markets.

With 2018 being a challenging year, the Treasury Division effectively managed the liquidity challenge that was created by unexpected regional conditions by attracting new deposits from cross-border relationships in Europe and Asia. As a result, Treasury contributed to the Bank's growth by actively managing the liquidity and the balance sheet of the Bank and diversifying its clients base, while maintaining the cost of funding at reasonable levels.

In 2018, the geo-political situation created additional challenges to the liquidity gap such as intensive competition in the pricing of deposits, a decreasing number of counter-parties to trade foreign exchange, and a bearish local equity market. Treasury produced a good set of results and used new strategies to manage liquidity and mitigate market conditions, while exhibiting well-disciplined risk management. Moreover, Treasury also turned towards growth in the future by marketing and implementing new products such as dual-currency deposits and Shari'a compliant asset Repos. Furthermore, the division monitored and managed the successful implementation of the information system upgrade, which now covers a wider range of treasury products.

QIB International Division continued to closely manage the international subsidiaries and associates in order to improve their financial performance and risk profile. All countries continued to perform profitably and above their financial objectives despite the challenging global and regional economic and political environments. QIB International successfully completed the exit from its investment in Asian Finance Bank (AFB) in Malaysia to Malaysian Banking Society Berhad (MBSB), and is currently focusing on transforming Arab Finance House (AFH) into a Corporate Bank. Furthermore, we continued emphasizing the alignment of QIB's international network strategy and governance with QIB Group mainly by focusing on strengthening compliance and governance in all international operations. In addition, we are assessing available opportunities in the market to grow QIB international network as per the Bank strategy.

Finance Group

During the year 2018, **Finance Group**, led the implementation of Corporate Governance Code issued by the Qatar Financial Markets Authority ("QFMA"). Finance coordinated with Compliance to perform an extensive assessment of the bank's compliance with the corporate governance code and worked with Policies and Procedures team to establish various governance policies to bridge the identified gaps.

Finance also spearheaded the formalization of the Risk Control Matrices at entity level and across key processes to evaluate the design of Internal Controls Over Financial Reporting ("ICOFR"). During the evaluation process based on the framework and the criteria defined in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") it was established that there are no material weaknesses in the framework of ICOFR. 2018 was the year of initial application of International Financial Reporting Standard 9 (IFRS 9) / FAS 30 which has significantly transformed the manner in which Banks identify, recognize and report the Expected Credit Losses (ECL) for its credit exposures. Finance in coordination with Risk ensured smooth adoption of the accounting requirement by developing loss models that enable timely accounting and efficient tracking and reporting of credit risks.

During the year, Finance group further strengthened its financial and management reporting function, through increased automation and effective data mining. Key data and process management activities were incorporated to improve quality and timelines of regulatory, financial and management reporting. As a part of Bank's digital banking initiatives it was agreed to establish bank-wide Data Management Office under Finance to strengthen the Data Governance framework.

Financial Control team was instrumental in refining the IPO processing to facilitate the automation of booking and accounting process. Reconciliation systems of the Bank were enhanced through acquisition of universal reconciliation module that facilitated end-to-end reconciliation of the Qatalum IPO process that covered all the key process points to prevent potential operational losses.

Finance Group led the Quantitative Impact Study commissioned by QCB on new recommendations by the Basel Committee in the areas of credit risk, investment in equity funds and Profit Rate Risk in banking book. Many of these recommendations are expected to be implemented from 2019.

Finance continued to manage the Bank's Sukuk issuance program to generate longer term funding from diversified base of investors. In 2018, the Bank raised over USD 575 million at efficient profit rates through private placements of Sukuks with investors across Asia, Europe and Middle-East.

Finance Group continues to successfully manage the relationship between QIB and various prestigious rating agencies. In January 2019, Moody's Investors Service (Moody's), reaffirmed QIB a long-term deposit rating of 'A1'. In July 2018, Fitch Ratings reaffirmed the Bank a Long-Term Issuer Default Rating (IDR) of 'A'. In December 2018, QIB was rated 'A-' by S&P and in April 2018 was rated 'A' in Financial Strength Rating (FSR) by the Capital Intelligence Rating. All these rating agencies now carry a stable outlook.

Finance Group continues to invest in building in building strong relationship with both investors, analysts and other stakeholders by engaging with them on an ongoing basis through one-to-one meetings as well electronic channels including upgraded investor relations section on the QIB website and dedicated investor relations mobile application. Information readily available to investors include share and dividend history, graphical analysis of quarterly and annual financial performance, investment calculators, financial statements and investor presentation. Bank's active engagement with investors was recognized in 4th Annual Investor Relations Conference organized by Qatar Exchange whereby QIB has been awarded QIB) has been recognized as one of the best Investor Relations websites among all listed Companies.

Risk Group

The Risk Management organization and governance processes at Group level are designed to ensure independence from the businesses it supports. The ability to manage risk is a central to QIB's competency, 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 and in relation to expected earnings, capital adequacy, or liquidity.

Risk management philosophy in QIB has changed substantially over the past few years. The regulations that emerged from the global and regional geopolitical events triggered a wave of change in risk functions. These included more detailed and more demanding capital, leverage, liquidity, and funding requirements, as well as different approaches to calculating and providing for future losses under FAS30. During 2018, the Bank made significant efforts and financial investments to cope with relatively newer risks (e.g cyber security, model and technology).

An important component of the enterprise risk management approach is to ensure that high risks, which are evolving or emerging risks, are appropriately identified, managed, and incorporated into the 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, including control mechanisms, 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, and capital impacts arising from risk exposures and changes in earnings. The results are used by the Board of Directors and the Bank's management risk committees to understand the Bank's performance under stress and to review stressed capital and leverage ratios against regulatory thresholds and internal targets. The results are incorporated into the Internal Capital Adequacy Assessment Process (ICAAP) and Capital Plan analyses.

Risk Finance, and Treasury teams developed a recovery/emergency Liquidity Plan that set out a resilient and comprehensive framework and demonstrated that the Bank has the proper governance in place to guarantee adequate and timely decision-making. In addition, the plan described credible recovery options that helped the Bank recover and strengthen its position from a liquidity perspective.

Starting in 2018, QIB has run a centrally managed FAS30/IFRS9 project which includes business functions and subject matter experts on methodology, data sourcing and modelling, IT processing, and reporting. Overall governance of the project implementation was through the IFRS 9 steering Committee and included representation from Risk, Finance, and other business groups. Guidance and training on IFRS9 was delivered across business and other support functions. The Group enhanced its governance practices over new classification, measurement and impairment frameworks. Risk Group ensures implementation of appropriate validation and controls over new processes and over significant areas of judgment.

The Risk group is managing the FAS30/IFRS9- ECL model and reviewing the Expected Credit loss requirements and policy to reflect both regulatory requirements and the Bank's actual loss experience. Risk group also reviews the expected credit loss numbers based on assessment of problem accounts, recent loss experience, and changes in other factors, including the composition and quality of the portfolio and economic conditions on a quarterly basis for financial statements, Board & regulatory reporting, and for internal management.

The Internal Capital Adequacy Assessment Process (ICAAP) is an important component of assessing capital adequacy of the Group, as well as providing a forward-looking assessment of the Group's ability to operate in a more stressed economic situation. The results of this process help us to determine and plan how to position QIB especially in such environments. The submission compliance is supporting QCB's ICAAP implementation in its effort to adopt a modern approach to capital management with more rigorous risk management techniques applied and embedded within its internal risk management framework. Information derived from the ICAAP influences the Bank's decision-making and is used to determine other management processes and business applications, such as credit decision making processes, determination of risk limits, allocation of capital to business units, strategic planning, and budgeting and performance management.

On the international assets portfolio, managed by Risk Group, 2018 witnessed significant achievements in relation to the implementation of the sound exit strategy of some assets in Europe and also the turnaround of other assets.

Risk group has successfully implemented robust credit control processes to further improve covenant and conditions compliance before, during, and after disbursement of approved limits by process re-engineering within the Group. As part of credit risk management functions, Risk group acts proactively to assure compliance with regulatory reporting requirements through compiling and verification for timely submission of regulatory reports with 100% accuracy.

As part of the enhanced focus on Operational risk, Information Security and Business Continuity Management (BCM), Operational Risk Management System was implemented across the Bank during 2018 to streamline the Risks and Controls Self Assessments (RCSA) activities with ongoing monitoring of Key Risks Indicators (KRI), maintenance through enterprise Loss data management (LDM), and Issues & Management Action Plan (IMAP).

The relevant frameworks of Information Security and Business Continuity Management have been streamlined considering the new evolving digital technology challenges worldwide. The Bank's information security improvements and protection against cyber-attacks were the key focus areas during the year and continue to be so to minimize all associated risks with proper simulated tests and staff training.

Additionally, Incident Response & Crisis Management Plans as well as the Business Continuity Plans (BCPs) were updated and streamlined. A big step forward during 2018 was the successful full-fledged test of the Disaster Recovery Site and the Business Continuity Site to assure an effective response to any unplanned events and relevance to the new/changed Bank's services and systems.

In addition, to ensure a similar Risk culture and profile across the QIB Group, the various entities within the Group were supported by providing technical and management support in all risk areas. There has been a close coordination and interaction with all the entities within the Group to ensure consistent risk appetite and policies are implemented across the Group.

Strategy Group

During 2018, the Strategy Division's main focus was to develop the bank's digital banking strategy and start the implementation of specific initiatives to drive operational efficiencies and enhance client experiences. We have continued to make strategic investments to simplify, digitize and automate activities and processes for both clients and employees such as the ability to obtain instant personal financing through our award winning mobile application, a first in Qatar.

Marketing & Corporate Communications launched several new products, services and promotions during 2018. The year started with the partnership with Visa to provide QIB cardholders chances to attend the 2018 Fifa World Cup, promoted QIB Mobile App features and services, Cash Bonus Campaign to support customers opting for personal finance, Ramadan Festive Promotion offering numerous rewards, discounts, and auto-finance deals, Cards summer spends campaign and a salary transfer promotion to reward new to QIB salaried customers.

In addition, QIB has launched the new loyalty programme called "Absher", introduced Misk - Phase2 with more winners and more prizes to encourage customers to save more. On the branches network side, supported the relocation of several branches like Al Sadd, Industrial Area, Al Jazeera Media network Branches and inaugurated Tawar Mall Branch.

On the corporate side, the Marketing team supported the business in launching the first Islamic Point of Sale & Online Payment solutions and the WPS online portal to process employees' salaries. Introduced the Investor Relations web-section and specialized Mobile App to provide investors and all interested parties with full information about the Bank's performance and operations.

Supported many activities in the country such as sponsoring the Qatar National Day celebrations, participated in many several Career fairs at colleges and universities, supported the graduation event led by minor affairs, sponsored the New Age Banking Summit and Information Security Conference organized by Qatar Central Bank.

Creating awareness about QIB-UK was one of the main activities in 2018, where several articles about the UK Real estate market scene has been published in the local Qatari press to promote QIB-UK experience in the real estate market.

QIB and INJAZ Qatar launched the award-winning Financial Literacy Program for Students. The program is a five-week training with interactive and engaging sessions tailored specifically for high school students and university freshmen, aged from 15 to 19 years old. QIB and INJAZ Qatar offered the program to hundreds of university and high school students and will continue over the coming 2 years. QIB expert staff have also committed to delivering program sessions alongside INJAZ Qatar volunteers.

Strengthening the organizational culture and feeling of commitment among employees is one of the key objectives of the bank, and therefore the marketing & communications division ran several engagement activities with the employees to support nurturing this culture such as celebrating National Sport Day, Ramadan Gathering, annual blood donation day, and celebrated the earth day.

The division has also conducted market research to allow for new customer value propositions (product packages) to be introduced in 2019 and continued using the real-time Customer Survey system (SMS survey for transactions at all branches and the Call Center and Mobile App). A major focus of the department this year was QIB's performance on social media; an upgraded and strengthened QIB position was assured while maintaining high engagement rates on all platforms.

In 2019, key initiatives will be to support the digital transformation the bank is undertaking and the introduction of new product package(s), strengthening of QIB's brand positioning, and will aim to improve the presence of QIB brand on the digital scene.

The Quality Assurance Division enlarged its activity scope to include monitoring, assigning and following up on problems reported in branches and service centres, including facility management and administrative activities, availability of updated marketing material and branch appearance. In addition to the auto escalation complaints process that was launched in 2018, the division has decided to unify the TAT time to 3 days across all complaints categories to maximize customer satisfaction. The Quality Assurance division has also contributed to the launch of the new Instant Finance Service by providing all customer related requirements and acting as "The voice of the customer" and working closely with Retail Banking Group, to ensure a successful launch. The division continues to manage the "My Fekra" - bank wide employee ideation program. Quality Assurance has also contributed to the preparation of QMACO 2018 IPO by providing training and comprehensive scenarios to all participants, in addition to "Hands On" support via branch visits during the IPO event.

Operations and Technology Group

In 2018, the Operations and Technology Group continued to play an integral part in enabling the bank and the various business and support functions to meet challenging growth goals and to position the bank as a leading provider of banking services in the country. The focus of the group has always been to embrace cutting edge technologies and processes that support high standards of customer experience, both external and internal, and to constantly improve on controls and tools that bring in full compliance to local and international regulatory and industry standards. With the bank moving towards increased digitalization, there were sustained efforts from the Group to implement various new systems and upgrades that were aligned with the strategic initiatives launched by various business groups. Coupled with this, there were various internal efforts to re-engineer and fine-tune multiple processes that led to highly improved client experiences in terms of TAT and efficiency. As a part of the efforts to further modernize our information technology to drive our vision to be a strong digital Bank, the IT division successfully strengthened our Omni-channel initiatives by substantially enhancing the Mobile Banking platform and also launching a new feature rich call center system. The bank has also selected a state-of-the-art CRM solution and is in the process of deploying the same in the retail and wholesale banking units. Solution enhancements were done to launch digital products such as Instant financing and SME Financing which will continue to be further enhanced during the course of the next year.

In addition to the channel offerings, a number of other technology-intensive initiatives have been delivered during the year to enhance the technical and business capabilities. Salient among them are launching of the enhanced Corporate Internet Banking, the online WPS system, and Workflow based origination systems. The IPO system has been enhanced considerably to ensure smooth handling of the IPO in the months of October and November. To support the digital initiatives and to provide around-the-clock infrastructure availability, the Bank has made significant investments in upgrading the technology infrastructure wherein the entire server and storage infrastructure has been upgraded to the latest technologies. Significant capacity enhancement has also been achieved as a result of these technology upgrades. Consequent to these infrastructure level upgrades, we have been very successful in running the Bank's critical infrastructure and applications from the Disaster Recovery (DR) site for 3 successive days, and this activity completely gives confidence about our capability to successfully operate from DR in case of any emergencies in the main Data Center. Finally, to ensure the safety of the information assets of the bank and also to protect customers' financial assets due to increased digitalization, the bank continues to invest significantly in the security infrastructure. We have invested in state-of-the-art next generation firewalls and security technology which will help in protecting the bank's information assets and customers from emerging security risks.

On the Operations front, the division focused efforts during the year to promote paperless processing via images and workflow automation efforts. Multiple processes like Remittances, Retail Finance, Account Opening, and Maintenances moved to image based workflows between the branches and centralized operations to significantly improve TAT and control of transactions. Some significant initiatives like e-PIN and card activation via ATMs for the retail banking customers have led to positive customer experiences and improved efficiency for the bank. Launch of the online WPS salary processing has enabled the bank to manage increasing number of these transactions with highly improved TAT and client experience. The Card Operations team was instrumental in the set-up of POS acquiring processes utilizing an outsourced model, and this has allowed the bank to enter the Merchant Acceptance business also. The Operations team also played a key role in the industry wide set-up of the National Network Settlement System (NNSS) that led to significant savings in FX related charges due to the implementation of the local industry wide settlement of in-country card transactions. Overall, the Operations group continues to drive continuous process improvement via digital enablement to positively drive efficiency, improved TAT, reduced errors, and higher controls with reduced cost of operations and improved delivery to clients.

The Bank's Business Transformation Management Division in the Operations and Technology Group, in its current shape, continues to be the focal point and conduit across all departments and functions of the bank to support change management processes on the Bank's systems, processes & technology and, this is in the form of measurable improvements in terms of efficiencies, effectiveness and stakeholder satisfaction. The role and importance of the Division is becoming more critical with the passage of each day to manage, improve, and introduce new processes and systems due to continuous changes in the technology of the bank. The unit led many Business Process Improvements, E2E analysis, and corrections with elements of quality assurance, efficiency build, risk management, and audit corrections with the aim to make the Bank significantly more efficient, responsive, flexible, and effective for all customers, staff, and stakeholders, as well as to be in line with QIB's goals, objectives, vision, and mission. Some key strategic projects handled are Digital Transformation Initiatives, Customer Journey Re-Imaginations, enhancement of Omni channels, improvements on the Document Management System, and other upgrades and business flow corrections in line with business, regulatory and compliance changes. An ongoing project from the Premises and Projects Department is the standardization of the QIB Branch Brand design in department offices across all the Bank's segments, including the addition of the new branches. The division has also developed saving initiatives on premises through cost reduction and revisiting the tenancy contracts and facilities renewals. Also, by re-utilizing the existing premises at QIB Data Center and other Relocations in QIB premises, similar improvements and cost efficiencies were achieved.

Human Capital:

As part of the QIB Human Capital Group vision to continue focusing on our on-going commitment to organization-wide trainings, best practices, and mobilisation of critical leadership roles, as well as further emphasizing the enhancement of organizational effectiveness and building a pay performance culture.

In term of Learning & Development, QIB successfully increased its focus on the development of internal capabilities the utilization of internal knowledge through structured learning interventions. Based on the identified skill-gap from the 2017 skill baselining exercise, QIB has expanded its focus on developing communications skills and handling difficult situations for all the frontline staff. It also effectively aligned all training needs into structured and business-focused curricula to deliver even more business-relevant trainings and learning solutions.

Last year marked the 's successful implementation of a skill-based pre-hiring assessment center for evaluating the fittingness of temporary staff, leading to reduced errors and improved synergy, while also achieving an average training delivery effectiveness rate of 4.74 (out of 5.0, based on PES scores).

In terms of Learning Operations (Efficiency-Factor), QIB delivered more than 35,000 hours of training in 2018, an increase of more than 175% from previous years. The Bank also responded to 100% of training needs/requests raised by staff or identified by our management team through the implementation of trainings that had learning specialist to staff ratios of 1:400. Through the trainings, we also focused on transforming the training planning and budgeting exercise to a ratio-based view, allowing for an even distribution and improved controls.

The HR Group also aligned the training request process to business needs and the business group curriculum. We also increased internal expert-led training delivery and real-time OJT (as opposed to classroom) formats to further reduce the total cost of training delivery and ownership.

In terms of the Workforce talent & Acquisition, QIB accepted more students into the University Student Sponsorship Program, resulting in a total number of 45 sponsored students. Recently graduated students are planned to be absorbed into Management Associate Program at the beginning of 2019.

The current Qatarization numbers show that Qataris make up 28% of total staff. Last year, QIB participated in Career Fairs conducted by prominent universities & institutions based in Qatar. It successfully implemented an Educational Investment Program for Qatari employees as part of their career development. We also completed testing of a mobile application for the Employee Discount Program. We also obtained clearance from Info Security, and we are planning to implement the formal launch soon in coordination with IT.

Ratings

Moody's Rating: In January 2019, Moody's Investors Service (Moody's), have affirmed QIB's deposit ratings to A1 with a "stable" outlook. In turn, reflect the bank's adequate capital buffers, good profitability, and limited market funding reliance, underpinned by its established and growing retail and corporate Islamic banking franchise and the bank's rapid growth in recent years. This outlook confirms the resilience of the banking industry which has adapted to the current situation and has overcome challenges with the support from the government.

Fitch Rating: In June 2018, Fitch Ratings upgraded Qatar Islamic Bank's (QIB), outlook to 'stable' and affirmed at (A). Fitch report said, "This action follows the revision of the Qatari sovereign's Outlook to Stable from Negative and affirmation of the country's Long-Term IDR at (AA-) and reflects Fitch's view that Qatar has successfully managed the fallout from last year's rupture of trade, financial and diplomatic relations. Public sector liquidity injections have stabilized the banking sector and stemmed the outflow of non-domestic funding. The fiscal deficit has narrowed sharply and we expect it to turn into a surplus in 2019. The economy has reconfigured its supply chains and continues to grow at a robust pace."

Capital Intelligence (CI) Rating: In April 2018, Capital Intelligence (CI), the international credit rating agency, affirmed Qatar Islamic Bank's (QIB), Qatar's leading Islamic Bank, Financial Strength Rating (FSR) at 'A' with a stable outlook, Long- and Short-Term Foreign Currency Ratings (FCRs) are affirmed at 'A+' and 'A2', respectively. The FSR is supported by good overall capital adequacy including a strong and improved CET-1 ratio, generally good asset quality and improved estimated net financing margin and operating profitability, which is underpinned by a low-cost base. QIB's position as the leading Islamic bank in Qatar is also a supporting factor given the demonstrated preference amongst Qataris for personal banking on a Sharia'-compliant basis.

Standard & Poor's (S&P): In December 2018, The International credit rating agency, Standard & Poor's (S&P) affirmed that QIB has coveted 'A-' issuer credit rating. According to the report issued by S&P, the major contributing factors strengthening QIB's rating include the Bank is the largest Islamic Bank in Qatar and second-largest player in the market, its sound financial performance, and its strong capitalization.

S&P, one of the top three international rating agencies, cited: "The rating reflects our views of the bank's robust corporate banking franchise and favorable position as Qatar's largest Islamic Bank. QIB's capital is strong and supports the bank's rating. QIB's funding profile is now more balanced. QIB's stable funding ratio reached 113.9% at year-end 2017. The bank's liquidity is also adequate with around 7% of assets placed in liquid forms and another 20% placed mostly in Qatari government sukuk".

Awards 2018

In light of the Bank's performance and continuous innovation, QIB is being recognized by reputable international financial publications and reports as one of the leading regional Banks. In 2018, QIB received the below awards:

- Islamic Bank of the year 2018 in Qatar, by The Banker – Financial Times Group
- Best Islamic Financial Institution in the Middle East 2018, by Global Finance.
- Best Islamic Financial Institution in Qatar 2018, by Global Finance
- Best Islamic Financial Institution for Large Corporate 2018, by Global Finance
- Best Islamic Project Finance Provider 2018, by Global Finance
- Best Real Estate Deal of the Year 2018, by Global Finance
- Best Sukuk Deal of the Year 2018, by Global Finance
- Qatar's Best Consumer Digital Bank Award 2018, by the Global Finance magazine
- Best Islamic Bank in Qatar, by Islamic Finance News (IFN)
- Best Deal of the Year in Qatar, by Islamic Finance News (IFN)
- Structuring Deal of the Year, by Islamic Finance News (IFN)
- Best Islamic Bank in Qatar, by The World Union of Arab Bankers (WUAB)
- Best Prepaid Product in Qatar 2017, by Visa International
- Islamic Bank of the Year, Qatar 2018, by The Assets Magazine
- Best Islamic Deal, Qatar 2018, by The Assets Magazine
- Best Islamic Deal - Shariah adviser 2018, by The Assets Magazine
- Best Islamic Bank in Qatar, by The World Union of Arab Bankers (WUAB)
- Best Portfolio Growth, by Qatar Development Bank (QDB), for supporting (SMEs)
- Best Islamic Bank in Qatar 2018, by The New Age Banking Summit
- Excellence in Mobile Banking 2018, by The New Age Banking Summit

QIB Group Overview

Domestic Subsidiaries & Associates



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.

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.

During 2018 QIB marked an innovative initiative by signing an exclusive agreement with INJAZ Qatar which sponsors a three-year financial literacy program for selected high schools and universities in Qatar. The QIB-INJAZ collaboration launched the "Personal Finance Program" curriculum. The program is a five-week training with interactive and engaging sessions tailored specifically for high school students and university freshmen, aged from 15 to 19 years old. QIB and INJAZ Qatar will offer the program to 1,250 university and high school students over the coming 3 years, starting from academic year 2018/2019. QIB expert staff have also committed to delivering program sessions alongside INJAZ Qatar volunteers.

Also the bank involved in number of CSR initiatives during 2018 includes:

- Scholarships and internships for Qatari Students
- Participation in many Career Days organized by many educational institution as Qatar University, Education City.
- Blood Donation Day organized with the Hamad Medical Corporation
- Various activities to support people in need within Qatar



The background is a vibrant blue with a dynamic, abstract design. On the left side, there are several thick, glowing, wavy lines that curve from the top towards the bottom, creating a sense of movement and depth. Scattered throughout the blue field are numerous small, bright white and light blue spots, some of which have a soft, out-of-focus glow, resembling stars or digital particles. The overall aesthetic is clean, modern, and high-tech.

Corporate Governance



Governance Code for Listed Companies & Legal Entities

Governance is one of the most imperative Corporate Management systems. It establishes the principles of rational management, determines the Bank's functions and responsibilities, promotes the principles of justice and equality among Stakeholders, ensures creative Control, Risk Management, Transparency and Disclosure, regulates Stakeholders rights and, encourages the development and progress of the society which finally leads to the improvement of the Bank's performance in general, and realizes the core meaning of the principle of upholding the Interests of the Public, the Company, and Stakeholders by according them utmost priority over all other interests.

Establishing the following principles were targeted upon drafting the present code:

- Transparency:

This principle is based on good faith, honesty seeking and openness, upholding values of self-monitoring, integrity, taking caution, due diligence and trustiness in performing the tasks and functions assigned to each official and employee in the Bank including the Chairman, Board members, Senior Executive Management, all employees and other bank-related parties.

It also establishes the necessary regulations that reduce and mitigate conflict of interests and serve common interests, guided by the concept of honest investment in the market.

- Accountability & Acknowledgement of Responsibility:

This principle aims at determining the rights, duties and responsibilities within the Bank and implementing an appropriate control mechanism that enables every one's accountability for his/her work and assesses performance in addition to appraising the Bank's overall performance in accordance with best international standards.

The principle also states for the Bank's social responsibility and its role towards the society by taking part in the achievement of its prosperity and progress in addition to sharing in preserving the Environment.

- Justice & Equality:

This principle states that Stakeholders, especially shareholders, are equal in rights. It bans all forms of discrimination on the basis of race, gender, or religion; they all shall have the same rights ensuing from their ownership of shares or their capacities in the Bank *pari passu*.

Scope of Applying Governance and Adherence to Governance Principles

Article (2)

Scope of Application

The present Governance principles and rules apply on the corporations and legal entities listed on Qatar Exchange Market. The Bank, in its annual report, disclose the extent of adherence to such principles and rules.

Article (3)

Commitment to Governance Principles

The Board of Directors regularly review and update Governance applications and the Bank's compliance with Governance best principles.

Article (4)

Governance Report

Governance report include the Bank's disclosure as to its commitment to apply the rules of this Code and all pertaining information on the implementation of those principles and rules, accordingly the Board of Directors approved the Corporate Governance Framework including required policies & procedures mentioned in the code in addition to the update of the Board charter including board responsibilities.

Governance Report mainly includes:

1. The procedures followed by the Bank regarding the implementation of the rules of this Code.
2. During 2018 no fines were imposed by Qatar Financial Market Authority due to non-compliance of the code.
3. Disclosure of the information regarding the Board members and Committees and the Bank's Senior Executive Management officers.
4. Disclosure of the procedures followed by Risk and Internal Control Groups.
5. Committees' Work and number of their meetings.
6. Risks determination.
7. Appraisal of BOD performance
8. Disclosure of the various deficiencies in applying Internal Control System
9. Disclosure of the degree of abidance, by the Bank, to the rules and conditions governing Disclosure and Listing in the Market.
10. No Material legal cases other than ordinary cause of business law suits.
11. Disclosure of dealings and transactions entered into by the Bank with any "Related Party".
12. Number of Grievances, Complaints and proposals: 2627 cases in total were handled by Quality Control Department in coordination with the Bank's Executive Management.

Board

Article (5)

Board Members Qualifications

A Board Member must be qualified, possessing proper knowledge of management affairs addition to adequate experience that enable him/her to handle his/her tasks effectively.

Following conditions must be fulfilled by Board Member:

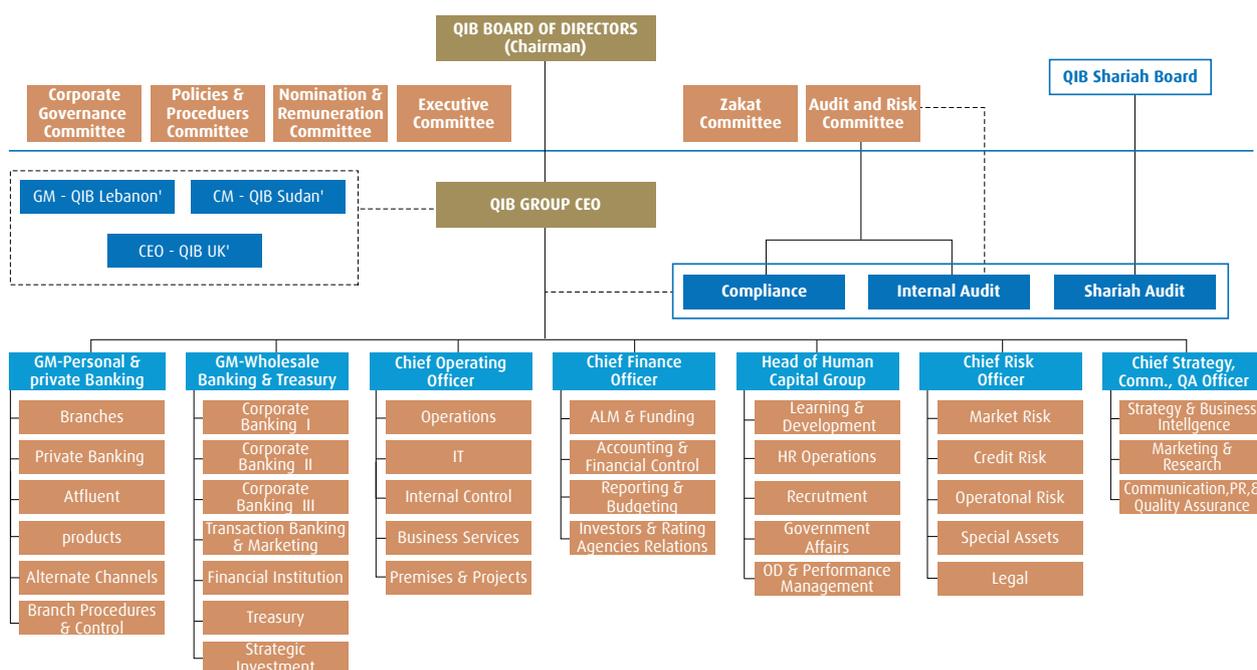
1. Age: to be not less than 21, candidate must be fully qualified
2. Not to have been convicted in any criminal affair or in a charge involving breach of honor or honesty.
3. To be a Shareholder, owning upon being elected as Board Member or within 30 days therefrom, of a number of QIB shares to be determined by the Bank's Articles of Association.
4. Board members signed an acknowledgment which state they are not undertaking any legally prohibited job position to combine it with the Board membership.

Article (6)

Board's Constitution

The Board of Directors shall be constituted as stated in the Bank's Articles of Association and Law provisions, provided at least One Third of its members to be Independent Members and the majority of its members to be Non-Executive members. One or more of the Board's seats may be assigned to represent Minority shareholders and a second seat for representing the Bank employees.

Business Organization Structure



Bank's Board of Directors

As at December 31st 2018, The Board of Directors Was Constituted of The Following Members:

Name	Membership	Capacity	No. of Shares	% of Shares to Capital
Sheikh /Jassim Bin Hamad Bin Jassim Bin Jaber Al Thani, representing 'AL MIRQAB CAPITAL' Co.	Chairman	Executive Non-Independent	10,867,109	4,60%
Mr. Abdullatif Bin Abdullah Al Mahmoud, representing 'Al Sharq' Printing & Distribution HOUSE' Group	Deputy Chairman	Executive Non-Independent	325,000	0,14%
Mr. Mohamed Bin Issa Al Mohannadi	Board Member	Non-Executive Non-Independent	250,000	0.11%
Mr. Abdul Rahman Abdullah Abdul Ghani	Board Member	Executive Non- Independent	250,636	0.11%
Mr. Mansour Mohamed Abdel Fattah Al Muslah	Board Member	Executive Non- Independent	385,388	0.16%
Mr. Abdullah Bin Saeed Al Eidah, representing 'AL ZOUBARA TRADING Co.'	Board Member	Non-Executive Non- Independent	1,366,205	0.58%
Mr. Nasser Rashid S. Al-Kaabi, representing 'AL-SURAYE' Holding Co.	Board Member	Executive Non- Independent	250.000	0.11%
Sheikh/ Ali Bin Ghanim Bin Ali Al-Thani, representing 'ALI BIN GHANIM AL THANI' Group	Board Member	Non-Executive Non-Independent	250.000	0.11%
Sheikh/ Abdullah Bin Khalid Bin Thani Al-Thani, representing 'AL NA'ERA INVESTMENT Co.'	Board Member	Non-Executive Non-Independent	250.000	0.11%

Sheikh/Jassim Bin Hamad Bin Jassim Bin Jaber Al Thani CHAIRMAN

Member of Qatar Islamic Bank's BOD since 22/06/2004, Sheikh Jassim Bin Hamad Bin Jaber Al Thani acceded to the post of Chairman since April 2005. He has been promoted from St. Hearst Military College in UK. He received a series of advanced training courses in Leadership. He is also Chairman of 'Q-Invest', the first Islamic Investment Bank in Qatar and, the 'Daman' Islamic Insurance Co., in addition to his Board membership in several establishments and financial & investment companies (e.g. Qatar Maritime Co., and Qatar Insurance Co.).

Mr. Abdullatif Bin Abdullah Al Mahmoud Deputy Chairman

Member of Qatar Islamic Bank's BOD since April 1996 and several QIB Committees, Mr. Abdullatif Al Mahmoud holds a B.Sc. in Economics & Business Administration from Seattle Pacific University (USA) on 1982. He progressively occupied several leading posts in Qatar General Petroleum Corp. after his promotion on 2002.

He was Board member of 'Al Jazeera' Financing Co., then CEO of the same company till 2008. He headed a QIB Audit Committee during the period from 2001 to 2005 and took part in several conferences and scientific seminars in the field of Energy production. In addition to the issues relative to Islamic Banking, he occupies at present the post of Executive Manager 'Al Sharq' Printing, Publication & Distribution Co. Formerly, he was Chief Editor of the 'Al Sharq' daily newspaper (2003 – 2010).

Mr. Mohamed Bin Issa Al Mohannadi Board Member

Member of Qatar Islamic Bank's BOD since 1996, Mr. Al Mohannadi, is also heading the Bank's Audit & Risks Committee and member of QIB Privileges & Compensations Committee. He holds a Bachelor's degree in Business Management from Cairo University on 1977 and a 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, he shifted to private business activities. At present, in addition to his responsibilities in QIB, he is a Board member in the 'Ooreedo' Qatari Communications Co..

Mr. Abdul Rahman Abdullah Abdul Ghani Board Member

Member of Qatar Islamic Bank's BOD since April 1996 and in the Bank's 'Policies' and 'Zakat' Committees, Mr. Abdul Ghani holds a BSc. (with Honors) in Economics from Boston University, USA.

He has been Board member in several national companies, including the Qatari Industrial Manufacturing Company (QIMCO), and the United Development Company (UDC). Mr. A. Abdul Ghani possesses a rich experience in Business Management and a range of investments. He is currently Chairman of the 'Abdullah Abdul Ghani & Sons Trading & Contracting' Co.

Mr. Mansour M. Abdul Fattah Al Musleh Board Member

Member of Qatar Islamic Bank's BOD since 1996 and in many committees including the Executive and the Zakat Committees. Mr. Al Musleh holds a Bachelor Degree in Social Science from Qatar University.

He occupied several posts in the Ministries of Interior and Defense. He also undergoes a number of investment and business activities in the Real Estate sector. Formerly, he was Chairman of the 'Aqar' Real Estate Co. in addition to being a Board member in several companies. At present, he is board member of Al Jazeera Financing Co.

Mr. Abdullah Bin Saeed Al Eidah Board Member

Member of Qatar Islamic Bank's BOD since April 2005, Head of the Bank's Governance Committee and member of QIB-Audit & Risks Committee. Mr. Al Eidah received extended training courses and several programs in Administration from specialized centers in UK.

At present, he is the General Manager of the 'Burooq Investment Co.' and possesses a wide range of experience in Investment & Real estate sector. He is also the Deputy Chairman of 'Al Seyleyah' Sports Club.

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

Member of Qatar Islamic Bank's BOD since 2008 and, in several Committees including the Executive Committee and the 'Nominations, Privileges & Compensations Committee', which he presides, Mr. Al-Kaabi has a long history of successful business ventures dating back to the Seventies of the past century. He is the founder and owner of 'Al Suraiya Holding Group', a group of many companies in various fields of specifications.

Member of 'Al Shourah' (Advisory) Council since 1995, Mr. Al-Kaabi has been 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 in relation to his activities in business and property development fields.

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

Sheikh/Ali Bin Ghanim holds a Master Degree in Management from Cambridge University. In addition to the posts of Chairman of the 'Ali Bin Ghanim Al-Thani' Group, Deputy Chairman of 'Ghanim Holding Co.' and, member of three stock companies, namely: 'Al Salam Holding Co.', 'Doha Insurance Co' and 'Qatar Islamic Bank' which he joined on Feb. 2014, Sheikh/ Ali Bin Ghanim is also Deputy Chairman of the 'Gulf Investment Group' and former Board member of the 'United Development Co.' in addition to being a Supporting Member in the Arab Union Studies Center, apart of articles published in the 'Al Rayah' daily newspaper and several publications.

Sheikh/ Abdullah Bin Khalid Bin Thani Al-Thani **Board Member**

Member of Qatar Islamic Bank's BOD since Feb. 2017 as representative of 'Al Na'era Investment Co.', Sheikh/ Abdullah Bin Khalid holds a certificate in Business Management and is Board member of the 'Ezdan Holding Group', and Board member of 'The Group for Medical Care' establishment.

The Bank's Executive Management

The Bank's Executive Management is a group of executives with high operative responsibilities appointed by the Board of Directors. It consists of the (CEO) and a seasoned and experienced Executive Management team members directly reporting to the CEO.

Constitution of QIB Group's Executive Group:

Executive Management Team	Position
Mr. Bassel Gamal	Group Chief Executive Officer
Mr. Tarek Youssef Fawzi	General Manager - Wholesale Banking Group
Mr. Rakesh Sanghvi	Chief Risk Officer
Mr. Gourang Hemani	Chief Finance Officer
Mr. Constantinos Constantinides	Chief Strategy Officer
Mr. Khalefa Al Mesalam	Head of Human Capital Group
Mr. Dorai Anand	General Manager - Personal Banking Group
Mr. Lav Kataria	Chief Operating Officer, Operations & IT Group
Mr. Atef Abdul Khaleq	Head of Internal Audit
Mr. Samir Al 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 25 years of experience in the banking and finance industry. He's currently the Chairman of QIB-UK and a Board Member of Qinvest. 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 37 years of experience, 32 years' 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. Dorai Anand

General Manager - Personal Banking Group

He has over 30 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 have been with Citi Bank however for the last 8 years he has been associated with Al Rajhi Bank - Saudi Arabia. Prior to joining QIB Anand was General Manager - Retail Banking Group with Al Rajhi Bank.

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 for Al Rajhi Bank responsible for business development and regional expansion. Previously he was Deputy General Manager in Retail Banking. As a management consultant with Accenture for seven years, he has led several strategic initiatives for European banks and financial institutions. Holds an MBA in International Strategy from University of Birmingham.

Mr. Khalefa Al Mesalam

Head of Human Capital Group

Khalefa has 19 Years of Banking Experience, with a blend of Retail Banking and Human Capital Leadership expertise with leading International and Regional Banks. He started banking career with HSBC Qatar in the Retail Banking and progressed to various Lead Roles such as Customer Centric Solutions, Service Excellence, Branch Management, Human Resource Management, Organizational Development, Design and Effectiveness. He also held leading positions in Retail Banking with the Commercial Bank of Qatar and his last assignment prior to joining QIB was Group Recruitment Manager with Al Khaliji Bank. He joined QIB in 2011 as Head of Talent Acquisition & Workforce Planning – A Division within the Human Capital Group – from where he progressed to the current role.

Mr. Rakesh Sanghvi

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 31 years of rich experience in Risk Management, Corporate Banking and Corporate Finance with the "Big 4" accounting firms and banks in the region. Before joining QIB in 2013 he was the Group Head of Risk Management at Ahli United Bank in Bahrain; he also led the Corporate Finance unit and spent over 10 years in Corporate Banking at the bank in Bahrain and with Ahli Bank in Qatar. Earlier he worked with Ernst & Young in Bahrain and with Coopers & Lybrand in India.

Mr. Gourang Hemani

Chief Financial Officer

He has been with QIB since 2012 and carries more than 25 years of experience with international banks and with leading accounting firms. Gourang started his carrier with Price Waterhouse Coopers and progressed through Standard Chartered Bank followed by a long standing career with Banque Saudi Fransi in Saudi Arabia handling various roles in the field of banking finance including Asset Liability Management, Treasury Middle Office, 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 from India.

Mr. Lav Kataria

Chief Operating Officer, Operations & IT Group.

Mr. Kataria enjoys more than 28 years of global experience in Banking Operations & Technology. He holds Masters in International Business from IIFT in Delhi-India and holds a certificate in Digital Disruption from Harvard Business School in Boston-USA. He has held various senior roles with prominent banks such as Head of Operations and Technology for Citi Bank NA India and Singapore (APAC Region), Chief Operating Officer roles for Barclays Bank – UAE covering Africa and the Middle East, and the Saudi Hollandi Bank in Saudi Arabia. Prior joining QIB his last task was on consulting engagement roles as Senior Advisor with leading Advisory firms supporting various Regional banks.

Article (7)

No Duplication of Positions

Without prejudice to relevant Law provisions, the Bank's BOD prohibits for any of its employees, whether in person or in capacity, to hold the position of Board Chairman or Vice-chairman in more than two Companies headquartered in the State of Qatar, or to be a Board member in more than three Stock companies having their headquarters in the State, nor to be a Managing Director in more than a single Company headquartered in the State, or to be a Board member in two Companies of similar activities.

It is also prohibited to duplicate the post of Chairman with any other executive position in the Bank. Board members signed an acknowledgment that no one of them shall combine the prohibited positions according to the Law and the Code provisions held with the board secretary in the file prepared for this purpose.

Article (8)

BOD's Major Functions & Duties

The Board of Directors has led a Charter entitled: the "Board of Director's Charter" in which it detailed the Board's duties and the rights, obligations and responsibilities of both the Chairman and Board Members in accordance with the provisions of Law and this Code. Said Charter has been published on the Bank's website. The board performance was evaluated based on best practices in addition top management executive's performance was conducted based on adherence to the bank's policies implementation and internal controls.

Article (9)

BOD's Responsibilities

The Board of Directors represents all shareholders. It is bound to deploy every required due diligence to ensure the efficient and productive management of the Bank to achieve the interests of the Bank, its Partners, Shareholders and Stakeholders, in addition to realizing the targeted community benefit and developing Investment in the State as well as sharing in the social promotion of the society as stated in the Bank's Articles of Association.

Article (10)

Delegation of Powers

Without prejudice to the competences of the General Assembly, the Board shall assume all the competencies and powers necessary for ensuring the Bank's management. It may delegate its part of its powers, or constitute one or more special committee(s) to perform specific tasks provided the nature of such tasks to be stipulated in the resolution constituting such special committee(s).

The ultimate responsibility for the Bank lies on the Board even if it sets up committees or delegates part of its powers to some third party(ies) or body(ies). The Board shall abstain from issuing general or open-ended delegations of powers.

Article (11)

Chairman's Duties

The Chairman is the president of the Bank's Board of Directors and represents it before third parties and judiciary bodies. He is primarily responsible for ensuring the proper management of the Bank in an effective and productive manner and endeavoring to achieve the interests of the Company, its partners, shareholders and Stakeholders. The Board's Charter shall state for the Chairman's tasks and responsibilities which should include the following:

1. Ensuring that the Board discusses all the basic issues in an efficient and timely manner.
2. Approving the Board Meeting Agenda taking into consideration any matters proposed by any Board member.
3. Encouraging all Board members to collectively and effectively take part in handling the Board affairs in order to ensure that the Board is assuming its responsibilities to achieve the best interests of the Company.
4. Permitting Board Members to get access to all data, information, documents and records relative to the Bank, the Board and Board committees.
5. Creating effective communication channels with shareholders and making sure that their opinions heard are channeled to the Board.
6. Allowing effective and encouraging constructive relations between Executive and Non-Executive Board Members.
7. Keeping the members constantly updated about the implementation of the provisions of this code. To this end the Chairman may delegate the Audit Committee or other committee undertake this mission.

The Vice-chairman shall replace the Chairman during his absence. Further, the Chairman may delegate some of his powers to other Board members.

Article (12)

Board Members' Commitments

The Board members shall abide with the following:

1. Regularly attend the Board and Board committees meetings.
2. Giving priority to the interests of the Bank, Shareholders and all Stakeholders over their own ones.
3. Providing their views on the Bank's strategic matters and policies.
4. Monitoring the Bank's performance in realizing its objectives and goals.
5. Supervising the development of the Bank's Governance procedural rules.
6. Ensuring an effective and productive management of the Bank.
7. Effectively take part in the Bank's General Assembly meetings.
8. Abstain from making any statements or disclosing any data/information without prior written consent from the Chairman. In this context, the Chief of the Strategies & Business Development Group Manager shall be the official Spokesperson of the Bank.
9. No financial or trade relationships that may negatively affect the board members carrying out their tasks and functions.

Article (13)

Invitation to Board Meetings

As stated in the Bank's Articles of Associations, the Board shall convene upon invitation by its Chairman who may call the Board for such meetings if requested by at least two of its members. Said invitation, along with the Agenda, should be sent to each member at least one week prior to meetings date. A Board member may request to add one or more issues to the underlined Agenda.

Article (14)

Board Meetings

Board & BOD Committees	No. of Meetings During 2018
Board of Directors	8
Executive Committee	3
Audit & Risk Committee	6
Policies & Procedures Committee	3
Distinctions & Indemnification Committee	1
Zakat Committee	4
Governance Committee	3

Article (15)

Board Resolutions

The Board shall adopt its decisions by majority votes of attendants and representatives. In case of a tie result, Chairman's vote shall be the casting vote.

Article (16)

Board's Secretary

On the year 1996, the Board has adopted a decision to appoint Mr. Ali Abdullah Gholum as Secretary to the Board of Directors.

Article (17)

Board Secretary's Functions and Duties

The Board Secretary shall assist the Chairman and all Board members in conducting their duties and steer all the functions of the Board, including:

1. Recording Board meetings Minutes;
2. Recording Board decisions in the register made for this purpose;
3. Recording Board meetings entries;
4. Safekeeping Board meetings' Minutes, decisions & resolutions;
5. Sending invitations to Board members;
6. Fully coordinating with Chairman and Board members;
7. Enabling Chairman and Board members to have timely access to all Information, documents, and data pertaining to the Bank;
8. Safekeeping Board members' representations not to duplicate prohibited positions as stipulated by Law and the provisions of this Code.

Board Committees

Article (18)

Board Committees

The Board of Directors has constituted six specialized committees for assisting it to assume its duties. Said committees shall be directly reporting to it and shall undertake their tasks on behalf of the Board to support it in ensuring effective management.

These Committees are namely:

1. Executive Committee

This Committee is constituted of five Board members. Its meetings are attended by the CEO and the senior executives in charge of handling the data & information proposed for discussion. It represents a tool for coordinating the company's businesses. Its most important task is to provide the Board with all updates related to trade developments and dealings of special nature, regularly consult with/ give its opinion to the Board as to strategic decisions and prepare credit allocation decisions in addition to preparing the credit decisions that fall within its authority. The Committee may as well lay the Business proposals before same is submitted to the Board.

2. Audit & Risk Committee

Audit & Risk Committee is mainly responsible for assisting the Board in fulfilling its oversight responsibilities with regard to the Bank activities. This task includes submitting financial reports, handling internal control system, undergoing effective management, internal and external audit functions and applied procedures for monitoring the extent of abidance to the laws & regulations in banks activities. It covers as well in particular submitting reports to the Board, advising as deemed proper in terms of the issues relative to Audit work and to Risk Committee's Charter, in order to ease the Board's decision-making process.

Similarly, the Committee shall be authorized to investigate any activity under its competencies, and shall be entitled to ask being provided with any information from any employee. All staffs shall be instructed to cooperate with any such requests addressed by the Committee in that respect. Further, the Committee shall be authorized to seek legal or professional consultancy from independent external parties and/ or the assistance of third parties, provided to be of experience and know-how ones if deemed necessary, but only after due consultation on this effect with the Chairman.

Audit & Risk Committee shall enjoy unlimited authorities to contact internal and external Auditors and the Bank's Higher Management. The purpose for constituting this Committee by the Board is to review, appraise and submit report to latter on risks in general, answerability, internal control and risk environment, control, financial control, internal and external audit and finally, compliance.

The Bank's control authorities (Internal Audit, Compliance Division and Risk Group) shall submit quarterly detailed reports to the Audit Committee which shall make the necessary investigations and appraisals before submitting its detailed report to the Board along with its recommendations to take the necessary adjustment measures.

The committee submitted several recommendations to enhance QIB controls and minimize risks in addition to improve processes in different areas such as financing operations and shared services.

3. Policies & Procedures Committee

The main purpose of this Committee is to study, prepare and develop strategies, goals and business policies & procedures. It is ought to steer the Bank's policies and practices in compliance with the Banking Industry's Uniform Standards. It is commissioned also to revise performance adequacy for each of those functions and make sure that functional procedures are in pace with the establishment's goals and operations.

In addition, the Committee shall be responsible for monitoring the Bank's quarterly performance on the light of the approved strategic plan and budgets. This task entails reviewing and consolidating business development, products harmonization and, distribution of resources among the various work sectors in the Bank. Further, the Committee shall highlight the signs and cases of deviation from the policies and procedures stated in the standard criteria and same to the Bank Management from time to time to take the necessary adjustment measures. It shall be responsible also in drawing the establishment's social responsibility policy on the light of the values and norms branded by the Bank. P&P recommended to approved among other polices including corporate governance related policies:

- i. Whistle blowing policy
- ii. Related party transactions policy
- iii. Insider trading policy
- iv. Disclosure and transparency policy
- v. Board nomination and appointment policy

In addition to approved QIB business and other activities policies for implementation.

4. Governance Committee

This is an independent Board-constituted Committee whose task is to formally represent the communication between the Board and the Bank Management in the Governance-related cases and issues. In this context, the Committee shall, on behalf of the Board, assume the responsibility of duly oversee and monitor the Corporate Governance principles, directives and practices within the Bank. It shall be as well in charge of overseeing and following up the implementation of said principles in the entire businesses and activities of the Bank, including reviewing the Governance overall framework the Bank's compliance, Control-wise speaking, with those principles. GC submitted several recommendations to the board including:

- 1- Recommendation to establish the Corporate Governance Framework.
- 2- Board Charter and Article of association amendments as per the latest corporate governance code.
- 3- Review Corporate Governance gap analysis and required actions to be taken in order to fully comply with the code.

5. Nominations, Compensation & Benefits Committee

This Committee is responsible for studying and appraising the qualifications of candidates for Senior Executive positions and candidatures for Board membership. It is also responsible for laying the Bank's wages policy aiming at attracting, encouraging and maintaining high caliber staffs and those with high skills required for achieving the Bank goals over the year. The Committee shall also ensure balancing between the interests of shareholders, the Bank and Staffs. It shall convene as needed and shall adopt a strict policy not permitting any employee to attend any discussion pertaining to his/her own bonus and/or contractual arrangements.

6. Zakat Committee

The Committee shall be in charge of consolidating cooperation and sponsorship links among the Muslim society members by orienting Zakat funds to those who deserve them. It has determined the Islamic legal channels for disbursing such funds in the various humanitarian , public growth assistances and the other channels for spending the Zakat funds.

The Zakat Committee shall be responsible as well for developing good relationships with other benevolent NGO's and Humanitarian relief groups that offer assistances in domains of public development, with the aim to appraise the parties/bodies which receive or collect such funds. Further, it has the task of laying the Bank's policy for collecting and distributing Zakat funds in accordance with the Islamic Shariah rules & principles that regulate such obligation.

Article (19)

Board Committees' Duties

The Board has issued a resolution nominating the Chairman and the members of each committee, determining its competencies, duties and its work rules and regulations. It is prohibited to chair more than one of the Board committees, neither to combine chairmanship of Audit Committee and membership of any Board Committee. Further, the 'Nomination' and 'Remuneration' Committees may be merged together in One committee called the "Nomination and Remuneration Committee".

The Board of directors receives and review the periodic reports issued by the committees in accordance with the assigned roles mentioned in this report to take appropriate and necessary actions achieving Bank's interests and preserving the rights of its shareholders.

Internal Control

Article (20)

Internal Control

The Board has adopted an Audit Committee proposal for establishing an Internal Control System that embraces a mechanism for exercising control, determining the functions and competencies of the various departments and sections, the rules and procedures regulating their responsibilities, the programs for informing educating the employees on the importance of practicing self-control, the Internal Control works and the Bank's Risk Management plans.

Article (21)

Internal Control Unit (ICU)

The Bank's Internal Control system shall entail the establishment of independent and effective units in charge of Risk Assessment and Management, Financial Audit and, the Bank's compliance with financial transactions controls, especially with related parties. It shall be headed by one or more internal auditor (s) who must be duly qualified and experienced in financial audit, performance assessment and risk management. Such auditor(s) should be ensured access to the entire Bank's departments to follow-up their performance. A Board resolution shall be issued on this respect appointing said Internal Auditor(s) and determining his/her/their functions and remunerations and holding them answerable before the Board.

Internal Audit

The Bank has an Internal Control System (ICS) in charge of reviewing business operations and reporting relevant adjustment reports and recommendations as per the following factors:

1. Approved Internal Control system
2. Appraisal and Management of Risk and Financial Control in addition to External Audit
3. Internal Control Dept. shall be commissioned with specific role and tasks as follows:
 - Overseeing implementation and auditing ICS
 - Shall be run by a qualified, operationally independent and adequately trained work team.
 - Directly reporting to Audit Committee (relevant to the Board)
 - Enjoying access to the entire activities of the Bank
 - Audit Dept. is an independent department and, similarly to the other Control departments, shall be reporting only to the Audit Committee.
 - Internal Audit team to be consisting of one manager in charge and a number of specialized staffs.
 - Internal Audit Dept. shall regularly prepare and submit (quarterly) reports on the Control and supervision procedures over financial affairs, investments, risk management and ICS implementation. Internal Audit function within the Bank shall consistently adapt its methodology in accounts auditing to ensure effective response to it in pace with the expansion of the Bank's businesses and upgrading its planned and unplanned audit commitments in order to make proper recommendations as to the changes to be introduced to consolidate Governance, Risk Management in addition to Internal Controls and Compliance. Thus, Audit role shall turn, over the year from being just a function necessitating the assistance of external sources, into a body fully capable to self-assume the entire Internal Audit task of the Bank.

The Audit team, assisted by various business unit managers, shall carry on normal analysis of Accounting audit reports and detect any weaknesses therein. This job shall be endorsed with the implementation of the self-appraisal list using the check-off system on the appraisal points, thus avoiding employees' over-estimating their own performances, as well as reinforcing the procedure itself, hence, keeping it flawless. Such procedure shall ensure maintaining the process free of the errors normally occurring. It is intended to expand it for the sake of developing proper training tools for the staff in the future.

In fact, Internal Audit task offers a valuable contribution in enriching internal controls, procedural systems, service quality and, offering advice as the how to feed the Bank's Training programs and Upgrading plans, thus allowing for focusing on the adequate preventive actions and measures to mitigate the risks faced by the Bank.

Compliance Division

This Division is directly reporting to the Audit & Risks Committee. The Bank's Governance commissions the members of this team to extensively make profit of Experts opinions and to support the Executives in charge of Compliance tasks to ensure full commitment to all the requirements of local and international regulatory bodies, including but not limited to: QCB, Basel Committee, Recommendations of MENA FATF and the recommendations of the AML/ CTF and the other international criteria pertaining to Corporate Governance.

The Bank's Compliance team is assuming an active role in reviewing the referential policies and laws and the Board's competencies adopted to ensure full adherence to the requirements of QCB and Qatar Financial Markets Authority.

Risk Management

- Monitor the overall ceilings of finance and investment risks to avoid risk concentration. It shall also ensure that QIB has adequate share capital to cover such risks, periodically review the effectiveness of risk management work and make appropriate adjustments when necessary as per the BOD strategy and directions.
- Taking appropriate measures to improve risk management systems and promote efficiency and effectiveness.
- Develop risk strategic orientation at the macro-level, which are risks resulting from decision-making, for example, to enter new markets or exit existing markets.
- Developing strategic risk orientations at the business level, which are the risk of decision-making such as those decisions related to the allocation or distribution of an investment portfolio.

- Identify and develop comprehensive levels for QIB with respect to acceptability and diversity of risks, appropriate asset allocation strategies for each finance department, economic activity, geographical extension, currency and maturities.
- Determine the level of acceptable risk to the parties that QIB deals with in terms of the following:
 - Expected rate of return on operations is commensurate with risk; and
 - Avoiding excessive credit risk (at the level of each transaction or portfolio level).
- Develop a clear strategy for credit risk mitigation based on the following:
 - Profit rates are determined in accordance with the classification of risks relating to transaction parties and pricing decisions are taken into account;
 - Permitted and applicable guarantees and warranties;
 - Clear documentation of contracts with other parties; and
 - Clear definition of the applicable laws that apply to finance operations.
- Setting limits and ceilings for the risks that can be afforded by QIB (risk appetite) to confront all types of risk.
- Determine the levels of exposure to market risk and assess likelihood of future losses that may arise from non-coverage of liabilities on held assets.
- QIB always has sufficient liquidity to meet its obligations, taking into consideration the nature of the Bank's business and activity and the capital markets where it operates.
- Establish a comprehensive and sound framework for development and application of a sound precautionary environment to manage operational risks arising from various activities.
- Contingency planning in case of potential crises and emergent of extraordinary circumstances.
- Identification of capital requirements, expected capital expenditures, target capital level and external sources of capital.
- Develop an effective, comprehensive and consistent risk management framework. Risks shall be fully assessed due to overlapping of risks confronted by the Bank.
- Determine the appropriate amount of share capital to cover risks according to the product or service base.
- Diversify the base of products and services and ensure distribution through developed and modern distribution channels in line with the requirements of modern banking.
- Focus on activities and businesses that provide a continuous flow of revenues. This is fundamentally related to the need to diversify the Bank's businesses and activities beyond the traditional businesses and activities.

- Develop transparency and risk management process and strengthen the link between risk management and the Bank's strategy.
- Identify the activities and businesses of QIB and planning for future projects and new products within the risk margin that QIB can take over based on the risk tolerance appetite determined by the board.

Shariah Audit Authority

The main task of this Authority is to monitor the Bank activities' compliance with Islamic Shariah rules & principles and review the operations and products referred to it to this effect.

It is an independent authority constituted of scholars ("Ulémas") specialized in Islamic Fiqh in Banking and Trade Transactions.

The Shariah Audit Authority is in charge also of the following tasks:

- Offering the required advice and Islamic orientation upon request from the Bank's Management.
- Reviewing Auditors reports against the basic principles of Islamic Shariah and providing reports thereon to the members.
- Stating about compliance of the contracts, dealings and transactions referred to it with Islamic Shariah.
- Reviewing the Bank's marketing matters referred to it.
- Making sure, using every possible means, that the entire income and revenues realized through sources proved to be incompatible with Islamic Shariah is redirected towards Benevolent spending channels.

Shariah Control Members	Capacity
H.E. Sheikh/ Walid Bin Hadi	Chairman
Prof. Dr./ Abdul Sattar Abou Ghodda	Member
Dr. Mohammad Ahmeen	Admin. Member

Article (22)

Internal Control Reports

Internal Control Units shall submit their reports on the work they have done within the Bank to the Audit Committee, as recommended by said committee.

Said reports should at least include the following Authority

1. Procedures of control and supervision in respect of financial affairs, investments, and risk management.
2. Review of the development of the risk factors within the Bank and extent of suitability and effectiveness of the systems in force within the Bank to face the drastic or unexpected changes in the Market.
3. Comprehensive appraisal of the Bank's performance in terms of implementing its Internal Control systems in compliance with the provisions of this Governance Code.
4. The Bank's compliance with applicable market listing and Disclosure rules and requirements.
5. The Bank's compliance with Internal Control systems upon determining the risks and Risk Management.
6. The risks faced by the Bank, their types, causes and the actions taken in this regard.
7. The suggestions for addressing the violations and mitigating risks.

During 2018 there were no major/significant internal control issues/failure

Article (23)

External Control

The Bank has appointed a Chartered External Auditor for reviewing its works and submit his reports and adjustment recommendations. Said Auditor cannot be dismissed during his contractual term but rather should be replaced by another Auditor during a period not exceeding (5) years. He cannot be re-appointed before a lapse of two years from latest appointment.

The Auditor shall submit a report on the outcome of his reviewing to the Board in addition to any reviews of the Bank's financial statements. He shall also prepare a report on the internal controls on the financial statements. Further, the External Auditor's team shall attend the meetings of both the Audit Committee and Shareholders General Assembly.

It is worth noting that, after a term of (5) years max. from assigning the task of external audit to an Expert House / Audit bureau, the Law implies the obligatory replacement of latter by another firm for assuming the same duty. On the other hand, External Auditors shall may be questioned in the General Assembly's annual meeting in respect of giving their opinion as to the Bank's Annual Financial Statements. Therefore, they have to attend such meetings to represent the External Auditor's House/ Firm during the underlined meeting.

On the other hand. the External Auditor may offer services to the Bank, whether at the level of external auditing or otherwise, after getting the consent of the Audit & Risks Committee, which gives approval for seeking specific types of services, where they directly or indirectly connected to External Auditor's scope of work and this is to be done on an annual basis.

The External Auditor shall be committed to offer the services so consented by the Audit & Risks Committee , or those formerly recommended by the Bank's General Management before being approved by the Committee. Further, Audit & Risks Committee shall determine and state a maximum limit for the annual amount that could be expended for getting the External Auditors services against the ceilings approved for such services.

Article (24) **External Auditor's Functions and Responsibilities**

The External Auditor shall inform the Board - in writing - of any risk the Bank is or eventually is facing. He shall promptly report to the Board any violations once detected. Copy of such notice to the Authority. In any such event, the External Auditor shall have the right to invite the General Assembly to convene as stipulated by Law provisions in this regard, provided to keep Authority informed thereof.

The External Auditor - even if more than one - shall submit only one report to the General Assembly, read it before its meeting, and shall send a copy thereof to the Authority and shall be held responsible for the integrity of the data contained therein.

Moreover, each shareholder in the General Assembly shall have the right to discuss with the External Auditor any issue raised in his report or seek clarifications on any matter therein pertaining to anything relative to Financial Control and/ or Performance Appraisal works.

Article (25) **Disclosure**

The Bank complies with Disclosure & listing requirements of QFMA & QE, including financial reports, number of shares owned by each of the Chairman and Board members, Senior Executive Management, and major shareholders or controlling shareholders.

The Bank must also comply with Disclosure requirements in terms of the information related to the Chairman, Board members, and Board Committees including latter's scientific and practical experiences as stated in their CV's, and whether any of them is a Board member, a Senior Executive Management Officer of another Company or a member of any of such company(ies) Board committees.

Article (26) **Conflict of Interests**

Without prejudice to relevant Law provisions in this regard, the Board complies with the principles of this Governance Code and with the Disclosure requirements for the dealings and transactions entered with any "Related Party"

Accordingly, there were no substantial/significant which the Related Party has an interest that may conflict with the Bank's interests, furthermore BOD approved the Conflict of Interest policy and related parties transactions. At least one week prior to the date of a General Assembly meeting called for reviewing the Bank's budget and the Board's report, the Board must disclose in details to the shareholders the details of said dealings and transactions. Same disclosure must be reflected in the Bank's Annual Financial Report.

In all cases, the Bank must not carry out any dealings or enter into any transactions with any "Related Party" before getting the Bank's General Assembly approval. This must be included in the Agenda of the following General Assembly meeting in order to complete its execution formalities.

Article (27) **Transparency and Upholding the Bank's Interests:**

Any Related Party, which is a party in or, linked to a transaction or a relationship concluded with the Bank, shall not attend a Board meeting while discussing that specific transaction or relationship. He/she shall not be entitled as well to vote on the corresponding decisions adopted by the Board in this regard.

Article (28)

Disclosure of Dealings(Trade) Operations

The Board members, Senior Executive Management officers, all Insiders, their spouses and minor children all shall be committed to disclose any trading transactions carried by them involving the Bank's shares or any other QIB securities. The Board has adopted clear rules, policy and procedures regulating Insiders trading in QIB securities.

STAKEHOLDERS RIGHTS

Article (29)

Shareholders' Equal Rights

Shareholders shall be equally treated and shall evenly enjoy all the rights arising from their shares ownership as per the statutory Law provisions, regulations and relevant resolutions.

The Bank's Articles of Association guarantees shareholder's freedom to exercise his rights without affecting the bank's interest and its shareholders through out the submission of an application request to the board secretary to be discussed and evaluated by the board.

Article (30)

Access to Shareholders (Ownership) Register

The Bank shall submit, monthly, an application to the depository to get an updated copy of the Shareholders register and keep in its custody.

Article (31)

Shareholder's Right to Access to Information

The Bank's Articles of Associations and by-laws includes the procedures of accessing to the information that enable a shareholder to exercise his/her full rights without prejudice to other shareholders' rights or harm the Bank's interests.

Article (32)

Shareholders' Rights Related to the General Assembly

The Bank's Articles of Associations shall include the provisions regulating Shareholders' rights relative to the General Assembly Meeting, including:

1. The shareholder(s) who owns at least (10%) of the Bank's capital shall be entitled to request inviting General Assembly to convene. Shareholders holding at least (25%) of the Bank's capital shall be entitled to invite to an Extraordinary General Assembly meeting as per the procedures stipulated by Law and pertaining regulations.
2. The right to request the inclusion of given issues in the General Assembly's Agenda.

3. The right to attend the General Assembly meetings.

4. A shareholder shall – in writing and upon a power of attorney, be entitled to appoint another shareholder who is not a Board member to attend the General Assembly meeting on his behalf; provided that such shareholder by proxy not to be owner of more than (5%) of the Bank's capital shares.

5. Right of minors and the shareholders restricted to attend General Assembly meeting, provided to be represented by their legal attorneys.

6. Shareholder's right to address questions/inquiries to the Board members who shall be committed to give corresponding answers.

7. The right to vote on General Assembly decisions/ resolutions.

8. Shareholder right to object to any decision.

Article (33)

Facilitating Means of Effective Participation in the General Assembly

The Bank shall select the most appropriate place and time for holding its General Assembly meeting. It shall endeavor to use updated technical means in communicating with its shareholders in order to ease the effective participation of as large number as possible of them in the underlined meetings.

The Bank shall keep Shareholders updated of the matters listed on the Agenda and any additional issues added thereto, along with sufficient Information that enable them to decide thereupon, and shall enable them to peruse the General Assembly Minutes.

The Bank shall disclose the outcome of the General Assembly meeting once these have been adopted, and send a copy thereof to the Authority once approved.

Article (34)

Shareholders' Voting Rights:

Voting is a shareholder's right - to be exercised whether by the shareholder in person or through a shareholder's legal representative. Said right cannot be assigned or written off.

Article (35)

Shareholders' Rights pertaining to Election of Board Members

The General Assembly shall elect Board members by secret ballot using Cumulative Cast method.

Article (36)

Shareholders' Rights to Dividend Distribution

The Bank's Articles of Associations shall determine a minimum of 5% percentage of the Net Dividends that should be distributed to Shareholders.

The Board approved a policy in this respect to the best interests of both the Bank and Shareholders. Shareholders shall be acknowledged of that policy during the General Assembly meeting and reference thereto shall be made in the Board's Report.

Dividends approved by the General Assembly for distribution, whether in cash or in form of bonus shares shall be given, as of right, to the share-owners listed in the Depository's Register at the closure of the trading session, on the day of the General Assembly's meeting.

Article (37)

Shareholders' Rights as to Major Trade Transactions

The Bank's Articles of Associations shall include a detailed mechanism for protecting shareholders' rights in general and Minors rights in particular in case the Bank has executed major transactions that might harm their interests or prejudice the Bank's Equity. Markets Authority

Article (38)

Non-shareholders Rights

The Bank shall be obliged to secure and observe investors (stakeholders)' rights. The Corporate Governance framework included a written mechanism determining the procedures for them to submit their grievances against eventual decisions and/ or actions taken by some of the Bank executives and another mechanism for receiving and investing those stakeholders' complaints, proposals and notices.

Article (39)

Community's Right

The Bank assumes its share in the social community development and promotion, as well as in the ecological preservation plans/activities through an effective and meaningful participation scheme of corporate social responsibility and health policies.

Social Responsibility

The Bank, as a responsible national body, recognizes its social responsibility towards the community in which the Bank operates. It is therefore 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 It is operating which reflects its recognition of the importance of both financial and non-financial commitment and contribution.

In this context, the Bank's 'Zakat' Committee disburses funds to the needy persons, and shares in debts settlement for insolvent or ceased people along with the Zakat Fund reporting to the Ministry of Endowments, either by relieving them or settling their indebtedness.

The Bank has many other contributions covering a large group of beneficiaries in the sectors of education, health care, cultural activities, in addition to endorsing sportive clubs and people suffering social needs. It contributed as well in hosting a number of conferences, exhibitions and sport events over the past years.

Ecological policy

The Bank is committed to apply the policies and procedures ecological management in ensuring that no harm should come to the environment through the performance of its operations.

In-keeping with this commitment, the Bank endeavors to ensure that all employees comply with the following environmental policies.

- 1- Conduct business in an environmentally responsible manner
- 2- Comply with all applicable ecological laws and regulations
- 3- Notify the Board of any pertinent environmental issues and assess the Board's participation in such issues.
- 4- Control environmental impacts and the prevention of, or mitigating pollution, including operating towards a paperless environment.

Health Policy

The Bank, recognizing that good health factors and Safety Management have positive benefits to the organization, is committed to providing medical care service and maintaining it amid a safe and secure working environment for all employees.

To this end, the bank embraces the following believes:

- 1- Ensuring the health, safety, security and welfare of all its employees whilst at work environment.
- 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 Accordingly, the Bank has adopted plans for fire-fighting, Crisis & Disaster management, Safety and full medical care & Health Insurance through renowned Insurance provider for the benefit of all permanent staffs.

- As part of the banks endeavors to fully abide with the entire Corporate Governance instructions & procedures, most of the code articles have been applied in compliance with Qatar Financial Markets rules including policies, procedures & internal controls based on founding principles of a rational management and paving the way for integral application of Governance rules within the Bank.



**SHARI'A
SUPERVISORY
BOARD REPORT**

SHARI'A SUPERVISORY BOARD REPORT

FOR THE FISCAL YEAR ENDING ON 31ST DECEMBER 2018

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.

Shari'a Supervisory Board has reviewed QIB operations, contracts and products, and reviewed the financial statements and profit and loss account for the fiscal year 2018, and considers that they do not contradict with the provisions of Islamic Sharia.

May Allah guide us all to what pleases Him.

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

Dr. Mohamad Ahmaine
Administrative Member

Prof. Abdul Sattar Abou Ghodda
Member

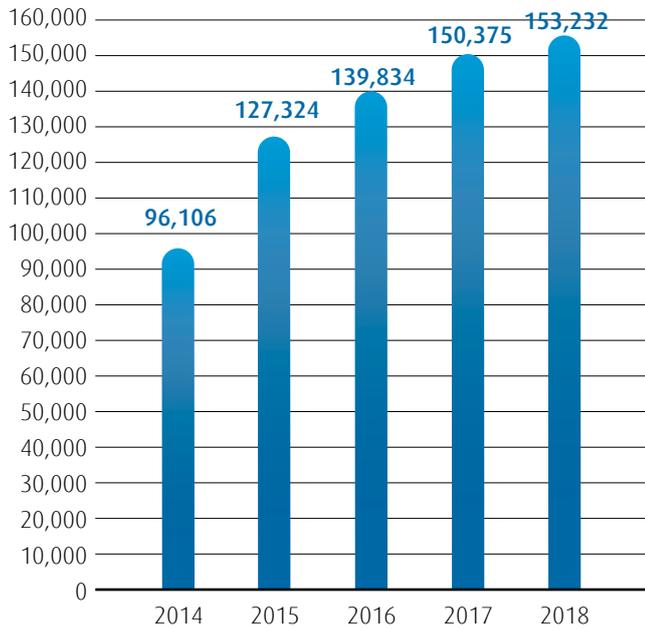
The background is a solid blue color with a dynamic, abstract design. It features several glowing, wavy lines that sweep across the lower half of the page, creating a sense of motion and energy. Scattered throughout the background are numerous small, bright white and light blue particles, some of which appear to be in motion, adding to the futuristic and high-tech aesthetic.

QIB FINANCIAL HIGHLIGHTS

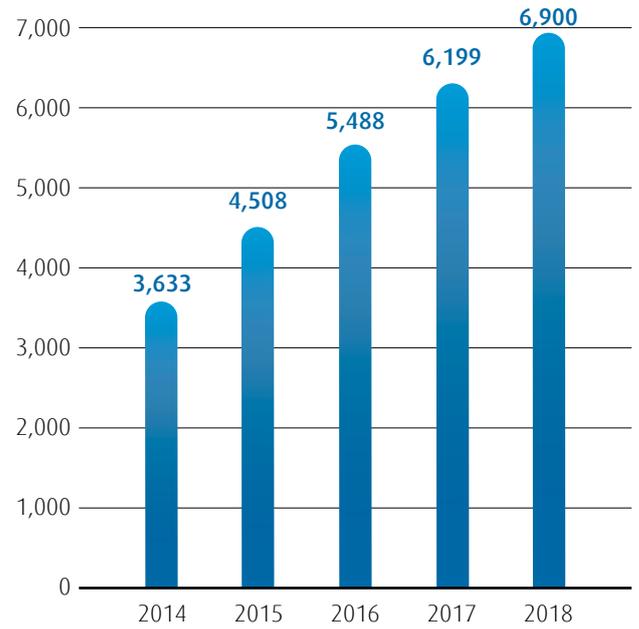


	2018	2017	2016	2015	2014	2013
	(Million QR)					
(2018-2013)						
Total assets	153,232	150,375	139,834	127,324	96,106	77,354
Deposits	100,598	101,815	95,397	91,521	66,605	50,363
Financing & investments	135,155	135,874	119,934	108,462	77,880	63,829
Total income	6,900	6,199	5,488	4,508	3,633	3,144
General and administrative expenses	1,072	1,014	1,001	969	846	785
"Provisions and depreciation"	809	877	536	406	343	433
Net profit	2,755	2,405	2,155	1,954	1,601	1,335
Earnings per share (QR)	10.79	9.31	8.55	8.06	6.78	5.65
Total shareholders' equity	15,420	15,289	14,238	13,376	12,478	11,860
Share capital	2,363	2,363	2,363	2,363	2,363	2,363
Unrestricted investment accounts	85,177	85,214	81,342	77,327	51,480	37,893
Customers' current accounts	15,421	16,600	14,055	14,194	15,125	12,470

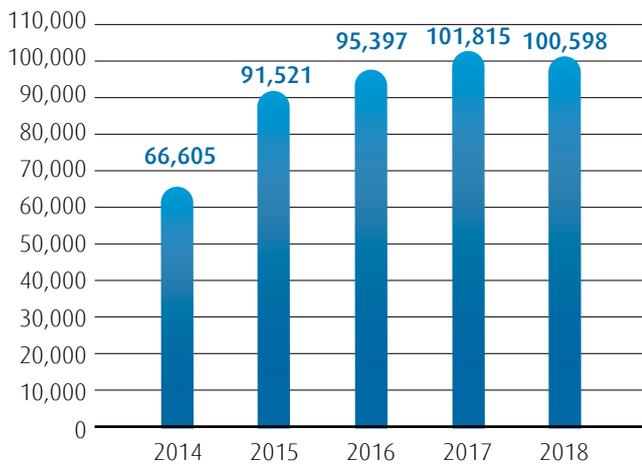
Assets (Million QR)



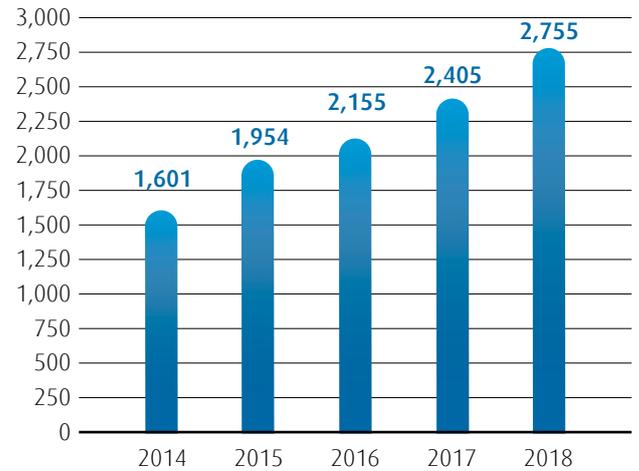
Total Income (Million QR)



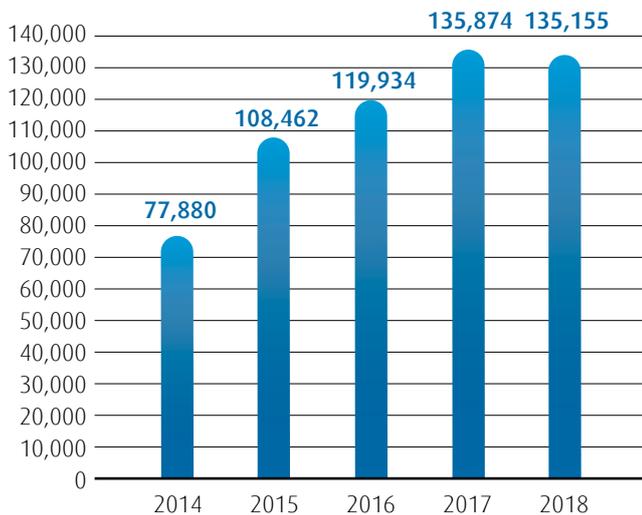
Deposits (Million QR)



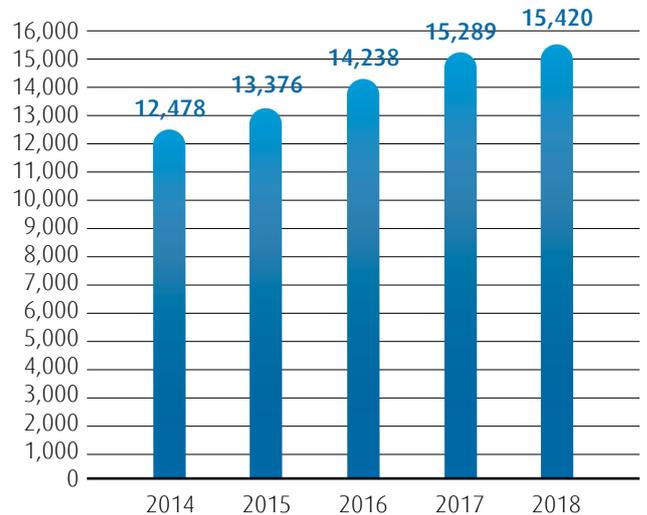
Net Profit (Million QR)



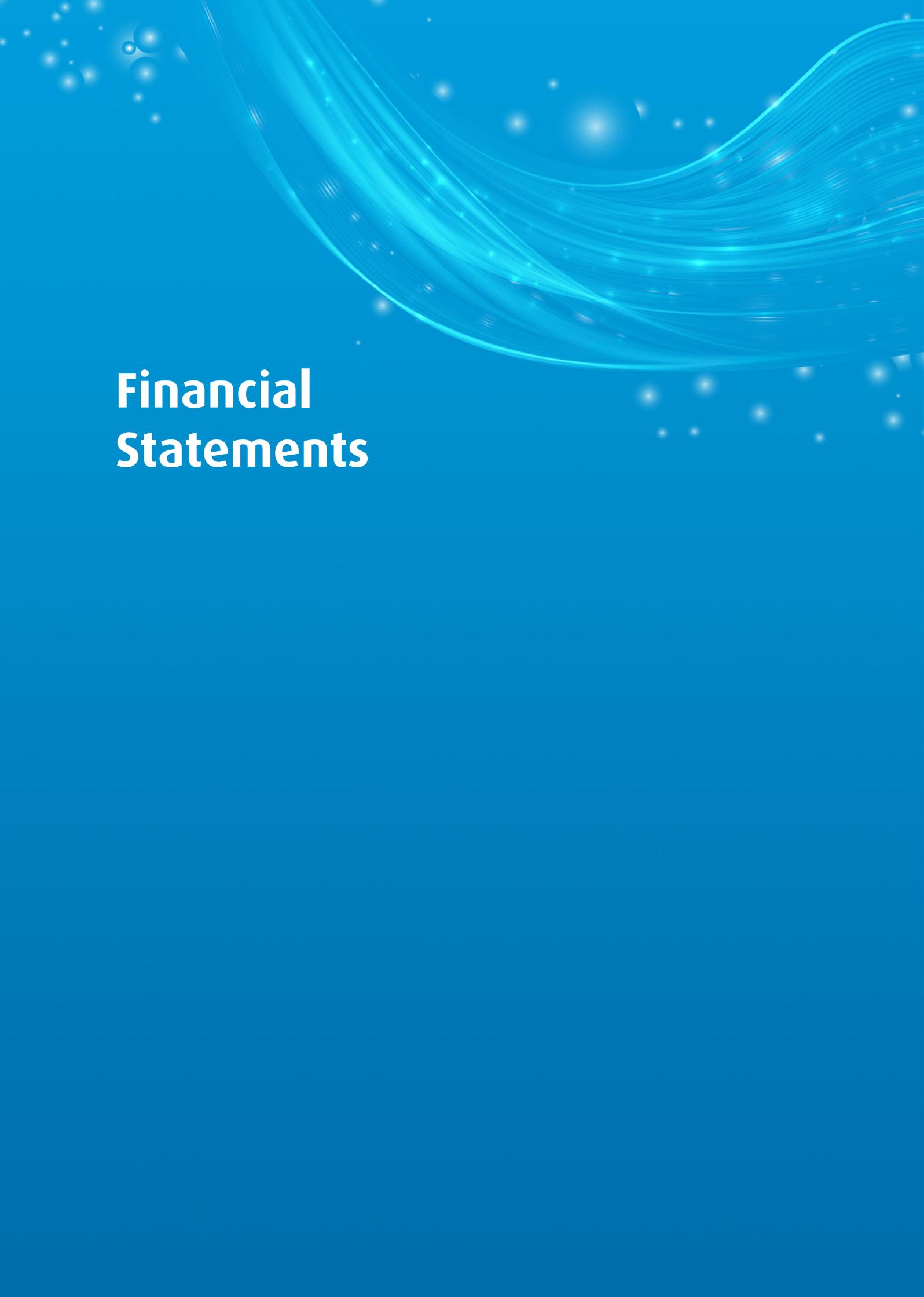
Financing & Investments (Million QR)



Shareholders Equity (Million QR)





The background is a vibrant blue gradient. In the upper right quadrant, there are several glowing, wavy lines that resemble light trails or energy waves, curving across the frame. Scattered throughout the background are numerous small, bright white and light blue particles, some appearing as soft glows and others as sharper points of light, creating a sense of depth and movement.

Financial Statements



INDEPENDENT AUDITOR'S REPORT

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

**Report on the Audit of the Consolidated
Financial Statements**

Opinion

We have audited the accompanying consolidated financial statements of Qatar Islamic Bank (Q.P.S.C.) (the 'Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the applicable provisions of Qatar Central Bank laws and regulations ('QCB laws and 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.

<u>Early adoption of FAS 30 "Impairment, Credit Losses and Onerous Commitments"</u> - refer to notes 3(a), 3(f), 3(g) and 4(b) 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"> • FAS 30 "Impairment, Credit Losses and Onerous Commitments" ("FAS 30") which the Group adopted on 1 January 2018: <ul style="list-style-type: none"> - introduced complex accounting requirements, including new estimates and judgements underlying the determination of adjustments on transition; - resulted in new accounting policies, including transition option elections and practical expedients; and - resulted in new processes, data and controls that have not been subject to testing previously. • The adjustment made to retained earnings upon transition to FAS 30 was a QAR 930.8 million debit, which represents 4.5% of the total equity of the Group as at 31 December 2018, hence a material portion of the consolidated statement of financial position. 	<p>Our audit procedures in this area included the following, among others:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of management's selection of accounting policies based on the requirements of FAS 30, our business understanding and industry practice. • Considering the appropriateness of the transition approach and practical expedients applied. • Considering management's process and the controls implemented to ensure the completeness and accuracy of the transition adjustments. • Identifying and testing the relevant controls over the transition process. • Evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments. • Involving financial risk management specialists to challenge key assumptions/judgements relating to, credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates. • Involving valuation specialists to evaluate the inputs, assumptions and techniques used by the valuers engaged by the Group for the valuation of real estate collaterals, relating to the determination of provisions. • Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments. • Involving Information Risk Management (IRM) specialists to test new IT systems and relevant controls. • Assessing the adequacy of the Group's disclosures in relation to the early adoption of FAS 30 by reference to the requirements of the relevant accounting standards and QCB law and regulations.

<p><u>Impairment of financial assets subject to credit risk</u> - refer to notes 4(b), 9, 10, 11 and 21 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"> • Impairment of financial assets subject to credit risk involves: <ul style="list-style-type: none"> - complex accounting requirements, including assumptions, estimates and judgements underlying the determination of adjustments on transition; - modelling risk (e.g. inappropriate methodology and design decisions); - susceptibility to management bias when making judgements to determine expected credit loss outcomes; and - complex disclosure requirements. • The Group's net financial assets subject to credit risk, both on and off balance sheet, were QAR 157.6 billion as at 31 December 2018, hence a material portion of the consolidated statement of financial position. Furthermore, the total impairment recognized by the Group on these financial assets amounted to QAR 541.9 million, in the year ended 31 December 2018, which represents 20.5% of the net profit of the Group, hence a material portion of the consolidated statement of income. 	<p>Our audit procedures in this area included the following, among others:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the accounting policies based on the requirements of FAS 30, our business understanding and industry practice. • Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over model development. • Identifying and tested the relevant controls. • Involving information risk management (IRM) specialists to test new IT systems and relevant controls. • Evaluating the reasonableness of management's key judgements and estimates made in provision calculations, including selection of methods, models, assumptions and data sources. • Involving FRM specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates. • Involving valuation specialists to evaluate the inputs, assumptions and techniques used by the valuers engaged by the Group for the valuation of the real estate collaterals, relating to the determination of provisions. • Assessing the completeness, accuracy and relevance of data. • Evaluating the appropriateness and tested the mathematical accuracy of models applied. • Evaluating the reasonableness of and tested the post-model adjustments. • Performing detailed credit risk assessment of a sample of performing and non-performing financing assets in line with QCB laws and regulations. • Assessing the adequacy of the Group's disclosures by reference to the requirement of the relevant accounting standards and QCB laws and regulations.
<p><u>Valuation of investment securities</u> - refer to notes 3(d), 5(b) and 11 in the consolidated financial statements</p>	<p><u>How the matter was addressed in our audit</u></p>
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • The valuation of investment securities involves complex accounting requirements, including assumptions, estimates and judgements underlying the determination of fair values. • The carrying value of investment securities as at 31 December 2018 was QAR 31,145.6 million or 20.3% of the Group's total assets as at 31 December 2018, hence a material portion of the consolidated statement of financial position. • Of the total investment securities, 6.4% comprise unquoted equity securities at fair value, the measurement of which requires use of estimates and judgements. 	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • Testing controls over the process of valuation of investment securities. • Agreeing the valuation of the quoted equity and debt securities to externally quoted prices. • For unquoted equity securities, assessing the appropriateness of the valuation methodology and challenging the key underlying assumptions, such as pricing inputs and discount factors. • Testing, for a selection of pricing inputs used, that they were externally sourced and were correctly input into the pricing models; • We assessed the adequacy of the Group's disclosure in relation to the valuation of investment securities by reference to the requirements of the relevant accounting standards and QCB laws and regulations.

Other Information

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

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 laws and 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 applicable provisions of the Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Articles of Association and the amendments thereto having occurred during the year which might have had a material effect on the Bank's consolidated financial position or performance as at and for the year ended 31 December 2018.

Doha	Gopal Balasubramaniam
State of Qatar	Qatar Auditors Registry Number 251
	KPMG
	Licensed by QFMA: External Auditor's
	License No. 120153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
QAR'000
As at 31 December
2018
2017

	Notes		
Assets			
Cash and balances with central banks	8	7,298,914	5,546,386
Due from banks	9	6,424,153	4,875,690
Financing assets	10	102,209,930	102,613,499
Investment securities	11	31,145,583	30,402,263
Investment in associates	12	568,392	668,512
Investment properties	13	1,231,107	1,943,937
Asset held for sale	14	-	245,686
Fixed assets	15	479,468	511,302
Intangible assets	16	385,740	411,314
Other assets	17	3,489,078	3,156,287
Total assets		153,232,365	150,374,876
Liabilities, equity of unrestricted investment account holders and equity			
Liabilities			
Due to banks	18	17,233,968	17,191,126
Customers' current accounts	19	15,420,808	16,600,080
Sukuk financing	20	9,145,212	7,057,282
Other liabilities	21	5,515,825	3,431,752
Total liabilities		47,315,813	44,280,240
Equity of unrestricted investment account holders	22	85,177,175	85,214,471
Equity			
Share capital	23(a)	2,362,932	2,362,932
Legal reserve	23(b)	6,370,016	6,370,016
Risk reserve	23(c)	2,318,875	2,263,736
General reserve	23(d)	81,935	81,935
Fair value reserve	23(e)	154,458	170,173
Foreign currency translation reserve	23(f)	(348,424)	(137,224)
Other reserves	23(g)	216,820	216,820
Proposed cash dividends	23(h)	1,181,466	1,181,466
Share-based payment reserve	23(i)	-	11,185
Retained earnings		3,082,218	2,768,147
Total equity attributable to equity holders of the bank		15,420,296	15,289,186
Non-controlling interests	24	1,319,081	1,590,979
Sukuk eligible as additional capital	25	4,000,000	4,000,000
Total equity		20,739,377	20,880,165
Total liabilities, equity of unrestricted investment account holders and equity		153,232,365	150,374,876

These consolidated financial statements were approved by the Board of Directors on 16 January 2019 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'000
For the year ended 31 December

	Notes	2018	2017
Continuing operations			
Net income from financing activities	26	5,328,589	4,887,159
Net income from investing activities	27	689,420	575,320
Total net income from financing and investing activities		6,018,009	5,462,479
Fee and commission income		732,257	658,459
Fee and commission expense		(156,415)	(140,925)
Net fee and commission income	28	575,842	517,534
Net foreign exchange gain	29	259,227	139,061
Share of results of associates	12	(552)	36,383
Other income		47,182	43,872
Total income		6,899,708	6,199,329
Staff costs	30	(653,323)	(622,432)
Depreciation and amortisation	15,16	(89,015)	(91,353)
Sukuk holders' share of profit		(255,092)	(218,370)
Other expenses	31	(418,910)	(391,935)
Total expenses		(1,416,340)	(1,324,090)
Net impairment losses on investment securities	11	(237,709)	(305,691)
Net impairment losses on financing assets	10	(505,074)	(474,685)
Other impairment reversals / (losses)		23,216	(4,955)
Net profit for the year from continuing operations before tax and return to unrestricted investment account holders		4,763,801	4,089,908
Less: Return to unrestricted investment account holders	22	(2,125,416)	(1,818,627)
Profit from continuing operations before tax		2,638,385	2,271,281
Discontinued operations			
Loss from asset held for sale		-	(2,490)
Net profit for the year before tax		2,638,385	2,268,791
Tax credit / (expense)	32	2,310	(18,270)
Net profit for the year		2,640,695	2,250,521
Net profit for the year attributable to:			
Equity holders of the Bank		2,755,311	2,405,425
Non-controlling interests	24	(114,616)	(154,904)
Net profit for the year		2,640,695	2,250,521
Earnings per share			
Basic / diluted earnings per share (QAR per share)	35	10.79	9.31

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
QAR '000
For the year ended 31 December

	Share capital	Legal Reserve	Risk reserve	General reserve	Fair value reserve	Foreign currency translation reserve	Other reserve	Proposed cash dividends	Share - based payment reserve	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Sukuk eligible as additional capital	Total Equity
Balance at 31 December 2017	2,362,932	6,370,016	2,263,736	81,935	170,173	(137,224)	216,820	1,181,466	11,185	2,768,147	15,289,186	1,590,979	4,000,000	20,880,165
Transition adjustment on early adoption of FAS 30 at 1 January 2018 3(a) (ii)	-	-	-	-	-	-	-	-	-	(930,752)	(930,752)	(46,266)	-	(977,018)
Restated balance at 1 January 2018	2,362,932	6,370,016	2,263,736	81,935	170,173	(137,224)	216,820	1,181,466	11,185	1,837,395	14,358,434	1,544,713	4,000,000	19,903,147
Foreign currency translation reserve movement	-	-	-	-	-	(211,200)	-	-	-	-	(211,200)	-	-	(211,200)
Fair value reserve movement	-	-	-	-	(15,715)	-	-	-	-	-	(15,715)	-	-	(15,715)
Net profit for the year	-	-	-	-	-	-	-	-	-	2,755,311	2,755,311	(114,616)	-	2,640,695
Total recognised income and expense for the year	-	-	-	-	(15,715)	(211,200)	-	-	-	2,755,311	2,528,396	(114,616)	-	2,413,780
Cash dividends paid to shareholders (Note 23)	-	-	-	-	-	-	-	(1,181,466)	-	-	(1,181,466)	-	-	(1,181,466)
Transfer to risk reserve (Note 23)	-	-	55,139	-	-	-	-	-	-	(55,139)	-	-	-	-
Proposed cash dividends (Note 23)	-	-	-	-	-	-	-	1,181,466	-	(1,181,466)	-	-	-	-
Social and Sports Fund appropriation (Note 40)	-	-	-	-	-	-	-	-	-	(68,883)	(68,883)	-	-	(68,883)
Profit on Sukuk eligible as additional capital (Note 25)	-	-	-	-	-	-	-	-	-	(205,000)	(205,000)	-	-	(205,000)
Share-based payment reserve (Note 23)	-	-	-	-	-	-	-	-	(11,185)	-	(11,185)	(11,127)	-	(22,312)
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(99,889)	-	(99,889)
Balance at 31 December 2018	2,362,932	6,370,016	2,318,875	81,935	154,458	(348,424)	216,820	1,181,466	-	3,082,218	15,420,296	1,319,081	4,000,000	20,739,377

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
QAR '000
For the year ended 31 December

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
QAR'000
For the year ended 31 December

		2018	2017
	Notes		
Cash flows from operating activities			
Net profit for the year before tax		2,638,385	2,268,791
Adjustments for:			
Net impairment losses on financing assets	10	505,074	474,685
Net impairment losses on investment securities	11	237,709	305,691
Other impairment reversals / (losses)		(23,216)	4,955
Depreciation and amortisation	15,16	89,015	91,353
Net gain on sale of investment securities		(24,900)	(1,113)
Share of results of associates	12	552	(36,383)
Amortization of premium on sukuku		2,087	9,463
Fair value (loss) / gain on investment securities carried as fair value through income statement	27	38,064	(103,464)
Employees end of service benefits charge	21	24,603	24,962
Net gain / (loss) on properties	27	(228)	153,671
Share based payment expense	23(i)	(22,310)	1,918
		<u>3,464,835</u>	<u>3,194,529</u>
Profit before changes in operating assets and liabilities			
Change in reserve account with Qatar Central Bank		73,557	(130,997)
Change in due from banks		83,566	278,992
Change in financing assets		(1,032,257)	(16,049,891)
Change in other assets		(141,486)	(1,026,097)
Change in due to banks		42,953	3,584,218
Change in customers' current accounts		(1,179,272)	2,544,966
Change in other liabilities		1,851,016	(793,965)
Taxes paid		-	(18,270)
Employees' end of service benefits paid	21	(11,322)	(5,212)
Net cash from / (used in) operating activities		<u>3,151,590</u>	<u>(8,421,727)</u>
Cash flows from investing activities			
Acquisition of investment securities		(4,998,787)	(8,264,174)
Proceeds from sale / redemption of investment securities		4,358,636	8,841,019
Acquisition of fixed assets		(60,418)	(65,707)
Acquisition of investment in associates		-	(17,411)
Movement in investment properties		475,000	(28,374)
Dividends received from associate companies		10,836	12,489
Net cash (used in) / from investing activities		<u>(214,733)</u>	<u>477,842</u>
Cash flows from financing activities			
Change in equity of unrestricted investment accountholders		(37,294)	3,872,829
Net movement in non-controlling interest		(146,164)	(15,602)
Cash dividends paid to shareholders	23(h)	(1,181,466)	(1,122,393)
Profit paid on sukuk eligible as additional capital		(205,000)	(85,000)
Net proceeds from sukuk financing		2,091,180	267,045
Proceeds from issuance of sukuk eligible as additional capital		-	-
Net cash from financing activities		<u>521,256</u>	<u>2,916,879</u>
Net increase / (decrease) in cash and cash equivalents		<u>3,458,113</u>	<u>(5,027,006)</u>
Cash and cash equivalents at 1 January		5,629,501	10,656,507
Cash and cash equivalents at 31 December	36	<u>9,087,614</u>	<u>5,629,501</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
QAR'000
For the year ended 31 December

<i>Investment</i>	At 1 January 2018	Movements during the year						At 31 December 2018
		Investment / (withdrawals)	Revaluation	Gross income	Dividends paid	Admin expense	Bank's fee as an agent	
Real Estate Portfolio	73,164	(6,734)	-	-	-	-	66,430	
Equity Securities Portfolio	883,592	(360,367)	14,924	34,413	(16,092)	(459)	555,461	
	956,756	(367,101)	14,924	34,413	(16,092)	(459)	621,891	
<i>Investment</i>	At 1 January 2017	Movements during the year						At 31 December 2017
		Investment / (withdrawals)	Revaluation	Gross income	Dividends paid	Admin expense	Bank's fee as an agent	
Real Estate Portfolio	73,164	-	-	-	-	-	73,164	
Equity Securities Portfolio	892,856	626	(24,928)	18,035	(400)	-	883,592	
	966,020	626	(24,928)	18,035	(400)	-	956,756	

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'000
For the year ended 31 December	2018	2017
Source of charity fund		
Earnings prohibited by Sharia'a during the year	<u>2,361</u>	<u>651</u>
Use of charity fund		
Researches, donations and other uses during the year	<u>(3,615)</u>	<u>(2,640)</u>
Decrease of sources over uses	<u>(1,254)</u>	<u>(1,989)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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 2018 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 30 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 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 16 January 2019.

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

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

	Country of Incorporation	Principal Business Activity	Effective percentage of ownership	
			31 December 2018	31 December 2017
Arab Finance House	Lebanon	Banking	99.99%	99.99%
Aqar Real Estate Development and Investment Company W.L.L.(“Aqar”) (i)	Qatar	Investment in real estate	49%	49%
Durat Al Doha Real Estate Investment and Development W.L.L. (ii)	Qatar	Investment in real estate	39.87%	39.87%
QIB Sukuk Ltd (iii)	Cayman Island	Sukuk issuance	100%	100%
QIB Sukuk Funding Limited	Qatar	Financing company	100%	100%
QIB (UK)	United Kingdom	Investment banking	99.71%	99.71%
QInvest LLC	Qatar	Investment banking	50.13%	50.13%
Verdi Luxembourg SARL (iv)	Luxembourg	Investment in real estate	50.13%	50.13%
Q Business Services (iv)	Cayman Island	Investment holding company	50.13%	50.13%
Q Liquidity Limited (iv)	Cayman Island	Placements	50.13%	50.13%
QInvest Holding Mauritius (iv)	Mauritius	Investment holding company	50.13%	50.13%
QInvest Luxembourg S.a.r.l. (iv)	Luxembourg	Investments	50.13%	50.13%
QI St Edmund’s Terrace 2 Limited (iv)	Cayman Island	Investment holding company	50.13%	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 Island	Investment holding company	50.13%	50.13%
QEthika 1 (iv)	Cayman Island	Investment holding company	50.13%	50.13%
QInvest Euro PE QFC LLC (iv)	Qatar	Investment holding company	50.13%	50.13%
Q Tomahawk LLC (iv)	Cayman Island	Investment holding company	50.13%	50.13%
QInvest Refin LLC (iv)	Qatar	To provide financing facility	50.13%	50.13%
Q Alloy S.a.r.l (iv)	Luxemburg	To provide financing facility	50.13%	50.13%
Q Magnolia LLC (iv)	Cayman Island	Investment in real estate	50.13%	50.13%
Qinvest Portfoy Yonetimi A.S. (iv)	Turkey	Asset Management	50.13%	50.13%
BOH LLC (iv)	Qatar	Holding Company	50.13%	50.13%
Alloy Holdco LLC (iv)	Qatar	Investment holding company	50.13%	-
Admiral Holdco LLC (iv)	Qatar	Holding Company	50.13%	-
QInvest RE-Equity LLC (iv)	Qatar	Investment holding company	50.13%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**1. REPORTING ENTITY (continued)**

Notes:

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

2. BASIS OF PREPARATION**a) Statement of compliance**

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

b) Basis of measurement

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

c) Functional and presentational currency

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

d) Use of estimates and judgments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the effects of the early adoption of FAS 30 as discussed in note 3a(ii), and have been applied consistently by Group entities. Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures of 2018, but have not been applied to the comparative information

a) New standards and interpretations**i. New standards, amendments and interpretations effective from 1 January 2018**

There are no new accounting standards, amendments and interpretations that are effective from 1 January 2018.

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

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

The Group is currently evaluating the impact of this standard.

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

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

The Group is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

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

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

The Group is currently evaluating the impact of this standard.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****(a) New standards and interpretations (continued)****ii. New standards, amendments and interpretations issued but not effective from 1 January 2018 (continued)****FAS 30, "Impairment, Credit Losses and Onerous Commitments" (continued)**

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

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

The standard is effective from financial periods beginning on or after 1 January 2020 with early adoption permitted.

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

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

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

Impairment of financial assets

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

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

Stage 1: 12 months ECL - not credit impaired

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Non-performing - credit impaired

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****(a) New standards and interpretations (continued)****ii. New standards, amendments and interpretations issued
but not effective from 1 January 2018 (continued)****FAS 30, "Impairment, Credit Losses and Onerous
Commitments" (continued)****Transition**

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

- As permitted by the transitional provisions of FAS 30, the group elected not to restate the comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2018 under FAS 30.
- Assessment being made on the basis of the facts and the circumstances that if a debt-type security had low credit risk at the date of initial application of FAS 30, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Impact of early adoption of FAS 30

The impact from the early adoption of FAS 30 as at 1 January 2018 has been to decrease retained earnings by QAR 930.8 million and decrease the non-controlling interests by QAR 46.2 million:

	Retained earnings	Non-Controlling Interests	Total
Closing balance (31 December 2017 – Audited)	2,768,147	1,590,979	4,359,126
<i>Impact on recognition of expected credit losses including fair value adjustments</i>			
Expected credit losses for due from banks	297	-	297
Expected credit losses for debt type investments carried at amortised cost	90	-	90
Expected credit losses for financing assets including fair value adjustments	828,019	46,264	874,283
Expected credit losses for off balance sheet exposures subject to credit Risk	102,346	2	102,348
	930,752	46,266	977,018
Opening balance under FAS 30 on date of initial application of 1 January 2018	1,837,395	1,544,713	3,382,108

During the year, certain financing assets were reclassified from amortized cost to fair value through income statement (FVTIS). The carrying amounts of those assets were adjusted so that their fair value were as if those financing assets were accounted for at fair value through income statement from their inception. The amount of the re-classification and re-measurement of those financing assets has been disclosed in the below table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(a) New standards and interpretations (continued)****ii. New standards, amendments and interpretations issued but not effective from 1 January 2018 (continued)****FAS 30, "Impairment, Credit Losses and Onerous Commitments" (continued)****Reconciliation of carrying amounts**

The following table reflects the reconciliation of original measurement categories and the carrying values with the new measurement categories and the carrying values for the Group's financial assets and financial liabilities as at 1 January 2018.

	Original classification	New classification	IAS 39 / FAS Carrying amount 31 December 2017	Reclassification	Impact Remeasurement	Carrying amount 1 January 2018
<i>Financial assets</i>						
Cash and balances with central banks	AC (1)	AC (1)	5,546,386	-	-	5,546,386
Due from banks	AC (1)	AC (1)	4,875,690	-	(297)	4,875,393
Financing assets	AC (1)	AC (1)	101,978,425	-	(761,228)	101,217,197
Financing assets	AC (1)	FVTIS (2)	635,074	(113,055)	-	522,019
Investment securities – debt type	AC (1)	AC (1)	28,300,482	-	(90)	28,300,392
Investment securities – equity	FVE (3)	FVE (3)	555,726	-	-	555,726
Investment securities – equity	FVTIS (2)	FVTIS (2)	1,546,055	-	-	1,546,055
Other assets	AC (1)	AC (1)	3,156,287	-	-	3,156,287
			146,594,125	(113,055)	(761,615)	145,719,455

(1) Amortised Cost

(2) Fair value through income statement

(3) Fair value through equity

Financial Liabilities

There were no changes to the re-measurement of financial liabilities.

Impairment allowances:

The following table reconciles the closing impairment allowance for financial assets in accordance with existing FAS as at 31 December 2017 to the opening ECL allowance (including fair value adjustments) determined in accordance with FAS 30 as at 1 January 2018.

	31 December 2017	Expected credit losses	1 January 2018
Due from banks	23,439	297	23,736
Debt type investments carried at amortised cost	44,327	90	44,417
Financing assets	1,198,498	874,283	2,072,781
Other financial instruments subject to credit risk	19,980	102,348	122,328
	1,286,244	977,018	2,263,262

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation

i. Business combinations

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

ii. Business combinations and goodwill

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****b) Basis of consolidation (continued)****ii. Business combinations and goodwill (continued)**

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.

c) Foreign currency**i. Foreign currency transactions and balances**

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currency (continued)

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

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

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

d) Investment securities

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

i. Classification

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, 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****(d) Investment securities (continued)****i. Classification (continued)**

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

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

ii. Recognition and derecognition

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

iii. Measurement***Initial recognition***

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

Subsequent measurement

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****e) Financing assets**

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

Murabaha and Musawama

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

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

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

Mudaraba

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

Musharaka

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

Ijarah

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

Istisna'a

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

Wakala

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****f) Other financial assets and liabilities (continued)****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.

**iv. Modification of financial assets and liabilities
Financial Assets**

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

Policy applicable from 1 January 2018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****f) Other financial assets and liabilities (continued)****iv) Modification of financial assets and liabilities (continued)****Policy applicable up to 31 December 2017**

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

Financial Liabilities

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

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

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

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

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

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****g) Impairment of financial assets (other than equity type investments classified as fair value through equity) (continued)**

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

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

Policy applicable up to 31 December 2017

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

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

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

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

h) Impairment on 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.

i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****j) 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.

k) 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.

l) Fixed assets**Recognition and measurement**

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

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

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

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

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.

m) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****n) Intangible assets (continued)**

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

o) Impairment of non-financial assets

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****o) Impairment of non-financial assets (continued)**

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.

p) 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.

q) 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.

r) 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.

s) 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.

t) 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".

u) 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 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****v) 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Revenue recognition

Murabaha and Musawama

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

Mudaraba

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

Musharaka

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

Ijara

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

Istisna'a

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

Wakala

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

Income from investment banking services

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

Fees and commission income

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

Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****y) 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.

z) 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.

aa) 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.

bb) 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 2018**3. SIGNIFICANT ACCOUNTING POLICIES
(continued)****cc) 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.

dd) 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.

ee) 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).

ff) 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.

gg) 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".

hh) Contingent liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Comparatives

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

jj) Shari'a – compliant risk management instruments

Derivatives held for Risk management Purposes and Hedge Accounting

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

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

Fair Value Hedges

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

Cash Flow Hedges

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

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

Financial instruments

Financial instruments 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, Nomination and Remuneration Committee and Zakat Committee.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****a) Introduction and overview (continued)****Risk Management framework (continued)**

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk**

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

The Group's credit risk management framework includes:

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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 net, before the effect of mitigation through the use of master netting and collateral agreements.

	2018	2017
Credit risk exposures relating to financial assets recorded on the consolidated statement of financial position are as follows:		
Balances with central banks	6,668,057	4,889,109
Due from banks	6,424,153	4,875,690
Financing assets	102,209,930	102,613,499
Investment securities – debt type	28,717,136	28,300,482
Other assets	1,088,855	974,325
	145,108,131	141,653,105
Other credit risk exposures		
Guarantees	11,090,785	11,043,258
Unutilised financing facilities	4,808,855	5,894,185
Letters of credit	2,077,304	1,379,262
	17,976,944	18,316,705

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 2018**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 2018**Assets recorded on the consolidated statement of financial position:**

	Qatar	Other GCC	Other Middle East	Others	Total
Balances with central banks	6,324,483	-	256,921	86,653	6,668,057
Due from banks	4,926,282	2,792	457,731	1,037,348	6,424,153
Financing assets	91,028,659	942,597	204,238	10,034,436	102,209,930
Investment securities – debt type	27,981,976	464,091	48,645	222,424	28,717,136
Other assets	880,547	8,387	82,883	117,038	1,088,855
	131,141,947	1,417,867	1,050,418	11,497,899	145,108,131

31 December 2017**Assets recorded on the consolidated statement of financial position:**

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

Off balance sheet items**31 December 2018**

	Qatar	Other GCC	Other Middle East	Others	Total
Guarantees	10,598,045	77,311	114,735	300,694	11,090,785
Unutilised financing facilities	4,731,142	1,795	18,288	57,630	4,808,855
Letters of credit	1,176,838	437	-	900,029	2,077,304
	16,506,025	79,543	133,023	1,258,353	17,976,944

31 December 2017

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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 2018	Net exposure 2017
Funded and unfunded:		
Government	45,282,086	44,836,814
Non-banking Financial Institutions	7,045,492	9,158,908
Industry	8,170,509	5,625,102
Commercial	14,781,325	14,406,054
Services	15,334,545	13,200,697
Contracting	4,541,249	4,407,097
Real estate	23,793,428	23,690,786
Personal	24,017,699	23,869,364
Others	2,141,798	2,458,281
Contingent liabilities	17,976,944	18,316,707
Total	163,085,075	159,969,810

Credit risk exposure

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

	2018	2017
Equivalent grades		
AAA to AA-	47,669,471	46,352,392
A+ to A-	8,981,245	6,853,743
BBB to BBB-	83,276,623	79,446,458
BB+ to B-	17,771,144	18,138,850
Unrated	5,386,592	9,178,367
Total	163,085,075	159,969,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)****(iii) Credit quality**

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

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

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

Credit quality analysis

The following table provides the details for the credit quality:

	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Financing assets					
Performing (Grades 1 to 7)					
Gross amount	94,727,969	16,387,311	-	111,115,280	109,512,511
Deferred profit	(6,384,475)	(1,589,015)	-	(7,973,490)	(6,817,844)
Carrying amount	88,343,494	14,798,296	-	103,141,790	102,694,667
Non-performing (Grade 8 to 10)					
Gross amount	-	-	1,291,992	1,291,992	1,240,140
Deferred profit	-	-	(31,403)	(31,403)	(30,573)
Carrying amount	-	-	1,260,589	1,260,589	1,209,567
Allowance for impairment	(209,101)	(720,923)	(1,199,780)	(2,129,804)	(1,198,498)
Suspended profit	-	(1,836)	(60,809)	(62,645)	(92,237)
Net carrying amount	88,134,393	14,075,537	-	102,209,930	102,613,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)****(iii) Credit quality (continued)**

	2018			Total	2017
	Stage 1	Stage 2	Stage 3		Total
Investment securities – Debt type (amortised cost)					
Performing (AAA to B- and NR)	28,565,006	60,019	-	28,625,025	28,253,590
Substandard (CCC+ to CCC-)	-	-	-	-	-
Doubtful (C)	-	-	-	-	-
Loss (D)	-	-	106,522	106,522	54,144
	28,565,006	60,019	106,522	28,731,547	28,307,734
Allowance for impairment	(2,134)	(4,602)	(106,177)	(112,913)	(44,327)
Carrying amount	28,562,872	55,417	345	28,618,634	28,263,407
Due from banks					
Performing (AAA to B- and NR)	6,071,707	352,632	-	6,424,339	4,875,690
Substandard (CCC+ to CCC-)	-	-	-	-	-
Doubtful (C)	-	-	-	-	-
Loss (D)	-	-	20,647	20,647	23,439
	6,071,707	352,632	20,647	6,444,986	4,899,871
Allowance for impairment	(186)	-	(20,647)	(20,833)	(24,181)
Carrying amount	6,071,521	352,632	-	6,424,153	4,875,690
Financing commitments and financial guarantee					
Performing (Grades 1 to 7)	17,255,354	701,391	-	17,956,745	18,296,725
Non-performing (Grade 8 to 10)	-	-	20,199	20,199	19,980
	17,255,354	701,391	20,199	17,976,944	18,316,705
Allowance for impairment	(56,188)	(14,402)	(20,199)	(90,789)	(19,980)
Carrying amount	17,199,166	686,989	-	17,886,155	18,296,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued) (v) Write-off policy****b) Credit risk (continued)****(iii) Credit quality (continued)**

At 31 December 2018 and 2017, none of the financial assets in other assets were either past due or impaired and did not have any expected credit loss allowance recognised against them.

Collateral

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

The fair value of the collateral held against credit-impaired financing assets as at 31 December 2018 is QR 124.3 million (2017: QR 51.9 million).

The amount of contractual amount of financial assets written off during the period, subject to enforcement activity as at 31 December 2018 is QR 4.3 million (2017: QR 9.2 million).

Renegotiated financing assets

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated financing assets as at 31 December 2018 amounted to QAR 100 million (2017: QAR 107.8 million). These mainly represent Ijarah and Istisna' financing that have been restructured upon completion of underlying assets and based on the expected future cash flows.

(iv) Repossessed collateral

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

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

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

(vi) Inputs, assumptions and techniques used for estimating impairment**Significant increase in credit risk**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)** *Definition of default***b) Credit risk (continued)****(vi) Inputs, assumptions and techniques used for estimating impairment (continued)***Credit risk grades*

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

Generating the term structure of Probability of Default (PD)

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

Renegotiated financial assets

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

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

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)****(vi) Inputs, assumptions and techniques used for estimating impairment (continued)****Forward-looking information incorporated in the ECL models**

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

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are updated from the World economic outlook: IMF country data and other reliable sources which provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Credit risk team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure plausible events are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 and 31 December 2018, for all portfolios the Bank concluded that three scenarios appropriately captured represents forward looking approach. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed based on credit risk assessment following QCB rule and management assessment under each of the base, and the other scenarios, multiplied by the associated scenario weightings. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a 12 month ECL (Stage 1), or lifetime ECL (Stages 2). These ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 were GDP and Oil prices (Oil price 2019: \$55/Barrel, 2020: \$59/ Barrel) and (GDP 2019:2.7%, 2020: 2.6%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)****(vi) Inputs, assumptions and techniques used for estimating impairment (continued)****Measurement of ECL**

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

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

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

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the bank assumes that the very high Haircut percentage applied to Collateral value as per QCB is compensating any other factors affecting LGD as discount factor, recovery or admin Costs.

LGD estimation includes:

- Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.
- Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.
- Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)****Loss allowance**

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts represent allowance account for credit losses and reflect measurement basis under relevant FAS / IAS 39.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Financing assets					
Balance at 1 January	-	29,585	1,168,913	1,198,498	799,282
Impact of initial application	318,102	556,181	-	874,283	-
	318,102	585,766	1,168,913	2,072,781	799,282
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	(7,720)	7,720	-	-	-
Transfers to Stage 3	-	(15,536)	15,536	-	-
Impairment allowance for the period, net	16,232	193,026	295,816	505,074	474,685
Amounts written off	(91,202)	(40,070)	(63,336)	(194,608)	(23,284)
Foreign currency translation and adjustments	(26,311)	(9,983)	(217,149)	(253,443)	(52,185)
Balance at 31 December*	209,101	720,923	1,199,780	2,129,804	1,198,498

*includes positive fair value adjustments amounting QR 43.4 million as of 31 December 2018.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Debt type investments carried at amortised cost					
Balance at 1 January	-	-	44,327	44,327	44,327
Impact of initial application	90	-	-	90	-
	90	-	44,327	44,417	44,327
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment allowance for the period, net	2,044	4,602	61,850	68,496	-
Amounts written off	-	-	-	-	-
Foreign currency translation and adjustments	-	-	-	-	-
Balance at 31 December	2,134	4,602	106,177	112,913	44,327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****b) Credit risk (continued)**

	2018			2017	
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Due from Banks					
Balance at 1 January	-	-	23,439	23,439	23,439
Impact of initial application	297	-	-	297	-
	297	-	23,439	23,736	23,439
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment allowance for the period, net	(111)	-	-	(111)	-
Amounts written off	-	-	-	-	-
Foreign currency translation and adjustments	-	-	(2,792)	(2,792)	-
Balance at 31 December	186	-	20,647	20,833	23,439

	2018			2017	
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Off balance sheet exposures subject to credit risk					
Balance at 1 January	-	-	19,980	19,980	19,980
Impact of initial application	90,092	12,256	-	102,348	-
	90,092	12,256	19,980	122,328	19,980
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	(9,888)	9,888	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment allowance for the period, net	(24,017)	(7,741)	219	(31,539)	-
Amounts written off	-	-	-	-	-
Foreign currency translation and adjustments	-	-	-	-	-
Balance at 31 December	56,187	14,403	20,199	90,789	19,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****c) Liquidity risk**

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

(i) Management of liquidity risk

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

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

The Liquidity Ratio computed as per QCB guidelines is 115.8% (2017: 106.7%)

(ii) Exposure to liquidity risk

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

(iii) Maturity analysis

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****c) Liquidity risk (continued)****(iii) Maturity analysis (continued)**

2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Cash and balances with central banks	1,583,755	29,222	1,196,212	18,293	4,471,432	7,298,914
Due from banks	6,255,073	32,090	136,990	-	-	6,424,153
Financing assets	25,887,734	23,709,669	6,924,742	20,018,498	25,669,287	102,209,930
Investment securities	1,696,183	556,240	1,288,489	3,375,244	24,229,427	31,145,583
Investment in associates	-	-	-	-	568,392	568,392
Investment properties	-	-	-	-	1,231,107	1,231,107
Fixed assets	130	139	1,836	99,155	378,208	479,468
Intangible assets	19	521	2,867	9,556	372,777	385,740
Other assets	784,619	49,240	138,835	195,321	2,321,063	3,489,078
Total assets	36,207,513	24,377,121	9,689,971	23,716,067	59,241,693	153,232,365

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

Due to banks	12,219,689	2,484,799	566,535	1,677,455	285,490	17,233,968
Customers' current accounts	15,420,808	-	-	-	-	15,420,808
Sukuk financing	91,000	-	1,456,860	3,413,172	4,184,180	9,145,212
Other liabilities	3,299,351	432,273	1,327,332	56,387	400,482	5,515,825
Total liabilities	31,030,848	2,917,072	3,350,727	5,147,014	4,870,152	47,315,813

Equity of unrestricted investment account holders

Equity of unrestricted investment account holders	51,282,766	11,260,304	17,659,126	4,489,905	485,074	85,177,175
Total liabilities and equity of unrestricted investment account holders	82,281,479	14,180,375	21,011,671	9,647,097	5,372,366	132,492,988
Maturity gap	(46,106,101)	10,199,745	(11,319,882)	14,079,148	53,886,467	20,739,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****c) Liquidity risk (continued)****(iii) Maturity analysis (continued)**

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

Liabilities and equity of unrestricted investment account holders

Liabilities

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

Equity of unrestricted investment account holders	55,244,148	12,292,690	14,683,894	2,435,760	557,979	85,214,471
Total liabilities and equity of unrestricted investment account holders	85,251,829	14,762,427	15,960,850	9,945,826	3,573,779	129,494,711
Maturity gap	(49,848,540)	7,199,777	(7,338,900)	13,486,218	57,381,610	20,880,165

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****d) Market risks (continued)****(i) Management of market risks**

Overall authority for market risk is vested in ALCO. Group Market Risk Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO/ BoD) and for the day-to-day management of all market risks. The main objective of the Market Risk Management is identification, classification measurement, assessment and controlling the market risk in a prudent way to ensure safeguarding interests of all shareholders. The Group views market risk management as a core competency and its purpose is not to neutralise market risks, but rather maximize risk/return 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 on historical simulation. Taking account of market data from the previous three years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

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

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

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

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

	At 31 December	Average	Maximum	Minimum
2018				
Equity price risk 10-day VaR @99%	15,665	18,592	24,909	14,502
2017				
Equity price risk 10-day VaR @99%	24,596	17,177	27,255	10,337

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****d) Market risks (continued)****(iii) Exposure to profit rate risk – non-trading portfolios**

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

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

	Carrying amount	Repricing in:				Non-profit sensitive	Effective profit rate
		Less than 3 months	3-12 months	1-5 years	More than 5 years		
2018							
Cash and balances with central banks	7,298,914	2,709,964	29,222	18,293	144,161	4,397,274	-
Due from banks	6,424,153	5,972,778	52,740	-	-	398,635	2.18%
Financing assets	102,209,930	52,062,772	36,009,823	9,982,909	1,160,453	2,993,973	5.48%
Investment securities	31,145,583	1,267,398	13,477,081	8,060,250	5,729,275	2,611,579	4.12%
	147,078,580	62,012,912	49,568,866	18,061,452	7,033,889	10,401,461	-
Due to banks	17,233,968	13,056,558	2,960,348	1,217,062	-	-	3.38%
Sukuk financing	9,145,212	3,576,302	117,340	5,451,570	-	-	3.47%
	26,379,180	16,632,860	3,077,688	6,668,632	-	-	-
Equity of unrestricted investment account holders	85,177,175	51,282,776	28,053,682	4,929,047	-	911,670	2.87%
	111,556,355	67,915,636	31,131,370	11,597,679	-	911,670	-
Profit rate sensitivity gap	35,522,225	(5,902,724)	18,437,496	6,463,773	7,033,889	9,489,791	-
Cumulative profit rate sensitivity gap	-	35,522,225	41,424,949	22,987,453	16,523,680	9,489,791	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****d) Market risks (continued)****(iii) Exposure to profit rate risk – non-trading portfolios (continued)**

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

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
2018		
At 31 December	103.04 million	(103.04 million)
2017		
At 31 December	74.91 million	(74.91 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****d) Market risks (continued)****(iii) Exposure to profit rate risk – non-trading portfolios (continued)****Sensitivity analysis (continued)**

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

(iv) Exposure to other market risks – non-trading portfolios**Foreign currency transactions**

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

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

	2018	2017
Net foreign currency exposure:		
Sterling Pounds	61,027	(493)
USD	(11,268,853)	(3,996,333)
Euro	24,708	5,276
Other currencies	247,154	(24,072)

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)	
	2018	2017
5% change in currency exchange rate		
Sterling Pound	3,051	(25)
USD	(563,443)	(199,817)
Euro	1,235	264
Other currencies	12,358	(1,204)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4 .FINANCIAL RISK MANAGEMENT (continued)****d) Market risks (continued)****(iv) Exposure to other market risks – non-trading portfolios (continued)****Equity price risk**

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

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

Market Indices	Change in equity price %	Effect on equity		Effect on profit and loss	
		2018	2017	2018	2017
Qatar Exchange	+ / - 10%	21,191	26,436	1,593	1,448
Bahrain Stock Exchange	+ / - 10%	1,697	2,383	-	-

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.

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

e) Operational risks

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****f) Capital management****Regulatory capital**

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

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

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

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

	2018	2017
	Basel III	Basel III
Common Equity Tier 1 (CET 1) Capital	14,841,497	14,548,876
Tier 1 capital	18,898,063	18,613,403
Tier 2 capital	1,064,101	440,829
Total regulatory capital	19,962,164	19,054,232

Risk weighted assets

	2018	2017
	Basel III	Basel III
Risk weighted assets for credit risk	97,856,405	102,210,132
Risk weighted assets for market risk	364,708	447,681
Risk weighted assets for operational risk	8,177,548	7,348,834
Total risk weighted assets	106,398,661	110,006,647
Regulatory capital	19,962,164	19,054,232
Common equity tier 1 (CET 1) ratio*	13.9%	13.2%
Total capital adequacy ratio	18.8%	17.3%

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

	31 December 2018
Common equity tier 1 (CET 1) ratio	14.9%
Total capital adequacy ratio	18.8%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**4. FINANCIAL RISK MANAGEMENT (continued)****f) Capital management (continued)**

The minimum requirements for Capital Adequacy Ratio under Basel III as per QCB regulations for the year ended 31 December 2018 are as follows:

	CET 1 ratio without capital conservation buffer	CET 1 ratio including capital conservation buffer	1 capital ratio including capital conservation buffer	Total capital ratio including capital conservation buffer	Total capital including capital conservation buffer and domestic systematic important bank buffer	Total capital including conservation buffer, domestic systematic important bank buffer and ICAAP Pillar II capital charge
Actual	13.9%	13.9%	17.8%	18.8%	18.8%	18.8%
Minimum limit as per QCB	6.00%	8.50%	10.50%	12.50%	13.25%	14.25%

The Group is currently in the process of analyzing new capital requirements for Profit Rate Risk on Banking Book (PRRBB) and will start setting aside capital based on new standard under Pillar II from 2019 onwards, once the date of implementation and the final guidelines are issued by QCB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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**Policy applicable from 1 January 2018**

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

Policy applicable up to 31 December 2017

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

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

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

ii. Determining fair values

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**5. USE OF ESTIMATES AND JUDGMENTS (continued)****(b) Critical accounting judgements in applying the Group's accounting policies****ii. Determining fair values (continued)**

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.

iii. Valuation of financial instruments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**5. USE OF ESTIMATES AND JUDGMENTS (continued)****(b) Critical accounting judgements in applying the Group's accounting policies (continued)****iv. Financial asset classification**

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

2018	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		QR'000	QR'000	QR'000
Shari'a compliant risk management instruments (assets)	411,925	-	411,925	-
Investments securities				
Quoted equity-type investments classified as fair value through income statement	15,934	15,934	-	-
Quoted debt-type investments classified as fair value through income statement	16,608	16,608	-	-
Unquoted debt-type investments classified as fair value through income statement	81,894	-	81,894	-
Unquoted equity-type investments classified as fair value through income statement	1,927,331	-	485,374	1,441,957
Quoted equity-type investments classified as fair value through equity	407,892	329,910	77,982	-
Unquoted equity-type investments classified as fair value through equity	77,290	-	77,290	-
Financing assets classified as FVTIS	494,929	-	-	494,929
Shari'a compliant risk management instruments (liabilities)	88,875	-	88,875	-
2017				
	Total	Quoted prices in active markets (Level 1)	Fair value measurement using Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	QR'000	QR'000	QR'000	QR'000
Shari'a compliant risk management instruments (assets)	381,677	-	381,677	-
Investments securities				
Quoted equity-type investments classified as fair value through income statement	14,482	14,482	-	-
Quoted debt-type investments classified as fair value through income statement	29,642	29,642	-	-
Unquoted debt-type investments classified as fair value through income statement	7,433	-	-	7,433
Unquoted equity-type investments classified as fair value through income statement	1,531,573	-	391,099	1,140,474
Quoted equity-type investments classified as fair value through equity	288,192	288,192	-	-
Unquoted equity-type investments classified as fair value through equity	267,534	-	-	267,534
Shari'a compliant risk management instruments (liabilities)	174,587	-	174,587	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**5. USE OF ESTIMATES AND JUDGMENTS (continued)****(b) Critical accounting judgements in applying the Group's accounting policies (continued)****v. Financial asset classification (continued)**

The fair value of financial assets and liabilities carried at amortised cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for investment securities carried at amortised cost for which the fair value amounts to QAR 2,434 million (2017: QAR 2,341 million), which is derived using level 1 fair value hierarchy. The details of the Group's classification of financial assets and liabilities are disclosed in note 7.

During the years ended 2018 and 2017, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurement.

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

	At 1 January 2018	Total gain / (loss) recorded in consolidated income statement	Purchases	Sales/ transfers	At 31 December 2018
Equity investments					
at fair value through equity	267,532	10,877	937	(279,346)	-
at fair value through income statement	1,140,472	(94,710)	412,416	(16,221)	1,441,957
Debt-type investments					
at fair value through income statement	7,433	(7,433)	-	-	-
Financing assets classified as FVTIS	522,019	(7,678)	-	(19,412)	494,929
	1,937,456	(98,944)	413,353	(314,979)	1,936,886

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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 2018**6. OPERATING SEGMENTS (continued)****Information about operating segments**

2018	Corporate banking	Personal banking	Group function	Local & international subsidiaries	Total
External revenue:					
Total net income from financing and investing activities	4,355,732	1,263,776	192,841	205,660	6,018,009
Net fee and commission income	299,401	195,049	37,552	43,840	575,842
Net foreign exchange gain	-	-	91,461	167,766	259,227
Share of results of associates	-	-	15,591	(16,143)	(552)
Other income	-	-	-	47,182	47,182
Inter segment revenue	(1,205,209)	437,622	767,587	-	-
Total segment income	3,449,924	1,896,447	1,105,032	448,305	6,899,708
Staff costs, other expenses and depreciation and amortisation	(249,699)	(431,694)	(156,576)	(323,279)	(1,161,248)
Sukuk holders' share of profit	-	-	(255,092)	-	(255,092)
Return to unrestricted investment account holders	(1,484,167)	(415,393)	(179,953)	(45,903)	(2,125,416)
Other material non-cash items:					
Net impairment losses on investment securities	-	-	(173,689)	(64,020)	(237,709)
Net impairment (losses) / reversals on financing assets	(183,346)	(9,857)	(317,813)	5,942	(505,074)
Other impairment reversals / (losses)	-	-	31,136	(7,920)	23,216
Reportable segment net profit before tax	1,532,712	1,039,503	53,045	13,125	2,638,385
Tax credit	-	-	-	2,310	2,310
Reportable segment net profit after tax	1,532,712	1,039,503	53,045	15,435	2,640,695
Reportable segment assets	91,400,552	18,298,362	38,827,233	4,706,218	153,232,365
Reportable segment liabilities and equity of unrestricted investments account holders	58,369,504	35,316,924	34,976,783	3,829,777	132,492,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**6. OPERATING SEGMENTS (continued)****Information about operating segments (continued)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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:

2018	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
Cash and balances with central banks	-	-	7,298,914	7,298,914	7,298,914
Due from banks	-	-	6,424,153	6,424,153	6,424,153
Financing assets	-	494,929	101,715,001	102,209,930	102,209,930
Investment securities:					
- Measured at fair value	485,182	2,041,767	-	2,526,949	2,526,949
- Measured at amortised cost	-	-	28,618,634	28,618,634	28,592,658
Other assets	-	-	1,088,855	1,088,855	1,088,855
	485,182	2,536,696	145,145,557	148,167,435	148,141,459
Due to banks	-	-	17,233,968	17,233,968	17,233,968
Customers' current accounts	-	-	15,420,808	15,420,808	15,420,808
Sukuk financing	-	-	9,145,212	9,145,212	9,145,212
Other liabilities	-	-	5,515,825	5,515,825	5,515,825
Equity of unrestricted investment account holders	-	-	85,177,175	85,177,175	85,177,175
	-	-	132,492,988	132,492,988	132,492,988

2017	Fair value through equity	Fair value through income statement	Amortised cost	Total carrying amount	Fair value
Cash and balances with central banks	-	-	5,546,386	5,546,386	5,546,386
Due from banks	-	-	4,875,690	4,875,690	4,875,690
Financing assets	-	-	102,613,499	102,613,499	102,613,499
Investment securities:					
- Measured at fair value	555,726	1,583,130	-	2,138,856	2,138,856
- Measured at amortised cost	-	-	28,263,407	28,263,407	28,202,221
Other assets	-	-	974,325	974,325	974,325
	555,726	1,583,130	142,273,307	144,412,163	144,350,977
Due to banks	-	-	17,191,126	17,191,126	17,191,126
Customers' current accounts	-	-	16,600,080	16,600,080	16,600,080
Sukuk financing	-	-	7,057,282	7,057,282	7,057,282
Other liabilities	-	-	3,431,752	3,431,752	3,431,752
Equity of unrestricted investment account holders	-	-	85,214,471	85,214,471	85,214,471
	-	-	129,494,711	129,494,711	129,494,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**8. CASH AND BALANCES WITH CENTRAL BANKS**

	2018	2017
Cash in hand	630,857	657,277
Cash reserve with QCB (i)	4,327,271	4,237,487
Other balances with QCB	1,997,212	338,870
Balances with other central banks	343,574	312,752
	7,298,914	5,546,386

(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

	2018	2017
Commodity murabaha receivable	4,321,828	737,844
Wakala placements	1,606,426	3,709,004
Mudaraba placements	118,098	33,391
Current accounts	398,634	418,890
Less: Allowance for impairment	(20,833)	(23,439)
	6,424,153	4,875,690

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

	2018	2017
Receivables and balances from financing activities:		
Murabaha	70,236,861	72,232,021
Musawama	16,869,479	15,592,120
Ijarah Muntahia Bittamleek	21,218,805	19,765,231
Istisna'a	744,665	766,379
Mudaraba	71,323	571,250
Others	3,266,139	1,825,650
Total financing assets	112,407,272	110,752,651
Less: Deferred profit	(8,004,893)	(6,848,417)
Expected credit losses on financing assets - performing (Stage 1 and 2)	(930,024)	-
Allowance for impairment on financing assets - credit impaired (Stage 3)	(1,199,780)	(1,198,498)
Suspended profit	(62,645)	(92,237)
Net financing assets	102,209,930	102,613,499

Net financing assets includes hybrid instruments amounting to QR 495 million designated as fair value through income statement ('FVTIS') (2017: QR Nil million).

The impaired financing assets net of deferred profit amounted to QAR 1,261 million as at 31 December 2018 representing 1.2% of the total financing assets net of deferred profit (31 December 2017: QAR 1,209 million, representing 1.2% of the total financing assets net of deferred profit).

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

	2018	2017
Balance at 1 January	1,198,498	799,282
Adjustments as a result of early adopting FAS 30	874,283	-
Adjusted balance at beginning year	2,072,781	799,282
Charge for the year	638,037	582,591
Recoveries during the year	(132,963)	(107,906)
Net impairment losses during the year	505,074	474,685
Written off during the year	(194,608)	(23,284)
Foreign currency translation and adjustments	(253,443)	(52,185)
Balance at 31 December (i)*	2,129,804	1,198,498

i) Includes positive fair value adjustments amounting QR 43.4 million as of 31 December 2018.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018

10. FINANCING ASSETS (continued)

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

	Corporate			SMEs			Retail			Real estate mortgages			Total		
	Stage 1 Performing	Stage 2 Credit impaired	Stage 3 Credit impaired	Stage 1 Performing	Stage 2 Performing	Stage 3 Credit impaired	Stage 1 Performing	Stage 2 Performing	Stage 3 Credit impaired	Stage 1 Performing	Stage 2 Performing	Stage 3 Credit impaired	Stage 1 Performing	Stage 2 Performing	Stage 3 Credit impaired
Balance at 1 January 2018	-	29,585	619,629	-	-	9,255	-	-	479,922	-	-	60,107	-	29,585	1,168,913
Adjustments as a result of early adopting FAS 30	261,727	353,369	-	-	-	-	23,617	22,598	-	32,758	180,214	-	318,102	556,181	-
Adjusted balance at beginning year	261,727	382,954	619,629	-	-	9,255	23,617	22,598	479,922	32,758	180,214	60,107	318,102	585,766	1,168,913
Transfers between stages	(7,720)	(7,816)	15,536	-	-	-	-	-	-	-	-	-	(7,720)	(7,816)	15,536
Charge for the year	53,330	161,150	238,489	879	5,036	14,910	(17,717)	27,763	121,131	(2,794)	(923)	36,783	33,698	193,026	411,313
Recoveries during the year	(17,466)	-	(10,551)	-	-	(176)	-	-	(90,246)	-	-	(14,524)	(17,466)	-	(115,497)
Net impairment losses during the year	35,864	161,150	227,938	879	5,036	14,734	(17,717)	27,763	30,885	(2,794)	(923)	22,259	16,232	193,026	295,816
Written off during the year	(91,202)	(40,070)	(58,994)	-	-	-	-	-	(4,108)	-	-	(234)	(91,202)	(40,070)	(63,336)
Foreign currency translation and adjustments	(25,378)	190	(222,359)	-	-	(19,552)	-	-	(19,278)	(933)	(10,173)	44,040	(26,311)	(9,983)	(217,149)
Balance at 31 December 2018 (i)	173,291	496,408	581,750	879	5,036	4,437	5,900	50,361	487,421	29,031	169,118	126,172	209,101	720,923	1,199,780

i) Includes positive fair value adjustments amounting QR 43.4 million as of 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**10. FINANCING ASSETS (continued)****(c) Movement in the impairment of financing assets - sector wise:**

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

(d) By sector

2018	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
Government and related entities	8,360,517	3,366	2,240,098	-	-	-	10,603,981
Non-banking financial institutions	6,431,982	426	951,153	-	-	-	7,383,561
Industry	6,905,533	52,000	3,783	221	-	1,154,739	8,116,276
Commercial	13,073,821	307,801	1,748,471	34,725	14,111	506,962	15,685,891
Services	7,363,214	88,627	84,382	1,541	-	1,283,418	8,821,182
Contracting	4,373,176	63,593	279,747	7,211	52,907	94,874	4,871,508
Real estate	11,805,830	42,735	15,642,146	686,655	4,305	6,394	28,188,065
Personal	10,388,285	16,305,155	-	14,312	-	206,098	26,913,850
Others	1,534,503	5,776	269,025	-	-	13,654	1,822,958
Total financing assets	70,236,861	16,869,479	21,218,805	744,665	71,323	3,266,139	112,407,272
Less: Deferred profit							8,004,893
Expected credit losses on financing assets - performing (Stage1 and 2)							930,024
Allowance for impairment on financing assets - credit impaired (Stage 3)							1,199,780
Suspended profit							62,645
Net financing assets							102,209,930

Note:

Details of financing assets related to Sukuk backed assets as at 31 December 2018 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 2018**10. FINANCING ASSETS (continued)****(d) By sector (continued)**

2017	Murabaha	Musawama	Ijarah Muntahia Bittamleek	Istisna'a	Mudaraba	Others	Total
Government and related entities	9,948,036	2,297	2,410,781	-	-	178	12,361,292
Non-banking financial institutions	9,259,900	-	-	-	-	25	9,259,925
Industry	5,269,162	61,143	1,605	1,565	-	64,351	5,397,826
Commercial	11,895,395	333,252	2,164,893	169,352	244,971	431,422	15,239,285
Services	6,969,696	116,259	232,424	870	13,692	1,065,518	8,398,459
Contracting	3,898,208	117,650	299,353	5,217	307,802	51,755	4,679,985
Real estate	12,470,311	35,419	14,333,408	568,740	4,785	8,103	27,420,766
Personal	11,133,743	14,905,680	46,270	20,635	-	199,637	26,305,965
Others	1,387,570	20,420	276,497	-	-	4,661	1,689,148
Total financing assets	72,232,021	15,592,120	19,765,231	766,379	571,250	1,825,650	110,752,651
Less: Deferred profit							6,848,417
Allowance for impairment of financing assets							1,198,498
Suspended profit							92,237
Net financing assets							<u>102,613,499</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**11. INVESTMENT SECURITIES**

	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Investments classified as fair value through income statement						
• equity-type investments	15,934	1,927,331	1,943,265	14,482	1,531,573	1,546,055
• debt-type investments						
- Fixed rate	16,608	-	16,608	29,642	7,433	37,075
- Floating rate	-	81,894	81,894	-	-	-
	32,542	2,009,225	2,041,767	44,124	1,539,006	1,583,130
Debt-type investments classified at amortised cost (i)						
- State of Qatar Sukuk and QCB Murabaha	1,816,871	26,064,177	27,881,048	2,065,815	25,627,227	27,693,042
- Fixed rate	617,659	232,840	850,499	310,947	267,345	578,292
- Floating rate	-	-	-	-	36,400	36,400
Less: Allowance for impairment*	(6,013)	(106,900)	(112,913)	-	(44,327)	(44,327)
	2,428,517	26,190,117	28,618,634	2,376,762	25,886,645	28,263,407
<i>Equity-type investments classified as fair value through equity</i>	407,892	77,290	485,182	288,192	267,534	555,726
	2,868,951	28,276,632	31,145,583	2,709,078	27,693,185	30,402,263

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

Notes:

(i) The fair value of the investments carried at amortised cost as at 31 December 2018 amounted to QAR 28,593 million (2017: QAR 28,202 million).

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

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

	2018	2017
Balance at 1 January	1,066,659	919,046
Charge during the year	237,709	305,691
Write off / reversals / transfers during the year	(54,067)	(158,078)
Balance at 31 December	1,250,301	1,066,659

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 2018**12. INVESTMENT IN ASSOCIATES**

Associates' movement during the year is as follows:

	2018	2017
Balance at 1 January	668,512	875,034
Foreign currency translation and other movements	(17,155)	(19,432)
Investments transferred / disposed during the year	(71,577)	(210,984)
Share of results	(552)	36,383
Cash dividend	(10,836)	(12,489)
Balance at 31 December	568,392	668,512

Name of the Company	Country of Incorporation	Company's Activities	Ownership %	
			2018	2017
Al Jazeera Finance Company (Q.S.C)	Qatar	Financing	30.00%	30.00%
Al Daman Islamic Insurance	Qatar	Insurance	30.01%	30.01%
Retaj Marketing and Project Management	Qatar	Real Estate	20.00%	20.00%
Retaj Hotels and Hospitality W.L.L	Qatar	Real Estate	20.00%	20.00%
Retaj Real Estate W.L.L.	Qatar	Real Estate	20.00%	20.00%
Retaj Hotels and Hospitality W.L.L Istanbul	Qatar	Real Estate	20.00%	20.00%
Ellsworthy (previously known as Panmure Gordon & Co. PLC)	United Kingdom	Brokerage	-	43.70%
Ambit Corporate Finance	India	Financial Service	30.77%	30.77%

The financial position, revenue and result of associates based on its financial statements, as at and for the year ended 31 December 2018 and 2017 are as follows:

31 December 2018	Al Jazeera	Al Daman	Retaj	Ellsworthy	Ambit Corporate Finance
Total assets	1,319,733	1,230,618	288,860	-	540,092
Total liabilities	389,398	899,844	161,724	-	214,414
Total revenue	92,699	72,352	54,007	52,671	72,829
Net profit	16,320	46,046	(12,564)	(45,962)	14,396
Share of profit / (loss)	4,197	15,997	(606)	(21,767)	1,627

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

Notes:

- 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 2018**13. INVESTMENT PROPERTIES**

	2018	2017
Balance at 1 January	1,943,937	929,826
Disposals	(712,887)	-
Additions	-	28,374
Transfer from other assets	1,069	880,690
Changes in fair value	29,612	18,900
Foreign currency translation and adjustments	(30,624)	86,147
Balance at 31 December	1,231,107	1,943,937

Note:

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

14. ASSETS HELD FOR SALE

On 7 February 2018, management of the Group executed the sale agreement with Malaysia Building Society Bhd (MBSB) and disposed off its stake in its associate, Asian Finance Bank (AFB) for a consideration of QAR 317.3 million. The related loss on this transaction amounted to QAR 0.9 million and has been presented in the consolidated income statement.

15. FIXED ASSETS

	Land and buildings	IT equipment	Fixtures and fittings	Motor vehicles	Work in Progress	Total
Cost:						
Balance at 1 January 2018	424,923	173,078	333,832	6,903	34,102	972,838
Additions	-	6,434	20,001	94	6,576	33,105
Disposals	(39)	(61)	(6,382)	(240)	(10,540)	(17,262)
Foreign currency translation	(13,122)	(2,410)	4,939	(514)	-	(11,107)
Transfers	2,872	-	-	-	-	2,872
Balance at 31 December 2018	414,634	177,041	352,390	6,243	30,138	980,446
Balance at 1 January 2017	418,905	169,521	313,625	6,561	33,710	942,322
Additions	-	6,491	27,969	342	13,815	48,617
Disposals	-	(3,134)	(9,421)	-	(2,088)	(14,643)
Foreign currency translation	6,018	200	1,659	-	-	7,877
Transfers	-	-	-	-	(11,335)	(11,335)
Balance at 31 December 2017	424,923	173,078	333,832	6,903	34,102	972,838
Accumulated depreciation:						
Balance at 1 January 2018	79,918	151,581	223,929	6,108	-	461,536
Depreciation charged during the year	5,815	10,428	29,460	286	-	45,989
Disposals	(39)	(142)	(1,437)	(240)	-	(1,858)
Foreign currency translation	(4,003)	(1,989)	1,639	(336)	-	(4,689)
Balance at 31 December 2018	81,691	159,878	253,591	5,818	-	500,978
Balance at 1 January 2017	73,948	141,257	204,097	5,763	-	425,065
Depreciation charged during the year	5,729	13,284	28,470	345	-	47,828
Disposals	-	(3,120)	(9,407)	-	-	(12,527)
Foreign currency translation	241	160	769	-	-	1,170
Balance at 31 December 2017	79,918	151,581	223,929	6,108	-	461,536
Carrying amounts:						
Balance at 1 January 2017	344,957	28,264	109,528	798	33,710	517,257
Balance at 31 December 2017	345,005	21,497	109,903	795	34,102	511,302
Balance at 31 December 2018	332,943	17,163	98,799	425	30,138	479,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**16. INTANGIBLE ASSETS**

	Goodwill	Trade marks	Software	Work in Progress	Total
Balance at 1 January 2018	240,784	1,052	162,386	7,092	411,314
Additions	-	-	14,502	12,812	27,314
Transfers	(870)	-	-	(8,098)	(8,968)
Foreign currency translation	-	-	(894)	-	(894)
Amortisation during the year	-	(155)	(42,871)	-	(43,026)
Balance at 31 December 2018	239,914	897	133,123	11,806	385,740
Balance at 1 January 2017	240,784	1,131	190,008	-	431,923
Additions	-	-	15,733	10,410	26,143
Transfers	-	-	-	(3,318)	(3,318)
Foreign currency translation	-	-	91	-	91
Amortisation during the year	-	(79)	(43,446)	-	(43,525)
Balance at 31 December 2017	240,784	1,052	162,386	7,092	411,314

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 2018. The recoverable amount of the investment in QInvest was determined using the dividend discount method.

Key assumptions used in the valuation

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

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

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 2018. 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 favourably to the carrying value of the investment in QIB books.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**17. OTHER ASSETS**

	Note	2018	2017
Accrued profit		405,249	366,733
Projects under development		62,728	41,304
Reposessed collateral (i)		946,200	1,059,550
Derivative financial instruments	17.1	411,925	381,677
Deferred tax assets		6,250	10,869
Prepayments and advances		105,447	74,411
Ijarah Muntahia Bittamleek		-	193,632
Others (ii)		1,551,279	1,028,111
		3,489,078	3,156,287

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 2018 amounted to QAR 1,441 million (2017: QAR 1,442 million).

(ii) Others include properties of a subsidiary company amounting to QAR 701 million (2017: QAR 714 million).

17.1 Shari'a compliant risk management instruments

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

	2018			2017		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
a) Held for trading						
Forward foreign exchange contracts	134,408	43,284	3,380,681	182,421	33,518	3,610,755
b) Held as cash flow hedges:						
Forward foreign exchange contracts	216,303	-	2,933,165	63,729	1,621	7,604,595
Profit rate swaps	15,761	34,047	3,736,096	23,793	275	1,847,896
Cross currency swaps	13,233	-	-*	10,539	-	-*
c) Held as hedge of net investment in foreign operation						
Forward foreign exchange contracts	8,290	624	197,834	2,446	28,515	1,069,406
d) Held as fair value hedges						
Cross currency swaps	-	10,920	1,228,451	98,717	109,637	1,318,108
Forward foreign exchange contracts	23,930	-	149,968	32	1,021	50,560
	411,925	88,875	11,626,195	381,677	174,587	15,501,320

*Notional amount disclosed under fair value hedges QAR 1,105 million (2017: QAR 1,194 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**18. DUE TO BANKS**

	<u>2018</u>	<u>2017</u>
Wakala payable	7,733,899	3,220,682
Commodity murabaha payable	6,521,470	8,858,175
Repurchase agreements	702,290	4,998,940
Current accounts	113,829	95,129
Mudarabah payable	2,162,480	18,200
	<u>17,233,968</u>	<u>17,191,126</u>

Wakala payables include various facilities with maturities up to four months and carries a profit rate of 0.01% to 3.75% (2017: maturities up to four months and carrying profit rate of 0.25% to 2.5%).

19. CUSTOMERS' CURRENT ACCOUNTS

	<u>2018</u>	<u>2017</u>
<i>Current accounts by sector:</i>		
- Government	1,372,939	2,978,366
- Non-banking financial institutions	224,903	157,584
- Corporate	3,577,173	4,001,619
- Individuals	10,245,793	9,462,511
	<u>15,420,808</u>	<u>16,600,080</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**20. SUKUK FINANCING**

Instrument	Issuer	Issued amount	Issued on	Maturity	Profit rate
Sukuk	QIB Sukuk Limited	QAR 2,725 million	Oct-15	Oct-20	Annual fixed profit rate of 2.75% payable semi-annually
Sukuk	QIB Sukuk Limited	QAR 1,339 million	Aug-16	Aug-19	Floating profit rate (3 month US Libor plus 1.5%) payable on a quarterly basis
Sukuk	QIB Sukuk Limited	QAR 2,730 million	May-17	May-22	Annual fixed profit rate of 3.25% payable semi-annually
Sukuk	QIB Sukuk Limited	QAR 65 million	Aug-17	Aug-19	Annual fixed profit rate of 1% payable semi-annually (Japanese Yen)
Sukuk	QIB Sukuk Limited	QAR 57 million	Aug-17	Aug-19	Annual fixed profit rate of 3.61% payable semi-annually (Australian dollar)
Sukuk	QIB Sukuk Limited	QAR 146 million	Nov-17	Nov-20	Floating profit rate (3 month US Libor plus 1.55%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 180 million	Feb-18	Feb-23	Floating profit rate (3 month US Libor plus 1.70%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 91 million	Feb-18	Feb-19	Annual fixed profit rate of 3.50% payable semi-annually.
Sukuk	QIB Sukuk Limited	QAR 182 million	Apr-18	Apr-21	Floating profit rate (3 month US Libor plus 1.65%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 109 million	Apr-18	Apr-23	Floating profit rate (3 month US Libor plus 1.81%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 437 million	May-18	May-23	Floating profit rate (3 month US Libor plus 1.90%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 364 million	May-18	May-21	Floating profit rate (3 month US Libor plus 1.70%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 364 million	Oct-18	Oct-23	Floating profit rate (3 month US Libor plus 1.75%) payable quarterly basis
Sukuk	QIB Sukuk Limited	QAR 364 million	Oct-18	Oct-23	Floating profit rate (3 month US Libor plus 1.75%) payable quarterly basis

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

The Group controls the assets which will continue to be serviced by the Bank. Upon maturity of the Sukuk, 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	2018	2017
Murabaha	3,956,172	2,920,384
Ijarah	5,814,739	4,885,975
Total financing assets to the Sukuk	9,770,911	7,806,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**21. OTHER LIABILITIES**

	Note	2018	2017
Accrued expenses		323,265	334,573
Manager cheques		207,139	135,334
Customers advances		36,884	32,120
Provision for employees' end of service benefits (i)		168,114	155,580
Naps and visa settlements		148,859	175,242
Cash margins		154,507	164,933
Accrued profit to Sukuk holders		43,835	28,593
Contribution to Social and Sports fund		68,883	60,136
Dividend payable		10,191	13,850
Clearing cheques		3,545	4,874
Pension fund		607	553
Derivative financial instruments	17.1	88,875	174,587
Others (ii)		4,170,332	2,131,397
Allowance for impairment for financing commitments and financial guarantees		90,789	19,980
		5,515,825	3,431,752

Notes:

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

	2018	2017
Balance at 1 January	155,580	135,830
Charge for the year (Note 30)	24,603	24,962
Payments made during the year	(11,322)	(5,212)
Foreign currency translation	(747)	-
Balance at 31 December	168,114	155,580

(ii) Others include acceptances amounting to QAR 3,014 million (2017: QAR 1,569 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**22. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS**

	2018	2017		2018	2017
Unrestricted investment account holders balance before share of profit	84,040,522	84,822,512	Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	85,131,183	85,166,458
Add: Profits for unrestricted investment account holders for the year (a)	2,125,416	1,818,627	Share in fair value reserve	45,992	48,013
Less: Profit paid during the year	(1,034,755)	(1,474,681)	Total unrestricted investment account holders balance	85,177,175	85,214,471
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	85,131,183	85,166,458			
Share of unrestricted investment account holders' of the profit for the year	5,303,142	4,479,041			
Less: Mudarib share	(3,177,726)	(2,660,414)			
Total profit distributed to investment account holders for the year (a)	2,125,416	1,818,627			
By type:	2018	2017			
Term accounts	69,571,701	70,147,196			
Saving accounts	13,011,774	12,670,889			
Call accounts	2,547,708	2,348,373			
Total (b)	85,131,183	85,166,458			
By sector:					
Retail	31,216,618	28,193,133			
Corporate	23,310,295	20,754,767			
Non-banking financial institution	1,129,784	6,015,842			
Government	27,561,952	27,291,256			
Banks	1,912,534	2,911,460			
Total (b)	85,131,183	85,166,458			

23. EQUITY**(a) Share capital**

	2018	2017
At 1 January	2,362,932	2,362,932
At 31 December	2,362,932	2,362,932

At 31 December 2018 the authorised and issued share capital comprised of 236 million ordinary shares (2017: QR 236 million), having a par value of QAR 10 per share.

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

(b) Legal reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**23. EQUITY (continued)****(c) Risk reserve**

In accordance with QCB regulations, a risk reserve should be created to cover contingencies on both the public and private sector financing assets, with a minimum requirement of 2.5% of the total private sector exposure inside and outside Qatar after the exclusion of the specific provisions and profit in suspense, to be appropriated from shareholders' profit. The finance provided to / or secured by the Ministry of Finance – Qatar or finance against cash guarantees is excluded from the gross direct finance. The total amount transferred to the risk reserve amounted to **QAR 55.1 million** (2017: QAR 93.4 million).

(d) General reserve

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

(e) Fair value reserve

2018	Net movement during the year
Opening balance	170,173
Changes in fair value of cash flow hedges	(22,362)
Share of other comprehensive income of associates	(3,151)
Investments carried as fair value through equity:	
Movement in fair value through fair value reserve	(2,846)
Plus: Share of equity of unrestricted investment account holders	(4,775)
Revaluation of investment properties:	
Movement in investment property fair value	17,321
Less: Share of equity to unrestricted investment account holders	98
	154,458

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

(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 (2017: QAR Nil was transferred to other reserves from retained earnings).

(h) Proposed cash dividends

The Board of Directors in its meeting dated 16 January 2019 has proposed a cash dividend of 50% of the paid up share capital amounting to **QAR 1,181 million** – QAR 5 per share (2017: 50% of the paid up share capital amounting to QAR 1,181 million – QAR 5 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 2018**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.

During the year 2018, the management has reassessed the vesting conditions linked to the share option plan and have concluded that the achievability of the vesting conditions is remote. Accordingly the Bank has reversed its reserves related to ESOP.

24. NON-CONTROLLING INTERESTS

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

25. SUKUK ELIGIBLE AS ADDITIONAL CAPITAL

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

	2018	2017
Income from:		
Murabaha	3,367,709	3,110,416
Musawama	984,168	916,277
Ijarah Muntahia Bittamleek	939,868	810,386
Istisna'a	26,302	29,430
Mudaraba	10,266	19,483
Others	276	1,167
	5,328,589	4,887,159

27. NET INCOME FROM INVESTING ACTIVITIES

	2018	2017
Income from investment in debt-type instruments	1,127,154	780,096
Gain on sale of equity-type investments	23,523	11,846
Net cost of inter-bank with / from Islamic banks	(533,568)	(230,591)
Net gain / (loss) on sale of debt-type investments	1,377	(10,733)
Net gain / (loss) on investment properties	228	(153,671)
Fair value (loss) / gain on investment securities carried as fair value through		
income statement	(38,064)	103,464
Rental income from investment properties	69,323	46,016
Dividend income	39,447	28,893
	689,420	575,320

28. NET FEE AND COMMISSION INCOME

	2018	2017
Feasibility study / management fees	208,248	207,582
Fees on letters of credit and guarantees	91,867	72,927
Banking services fees	326,907	280,922
Advisory fees	19,427	20,441
Others	85,808	76,587
	732,257	658,459
Fee and commission expense	(156,415)	(140,925)
Net fee and commission income	575,842	517,534

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**29. NET FOREIGN EXCHANGE GAIN**

	<u>2018</u>	<u>2017</u>
Dealing in foreign currencies	79,978	79,220
Foreign exchange swap income	(142)	30,089
Revaluation of assets and liabilities	179,391	29,752
	<u>259,227</u>	<u>139,061</u>

30. STAFF COSTS

	<u>2018</u>	<u>2017</u>
Salaries and other benefits	620,783	589,579
Staff pension fund costs	7,937	7,891
Staff indemnity costs (Note 21)	24,603	24,962
	<u>653,323</u>	<u>622,432</u>

31. OTHER EXPENSES

	<u>2018</u>	<u>2017</u>
Legal and professional fees	38,760	42,496
Rent	54,968	54,015
Service expenses	48,920	45,130
Board of Directors' remuneration	18,500	18,000
IT expenses	66,257	62,626
Advertising and marketing expenses	30,358	36,023
Communication and utilities	44,384	41,831
Subscription fees	5,595	5,582
Repairs and maintenance	8,887	16,598
Insurance costs	4,084	3,376
Other expenses	98,197	66,258
	<u>418,910</u>	<u>391,935</u>

32. TAX EXPENSE

	<u>2018</u>	<u>2017</u>
Current tax (credit) / expense		
Current year	(2,310)	18,270
Total tax (credit) / expense	(2,310)	18,270

33. CONTINGENT LIABILITIES AND COMMITMENTS

	<u>2018</u>	<u>2017</u>
a) Contingent liabilities		
Unutilised financing facilities	4,808,855	5,894,185
Guarantees	11,090,785	11,043,258
Letters of credit	2,077,304	1,379,262
	<u>17,976,944</u>	<u>18,316,705</u>
b) Commitments		
Investment commitment	152,678	301,879
Total	<u>18,129,622</u>	<u>18,618,584</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:

	<u>2018</u>	<u>2017</u>
Within one year	13,113	13,952
After one year but not more than five years	51,279	70,485
	<u>64,392</u>	<u>84,437</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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:

2018	Qatar	Other GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central banks	6,937,270	-	2,172	-	359,472	7,298,914
Due from banks	4,925,421	2,902	813,637	116,969	565,224	6,424,153
Financing assets	91,028,659	942,597	7,905,929	192,766	2,139,979	102,209,930
Investment securities	27,074,419	808,517	1,505,747	985,400	771,500	31,145,583
Investment in associates	449,452	-	-	-	118,940	568,392
Investment properties	611,910	-	619,197	-	-	1,231,107
Fixed assets	395,626	-	68,508	-	15,334	479,468
Intangible assets	382,017	-	53	-	3,670	385,740
Other assets	2,605,106	74,119	677,602	15,349	116,902	3,489,078
Total assets	134,409,880	1,828,135	11,592,845	1,310,484	4,091,021	153,232,365
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks	9,730,861	3,669,393	3,454,440	-	379,274	17,233,968
Customers' current accounts	15,103,373	54,889	29,750	11,980	220,816	15,420,808
Sukuk financing	-	-	9,145,212	-	-	9,145,212
Other liabilities	2,383,833	19,035	1,416,859	13	1,696,085	5,515,825
Total liabilities	27,218,067	3,743,317	14,046,261	11,993	2,296,175	47,315,813
Equity of unrestricted investment account holders	74,139,662	3,633,801	5,347,806	387,733	1,668,173	85,177,175
Total liabilities and equity of unrestricted investment account holders	101,357,729	7,377,118	19,394,067	399,726	3,964,348	132,492,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**34. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (continued)****Geographical sector (continued)**

2017	Qatar	Other GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central banks	5,209,828	-	2,167	-	334,391	5,546,386
Due from banks	4,057,277	30,325	593,058	134,033	60,997	4,875,690
Financing assets	91,644,853	1,623,796	8,326,800	325,391	692,659	102,613,499
Investment securities	27,776,313	658,984	568,648	977,113	421,205	30,402,263
Investment in associates	443,176	-	86,115	-	139,221	668,512
Investment properties	1,137,340	-	806,597	-	-	1,943,937
Asset held for sale	-	-	-	-	245,686	245,686
Fixed assets	416,735	-	75,466	-	19,101	511,302
Intangible assets	405,709	-	398	-	5,207	411,314
Other assets	2,299,564	375,214	348,793	28,662	104,054	3,156,287
Total assets	133,390,795	2,688,319	10,808,042	1,465,199	2,022,521	150,374,876
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks	9,267,372	4,653,554	2,893,920	2,193	374,087	17,191,126
Customers' current accounts	15,884,434	104,733	275,064	23,391	312,458	16,600,080
Sukuk financing	-	-	7,057,282	-	-	7,057,282
Other liabilities	2,056,318	34,710	1,201,923	-	138,801	3,431,752
Total liabilities	27,208,124	4,792,997	11,428,189	25,584	825,346	44,280,240
Equity of unrestricted investment account holders	72,763,533	9,762,602	2,579,249	180	108,907	85,214,471
Total liabilities and equity of unrestricted investment account holders	99,971,657	14,555,599	14,007,438	25,764	934,253	129,494,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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.

	<u>2018</u>	<u>2017</u>
Profit for the year attributable to equity holders of the Bank	2,755,311	2,405,425
Less: profit attributable to sukuk eligible as additional capital	(205,000)	(205,000)
Profit for EPS computation	<u>2,550,311</u>	<u>2,200,425</u>
Weighted average number of shares outstanding during the year	<u>236,293</u>	<u>236,293</u>
Basic / diluted earnings per share (QAR)	<u>10.79</u>	<u>9.31</u>

36. CASH AND CASH EQUIVALENTS

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

	<u>2018</u>	<u>2017</u>
Cash and balances with central banks (excluding restricted QCB and other central banks reserve account)	2,779,967	953,882
Due from banks	6,307,647	4,675,619
	<u>9,087,614</u>	<u>5,629,501</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**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:

	2018			2017		
	Associate companies	Board of Directors	Others	Associate companies	Board of Directors	Others
Assets:						
Financing assets	157,905	1,334,045	1,456,204	105,275	1,332,770	1,593,545
Equity of unrestricted investment account holders	50,811	1,061,279	25,150	104,548	1,093,389	246
Off balance sheet items:						
Contingent liabilities, guarantees and other commitments	-	470,999	-	-	355,931	-
Consolidated statement of income items:						
Financing income	7,594	57,328	86,793	8,842	71,868	79,985
Profit paid on deposits	1,428	21,672	-	1,570	15,519	243
Others	327	2,003	-	223	2,396	-

Key management personnel compensation for the year comprised:

	2018	2017
Short term employee benefits	78,612	75,749
Other long term benefits	2,694	6,352
	81,306	82,101

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 2018 by **QAR 68.9 million** (2017: QAR 60.1 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 2017 have been reclassified where necessary to preserve consistency with the 2018 figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**FINANCIAL STATEMENT OF THE PARENT BANK****A. STATEMENT OF FINANCIAL POSITION OF THE PARENT BANK**

As at 31 December	2018	2017
ASSETS		
Cash and balances with central banks	6,937,270	5,209,828
Due from banks	6,317,949	4,990,047
Financing assets	100,853,081	101,045,569
Investment securities	30,920,334	30,506,699
Investment in associates	364,084	363,787
Investment properties	531,577	531,547
Assets held for sale	-	245,686
Fixed assets	389,611	405,316
Intangible assets	142,926	165,654
Other assets	2,069,315	1,679,194
TOTAL ASSETS	148,526,147	145,143,327
LIABILITIES		
Due to banks	15,384,661	15,569,635
Customers' current accounts	15,115,954	15,933,409
Sukuk financing	9,145,212	7,057,282
Other liabilities	5,792,499	3,164,858
TOTAL LIABILITIES	45,438,326	41,725,184
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	83,224,885	83,911,486
SHAREHOLDERS' EQUITY		
Share capital	2,362,932	2,362,932
Legal reserve	6,353,459	6,353,459
Risk reserve	2,318,875	2,263,736
General reserve	79,485	79,485
Fair value reserve	91,395	99,053
Foreign currency translation reserve	(80,214)	(127,162)
Other reserves	212,058	212,058
Proposed cash dividends	1,181,466	1,181,466
Retained earnings	3,343,480	3,081,630
TOTAL SHAREHOLDERS' EQUITY	15,862,936	15,506,657
Sukuk eligible as additional capital	4,000,000	4,000,000
Total equity	19,862,936	19,506,657
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND SHAREHOLDERS' EQUITY	148,526,147	145,143,327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at and for the year ended 31 December 2018**B. STATEMENT OF INCOME OF THE PARENT BANK**

For the year ended 31 December	2018	2017
Net income from financing activities	5,125,015	4,657,924
Net income from investing activities	687,334	512,017
Total net income from financing and investing activities	5,812,349	5,169,941
Fee and commission income	677,892	598,761
Fee and commission expense	(145,891)	(136,979)
Net fee and commission income	532,001	461,782
Net foreign exchange gain	91,461	94,921
Share of results of associates	12,156	21,019
Other income	-	27,000
Loss from asset held for sale	-	(2,490)
Total income	6,447,967	5,772,173
Staff costs	(468,328)	(437,072)
Depreciation and amortization	(78,570)	(80,666)
Sukuk holder's share of profit	(255,092)	(218,370)
Other expenses	(291,070)	(285,920)
Total expenses	(1,093,060)	(1,022,028)
Net impairment losses on due from banks	13	-
Net impairment loss on investment securities	(173,689)	(236,280)
Net impairment loss on financing assets	(511,015)	(425,073)
Net impairment losses on other financial instruments	31,123	-
Profit for the year before return to unrestricted investment account holders	4,701,339	4,088,792
Less: Return to unrestricted investment account holders	(2,079,513)	(1,721,807)
Profit for the year	2,621,826	2,366,985

