

**Ahli Bank Q.P.S.C.**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2018**

# Ahli Bank Q.P.S.C.

---

## CONTENTS

### CONSOLIDATED FINANCIAL STATEMENTS

	Page(s)
Independent auditors' report	--
Consolidated statement of financial position	1
Consolidated statement of income	2
Consolidated statement of comprehensive income	3
Consolidated statement of changes in equity	4 – 5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements with supplementary information	7 – 71

**QR. 30010**

**RN: 0477/WS/FY2019**

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Ahli Bank Q.P.S.C.**

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

#### **Opinion**

We have audited the consolidated financial statements of Ahli 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, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of 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 International Financial Reporting Standards (IFRSs) and the applicable provisions of Qatar Central Bank regulations.

#### **Basis for Opinion**

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

#### **Key Audit Matters**

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How the matter was addressed in our audit
<p><b>First-time adoption of IFRS 9: <i>Financial Instruments</i></b></p> <p>The Group adopted IFRS 9: Financial Instruments from 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of QAR 217.8 million to the opening retained earnings as at 1 January 2018.</p> <p>The changes required to processes, systems and controls to comply with IFRS 9 were complex and significant, as the standard requires a fundamental change to the way, when Expected Credit Losses (ECL) are recognised and how these are measured.</p> <p>There was a risk that:</p> <ul style="list-style-type: none"> <li>- judgements, assumptions and estimates, which includes adopting a 'default' definition and developing PDs at origination, lifetime-PDs, and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays are inadequate;</li> <li>- inadequate data, as well as lack of uniformity in the data are used which makes it difficult to develop models, which are sufficient for IFRS 9 impairment requirements.</li> </ul> <p>Refer to the following notes of the consolidated financial statements:</p> <ul style="list-style-type: none"> <li>• Note 3c – Significant accounting policies on financial assets and financial liabilities</li> <li>• Note 3y(i) – Significant accounting policies on application of new and revised IFRS</li> <li>• Note 4 – Financial risk management</li> <li>• Note 7 – Accounting and classification of financial assets and liabilities</li> </ul>	<p>We updated our understanding of the Bank's adoption of IFRS 9 and identified the internal controls including entity level controls adopted by the Bank for the accounting, processes and systems under the new accounting standard.</p> <p>In addition, our work performed include the below procedures:</p> <ul style="list-style-type: none"> <li>- evaluated the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements.</li> <li>- evaluated, with the assistance of our specialists, the reasonableness of management's key judgements and estimates made in the ECL calculation, which include but not limited to the selection of methods, models, assumptions and data sources.</li> <li>- evaluated the appropriateness and test the mathematical accuracy of the ECL model applied.</li> <li>- tested certain IT controls related to the credit impairment process and verified the integrity of data used as input to the models</li> <li>- evaluated system-based and manual controls over the recognition and measurement of impairment allowances.</li> <li>- evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments.</li> <li>- assessed the reasonableness of forward looking information incorporated into the impairment calculations</li> </ul> <p>We have also assessed whether the related disclosures of this area were adequate in accordance with the requirements of International Financial Reporting Standards and applicable provision of QCB regulations.</p>

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How the matter was addressed in our audit
<p><b>Impairment of financial assets</b></p> <p>The Group's financial assets, both on and off balance sheet, amount to QAR 44.2 billion and QAR 42.9 billion as at 31 December 2018 and 2017 respectively. In addition, the expected credit loss (ECL) provisioning recognized for the year ended December 31, 2018 amounted to QR. 126.2 million.</p> <p>The Group has adopted IFRS 9 from January 1, 2018, which is a complex accounting standard that requires considerable judgements, which were key in the development of new models to measure expected credit losses on financial assets carried at amortized cost or at FVOCI (debt instruments). There is a risk that financial assets are impaired and adequate impairment provisions are not provided in accordance to requirements of IFRS 9 and the applicable provisions of Qatar Central Bank regulations.</p> <p>Financial assets might be inaccurate due to:</p> <ul style="list-style-type: none"> <li>- The methodologies used to develop probability of default (PD); loss given default (LGD); and (exposure at default EAD) are inappropriate.</li> <li>- Inappropriate segmentation of portfolios is used to develop risk parameters.</li> <li>- The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes.</li> <li>- Extrapolation techniques used to project scenarios and parameters (PD, LGD, and EAD) in future periods are inappropriate.</li> <li>- The methodology used to allocate a probability to each scenario is inappropriate or unsupported.</li> <li>- Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis.</li> <li>- Assumptions incorporated in the ECL model are not updated on a timely basis.</li> </ul> <p>Refer to the following notes of the consolidated financial statements:</p> <ul style="list-style-type: none"> <li>• Note 3c – Significant accounting policies on financial assets and financial liabilities</li> <li>• Note 4 – Financial risk management</li> <li>• Note 7 – Accounting and classification of financial assets and liabilities</li> <li>• Note 8 – Cash and balances with central bank</li> <li>• Note 9 – Due from banks</li> <li>• Note 10 – Loans and advances to customers</li> <li>• Note 11 – Investment securities</li> <li>• Note 13 – Other assets</li> </ul>	<p>We have assessed and tested the design and operating effectiveness of the relevant controls over data governance, methodologies, inputs and assumptions used by the Group in calculating impairment allowances.</p> <p>In addition, our work performed include the below procedures, among others on the Group's IFRS 9 ECL model:</p> <ul style="list-style-type: none"> <li>- For a selection of individual exposures, performed a detailed credit review and challenge the Group's staging and impairment allowance calculation.</li> <li>- Review and assess the reasonableness and appropriateness of the data, assumptions and methodologies used within the Bank's IFRS9 ECL model (PD, LGD, and EAD) and customer internal rating systems and methodology.</li> <li>- Assessment on whether significant increase in credit risk (SICR) indicators are present for the financial assets portfolio based on IFRS9 and Qatar Central Banks guidance and the possible implications on the ECL staging and expected provisioning.</li> <li>- Credit file classification supports the staging of relevant exposures, on a sample basis.</li> <li>- Assessment of the ECL methodology, macroeconomic scenarios weightage, on a sample basis.</li> </ul> <p>We have assessed whether the related disclosures of this area are adequate in accordance to the requirements of International Financial Reporting Standards and Qatar Central Bank, as applicable.</p>

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How the matter was addressed in our audit
<b>IT systems and controls over financial reporting</b>	
<p>We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology. The extensive volume and variety of transactions processed daily raises a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively.</p> <p>A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.</p>	<p>Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems. Our audit procedures included:</p> <ul style="list-style-type: none"><li>• Update the IT understanding on applications relevant to financial reporting including the core banking system, Treasury system, and the Swift messaging and the infrastructure supporting these applications;</li><li>• Testing the key automated input / processing and output controls relevant to business processes.</li><li>• Testing the IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;</li><li>• Assessing accuracy and completeness of computer generated information used in financial reporting;</li></ul>

### Other information

The Board of Directors is responsible for the other information. The other information comprises the Board of Directors Report and supplementary information which we obtained prior to the date of this auditors' report and the Annual Report, which is expected to be made available to us after the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon. 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 obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### 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 IFRSs and the applicable provisions of Qatar Central Bank 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **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 guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of user taken on the basis of these consolidated financial statements.

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

- Identify and assess the risk 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 internal controls.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

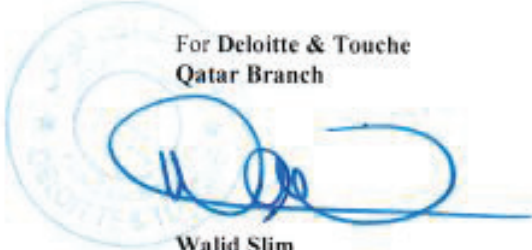
### **Auditor's responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation preclude 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**

Further, as required by the Qatar Commercial Companies' Law, we are also of the opinion that proper books of account were maintained by the Group and the content of the directors' report are in agreement with the Group's consolidated financial statements. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. To the best of our knowledge and belief and according to the information given to us, no contraventions of the applicable provisions of Qatar Central Bank Law, Qatar Commercial Companies' Law and the Bank's Articles of Association were committed during the year which would materially affect the Group's financial position or performance.

**Doha – Qatar  
6 February 2019**



**For Deloitte & Touche  
Qatar Branch**

**Walid Slim  
Partner  
License No. 319  
QFMA Auditor License No. 120156**

**Ahli Bank Q.S.C.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

QAR '000s

As at 31 December	Note	2018	2017
<b>ASSETS</b>			
Cash and balances with central bank	8	2,405,483	1,979,872
Due from banks	9	4,099,682	2,202,199
Loans and advances to customers	10	27,300,910	28,936,299
Investment securities	11	5,862,489	6,099,869
Property and equipment	12	247,835	258,608
Other assets	13	486,493	406,553
<b>TOTAL ASSETS</b>		<b>40,402,892</b>	<b>39,883,400</b>
<b>LIABILITIES</b>			
Due to banks and central bank	14	5,729,432	3,982,103
Certificate of deposits and commercial papers		495,270	418,534
Customer deposits	15	21,594,419	23,568,578
Debt securities	16 (a)	3,628,605	3,624,368
Other borrowings	16 (b)	2,497,516	2,192,233
Other liabilities	17	957,019	803,740
<b>TOTAL LIABILITIES</b>		<b>34,902,261</b>	<b>34,589,556</b>
<b>EQUITY</b>			
Share capital	18 (a)	2,103,604	2,003,433
Legal reserve	18 (b)	1,656,324	1,589,767
Risk reserve	18 (c)	631,078	631,078
Fair value reserve	18 (d)	(11,489)	12,530
Retained earnings		1,121,114	1,057,036
<b>TOTAL EQUITY</b>		<b>5,500,631</b>	<b>5,293,844</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>40,402,892</b>	<b>39,883,400</b>

These consolidated financial statements were approved by the Board of Directors on 16 January 2019 and were signed on its behalf by:

Sh. Faisal Bin Abdul-Aziz Bin Jassem Al Thani  
 Chairman & Managing Director

Mamoud Malkawi  
 Acting Chief Executive Officer

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

For the year ended 31 December	Note	2018	2017
Interest income	19	1,744,638	1,599,796
Interest expense	20	<u>(915,351)</u>	<u>(765,353)</u>
<b>Net interest income</b>		<b>829,287</b>	<b>834,443</b>
Fee and commission income	21	191,143	180,187
Fee and commission expense		<u>(6,584)</u>	<u>(6,574)</u>
<b>Net fee and commission income</b>		<b>184,559</b>	<b>173,613</b>
Foreign exchange gain - net	22	25,340	23,245
Income from investment securities	23	50,923	6,627
Other operating income	24	<u>11,014</u>	<u>6,484</u>
<b>Net operating income</b>		<b>1,101,123</b>	<b>1,044,412</b>
Staff costs	25	(172,779)	(182,694)
Depreciation	12	(24,181)	(26,794)
Net impairment loss on loans and advances to customers		(126,193)	(66,674)
Net impairment loss on investment securities		-	(18,767)
Other expenses	26	<u>(112,404)</u>	<u>(109,771)</u>
		<u>(435,557)</u>	<u>(404,700)</u>
<b>Profit for the year</b>		<b>665,566</b>	<b>639,712</b>
<b>Earnings per share</b>	27	<u>3.16</u>	<u>3.04</u>

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

For the year ended 31 December	Note	2018	2017
<b>Profit for the year</b>		<u>665,566</u>	<u>639,712</u>
<b>Other comprehensive (loss)/income for the year</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
<u>Movement in fair value reserve (Debt Instruments - IFRS 9):</u>			
Realised during the year	18 (d)	(196)	504
Net change in fair value during the year	18 (d)	(5,191)	-
Net change in fair value loss during the year (IAS 39)	18 (d)	-	(23,160)
Net amount of impairment transferred to profit or loss (IAS 39)	18 (d)	-	23,317
Amortised during the year on reclassification to loans and receivables (IAS 39)	18 (d)	-	68
<b>Items that may not be reclassified subsequently to profit or loss:</b>			
- Net change in fair value of investments in equity instruments designated at FVOCI (IFRS 9)		(2,225)	-
<b>Other comprehensive (loss)/income for the year</b>		<u>(7,612)</u>	<u>729</u>
<b>Total comprehensive income for the year</b>		<u>657,954</u>	<u>640,441</u>

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

Ahli Bank Q.P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

QAR '000s

For the year ended 31 December

Balance as at 1 January 2017

	Note	Share capital	Legal reserve	Risk reserve	Fair value reserve	Retained earnings	Total equity
		1,908,031	1,525,796	609,505	11,801	805,066	4,860,199
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	639,712	639,712
Other comprehensive income		-	-	-	729	-	729
<b>Total comprehensive income for the year</b>		-	-	-	729	639,712	640,441
Transfer to risk reserve	18 (c)	-	-	21,573	-	(21,573)	-
Transfer to legal reserve	18 (b)	-	63,971	-	-	(63,971)	-
Transfer to social and sports fund	32	-	-	-	-	(15,993)	(15,993)
<b>Transactions with equity holders, recognised directly in equity</b>							
Contributions by and distributions to equity holders:							
Bonus issue	18 (a)	95,402	-	-	-	(95,402)	-
Dividend paid	18 (e)	-	-	-	-	(190,803)	(190,803)
<b>Total contributions by and distributions to equity holders</b>		95,402	-	-	-	(286,205)	(190,803)
<b>Balance as at 31 December 2017</b>		<b>2,003,433</b>	<b>1,589,767</b>	<b>631,078</b>	<b>12,530</b>	<b>1,057,036</b>	<b>5,293,844</b>

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

Ahli Bank Q.P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

QAR '000s

	Note	Share capital	Legal reserve	Risk reserve	Fair value reserve	Retained earnings	Total equity
<b>For the year ended 31 December</b>							
Balance as at 1 January 2018		2,003,433	1,589,767	631,078	12,530	1,057,036	5,293,844
Adoption of IFRS 9 (Note 3.y)		-	-	-	(16,407)	(217,778)	(234,185)
Restated Balance as at 1 January 2018		2,003,433	1,589,767	631,078	(3,877)	839,258	5,059,659
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	665,566	665,566
Other comprehensive loss		-	-	-	(7,612)	-	(7,612)
<b>Total comprehensive income for the year</b>		-	-	-	(7,612)	665,566	657,954
Transfer to legal reserve	18 (b)	-	66,557	-	-	(66,557)	-
Transfer to social and sports fund	32	-	-	-	-	(16,639)	(16,639)
<b>Transactions with equity holders, recognised directly in equity</b>							
Contributions by and distributions to equity holders:							
Bonus issue	18 (a)	100,171	-	-	-	(100,171)	-
Dividend paid	18 (c)	-	-	-	-	(200,343)	(200,343)
<b>Total contributions by and distributions to equity holders</b>		100,171	-	-	-	(300,514)	(200,343)
Balance as at 31 December 2018		2,103,604	1,656,324	631,078	(11,489)	1,121,114	5,500,631

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

For the year ended 31 December	Note	2018	2017
<b>Cash flows from operating activities</b>			
Profit for the year		665,566	639,712
<i>Adjustments for:</i>			
Net impairment loss on loans and advances to customers		126,193	66,674
Net impairment loss on investment securities		-	18,767
Depreciation	12	24,181	26,794
Net (gain)/loss on disposal of property and equipment		(5,310)	64
Net gain on financial investments and mark to market of Equity classified as FVTPL (IFRS 9)	23	<u>(44,275)</u>	<u>(4,017)</u>
<i>Profit before changes in working capital</i>		766,355	747,994
Change in due from central bank		(93,773)	189,487
Change in loans and advances to customers		1,284,970	(2,142,590)
Change in other assets		(79,940)	(46)
Change in due to banks and central bank		1,747,329	2,705,838
Change in customer deposits		(1,974,159)	(1,442,284)
Change in certificate of deposits and commercial paper		76,736	(1,819,095)
Change in other liabilities		<u>119,546</u>	<u>(112,934)</u>
<b>Net cash generated from / (used in) operating activities</b>		<u>1,847,064</u>	<u>(1,873,630)</u>
<b>Cash flows from investing activities</b>			
Net proceeds from sale / (purchase) of investment securities		285,805	(541,967)
Net acquisition of property and equipment	12	<u>(8,097)</u>	<u>(10,280)</u>
<b>Net cash generated from / (used in) investing activities</b>		<u>277,708</u>	<u>(552,247)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debt securities		-	1,813,743
Net proceeds from other borrowings	16 (c)	305,283	305,284
Repayment of subordinated debt		-	(182,000)
Dividends paid		<u>(200,343)</u>	<u>(190,803)</u>
<b>Net cash generated from financing activities</b>		<u>104,940</u>	<u>1,746,224</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>2,229,712</u>	<u>(679,653)</u>
Cash and cash equivalents as at 1 January		<u>3,297,822</u>	<u>3,977,475</u>
<b>Cash and cash equivalents as at 31 December</b>	29	<u>5,527,534</u>	<u>3,297,822</u>
<b>Operational cash flows from interest and dividend</b>			
Interest received		1,670,107	1,538,790
Interest paid		843,639	734,070
Dividends received		6,648	2,610

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

---

**1. REPORTING ENTITY**

Ahli Bank Q.P.S.C. (“the Bank”) is an entity domiciled in the State of Qatar and was incorporated in 1983 as a public shareholding company under Emiri Decree no. 40 of 1983. The commercial registration of the Bank is 8989. The address of the Bank’s registered office is Suhaim Bin Hamad Street, Al Sadd Area in Doha (P.O. Box 2309, 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” and individually as “Group entities”). The Group is primarily involved in corporate and retail banking and brokerage activities, and has 14 branches in Qatar.

The Bank changed its legal name from Ahli Bank Q.S.C. to Ahli Bank Q.P.S.C. to comply with the provisions of the new Qatar Commercial Companies Law issued on 7 July 2015.

The principal subsidiaries of the Bank is as follows:

Company’s name	Country of incorporation	Company’s Capital	Company’s activities	Percentage of ownership 2018	Percentage of ownership 2017
Ahli Brokerage Company L.L.C. (CR No 47943)	Qatar	QAR 50 million	Brokerage	100	100
ABQ Finance Limited	Cayman Islands	US \$ 1	Debt Issuance	100	100

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), the applicable provisions of the Qatar Central Bank (“QCB”) regulations and Qatar Commercial Companies’ Law.

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items on the consolidated statement of financial position, which are measured at fair value:

- investment securities designated at fair value through income statement;
- derivatives;
- investments measured at fair value through profit or loss ('FVTPL') (2018) / Held for trading financial investments (2017);
- other financial assets designated at fair value through profit or loss ('FVTPL');
- financial investment measured at fair value through other comprehensive income ('FVOCI') (2018) / Available-for-sale financial investments (2017); and
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships.

**(c) Functional and presentation currency**

These consolidated financial statements are presented in Qatari Riyals (“QAR”), which is the Group’s functional currency. Except as otherwise indicated, financial information presented in QAR has been rounded to the nearest thousand.

**(d) Use of estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the effects of adoption of IFRS 9 and IFRS 15 on 1 January 2018, as described in note 3(y), and have been applied consistently by Group. Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

**(a) Basis of Consolidation**

**(i) Subsidiary**

Subsidiary is an investee controlled by the Group. The financial statement of subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group 'controls' an investee if it is exposed to, or has right to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The accounting policies of subsidiary have been changed when necessary to align them with the policies adopted by the Group.

**(ii) Transactions eliminated on consolidation**

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currency**

**Foreign currency transactions and balances**

Foreign currency transactions that are transactions 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 dates of the transactions.

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 that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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

**(c) Financial assets and financial liabilities**

**(i) Recognition and initial measurement**

The Group initially recognises loans and advances to customers, due from / to banks, customer deposits, debt securities and other borrowings on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

**(c) Financial assets and financial liabilities (continued)**

**(ii) Classification**

**Financial assets – Policy applicable from 1 January 2018**

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Business model assessment**

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Assessment whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest ("the SPPI test"), the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration of the time value of money. Instruments failing SPPI will be measured at FVTPL.

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

**(c) Financial assets and liabilities (continued)**

**Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The reclassification takes place from the start of the first reporting period following the change.

**Financial assets - applicable up to 31 December 2017**

At inception or on initial recognition a financial asset is classified in one of the following categories:

- loans and receivables (LaR);
- held to maturity (HTM);
- available-for-sale (AFS); and
- at fair value through profit or loss (FVTPL), either as: held for trading; or FVTPL on initial designation.

*Financial assets held for trading*

A financial asset is classified as held-for-trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- a derivative, except for a derivative that is a designated and effective hedging instrument.

*Financial assets designated as at FVTPL*

In addition to financial assets held for trading, financial assets are classified in the FVTPL category on initial recognition, to designate such instruments as a FVTPL using the fair value option in one of the following circumstances:

When doing so results in more relevant information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would result from measuring assets or liabilities or recognising gains or losses on them on different bases (an “accounting mismatch”); or
- a group of financial assets or liabilities (or both) is managed and its performance is evaluated on a fair value basis in accordance with the entity’s document risk management or investment strategy and information is provided by key management personnel on this basis.

**Financial liabilities**

The Group has classified and measured its financial liabilities at amortised cost.

**(iii) Derecognition**

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. 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 profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated income statement on derecognition of such securities.

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

The Group enters into transactions whereby it transfers assets recognised, 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. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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

**(c) Financial assets and financial liabilities (continued)**

**(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 interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

**Policy applicable from 1 January 2018**

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

**Policy applicable up to 31 December 2017**

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

**(v) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

**(vi) 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 principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.

*Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

**(c) Financial assets and financial liabilities (continued)**

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 5 (b) (i).

**(vii) Impairment**

**Policy applicable from 1 January 2018**

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognised on equity investments.

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

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

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

**Measurement of ECL**

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

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

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

**(c) Financial assets and financial liabilities (continued)**

**Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the 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 interest rate of the existing financial asset.

**Credit-impaired financial assets**

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

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

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

**Policy applicable up to 31 December 2017**

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower 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 borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment loss for loans and advances to customers and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances to customers and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances to customers and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances to customers and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances to customers.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

**(c) Financial assets and financial liabilities (continued)**

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

For listed investments, a decline in the market value from cost by 20% or more, or a decline in the market value from cost for a continuous period of 9 months or more, are considered to be indicators of impairment.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In subsequent periods, the appreciation of fair value of previously impaired available-for-sale equity investment securities is recorded in fair value reserve.

**(d) Cash and cash equivalents**

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

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

**(e) Loans and advances to customers**

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to customers are initially measured at the transaction price which is the fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method except for the financial assets which are classified to be measured at FVTPL, which are measured at fair value with changes recognised immediately in the consolidated income statement.

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

#### **(f) Investment securities**

##### **Policy applicable from 1 January 2018**

The 'investment securities' includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest income using the effective interest method;
- Expected credit losses and reversals; and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated income statement.

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

##### **Policy applicable up to 31 December 2017**

Subsequent to initial recognition investment securities are accounted for depending on their classification as either 'held to maturity', 'fair value through profit or loss', or 'available-for-sale'.

- i. Held-to-maturity finance assets
- ii. Fair value through profit or loss
- iii. Available-for-sale financial investments

#### **(g) Derivatives**

##### **(i) Derivatives held for risk management purposes and hedge accounting**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that, have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

##### **• Fair Value hedges**

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized immediately in the consolidated income statement. The related aspect of the hedged item is adjusted against the carrying amount of the hedged item and recognized in the consolidated income statement.

As at 31 December 2018 and 2017, there was no fair value hedge.

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

**(g) Derivatives (Continued)**

**(i) Derivatives held for risk management purposes and hedge accounting (continued)**

• **Cash flow hedges**

In relation to cash flow hedges which meet the conditions for hedge accounting, any gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially as cash flow hedge reserve in other comprehensive income. The gains or losses on cash flow hedges initially recognized in the consolidated statement of comprehensive income are transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement. Where the hedged transaction results in the recognition of an asset or a liability, the associated gains or losses that had initially been recognized in the consolidated statement of comprehensive income, are included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognized as cash flow hedge reserve in other comprehensive income is held therein until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized as cash flow hedge reserve in other comprehensive income is transferred to the consolidated income statement.

As at 31 December 2018 and 2017, there was no cash flow hedge.

**(ii) Derivatives held for trading purposes**

The Group's derivative trading instruments includes forward exchange contracts and interest rate and foreign currency swaps. After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, derivatives are subsequently measured at fair value. Fair value represents quoted market price or internal pricing models as appropriate. The resulting gains or losses are included in the consolidated income statement.

**(h) Property and equipment**

**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

**(ii) Subsequent costs**

The cost of replacing a component of an item of property or equipment 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 property and equipment are recognised in profit or loss as incurred.

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

#### **(h) Property and equipment (continued)**

##### **(iii) Depreciation**

Depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most 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:

Buildings	20 years
Leasehold improvements	5 years
Furniture and equipment	3-7 years
Motor Vehicles	5 years

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

##### **(i) 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.

Impairment losses are recognised in profit or loss. 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.

##### **(j) Provisions**

A 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

##### **(k) Financial guarantees**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

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

**(i) Employee termination benefits and pension funds**

***End of service gratuity plans-Defined benefits plan***

The Group provides for end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The provision of employees' end of service benefits is included in the other provisions within other liabilities.

***Pension and provident fund plan-Defined contribution plan***

Under Law No. 24 of 2002 on Retirement and Pension, the Group is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**(j) Share capital and reserves**

Incremental cost directly attributable to the issue of an equity instrument is deducted from the initial measurement of the equity instruments.

**(n) Dividends on ordinary shares**

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders. Dividends for the year that are declared after the date of the consolidated statement of financial position are dealt with in a separate note.

**(o) Interest income and expense**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

From 1 January 2018, for the financial assets that have become credit-impaired (stage 3) subsequent to initial recognition, interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income on investment (debt) securities measured at FVOCI (2018) / available-for-sale financial investments (2017) and measured at amortised cost (2018) / held to maturity (2017) is calculated using effective interest rate method and is also included in interest income.

**(p) Fees and commission income and expense**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised over time as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised over time on a straight-line basis over the commitment period. In case of these services, the control is considered to be transferred over time as the customer is benefited from these services over the tenure of the service period. Other fee and commission expense relate mainly to transaction the services are received.

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

**(q) Income from investment securities**

Gains or losses on the disposal of investment securities are recognised in profit or loss as the difference between fair value of the consideration received and carrying amount of the investment securities.

Unrealised gains or losses on fair value changes from remeasurement of investment securities classified as held for trading or designated as fair value through profit or loss are recognised in profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated income statement on derecognition of such securities but may be reclassified to another class of equity.

**(r) Dividend income**

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

**(s) Earnings per share**

The Group 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 ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**(t) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer. The chief executive officer is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

Income and expenses directly associated with each segment are included in determining operating segment performance.

**(u) Fiduciary activities**

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

**(v) Repossessed collateral**

Repossessed collaterals against settlement of customers' debts are stated within the consolidated statement of financial position under "Other assets" at their acquisition value net of allowance for impairment.

**(w) Comparatives**

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

**(x) Parent bank financial information**

Statement of financial position and income statement of the Parent bank, disclosed as supplementary information, is prepared following the same accounting policies as mentioned above except for; investment in subsidiaries which are not consolidated and is carried at cost.

**(y) Application of new and revised International Financial Reporting Standards (IFRSs)**

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

The following standards, amendments and interpretations, which became effective as of 1 January 2018, are relevant to the Group:

IFRS 9 Financial Instruments	1-Jan-18
IFRS 15 Revenue from Contracts with Customers	1-Jan-18
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1-Jan-18

The adoption of the above did not result in any changes to previously reported net profit or equity of the Group except as mentioned below.

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

#### **(y) Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

##### **(i) IFRS 9 Financial Instruments**

The Group has adopted IFRS 9, as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

##### **Classification of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in the consolidated income statement, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in the consolidated income statement.

##### **Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. 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. Interest 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 interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

##### **Stage 3: Lifetime ECL - credit impaired**

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

For an explanation of how the Group classifies financial liabilities under IFRS 9. Refer to Note 3 (c) (ii).

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

**(y) Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**(i) IFRS 9 Financial Instruments (continued)**

**Hedge accounting**

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

**Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- (a) As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- (b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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

**(y) Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**(i) IFRS 9 Financial Instruments (continued)**

**Impact of adopting IFRS 9**

The impact of adopting IFRS 9 has been shown as below:

	<b>Retained earnings</b>	<b>Fair value reserve</b>
	<b>QAR'000</b>	<b>QAR'000</b>
Closing balance under IAS 39 (31 December 2017)	1,057,036	12,530
<i>Impact on reclassification and remeasurements:</i>		
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income	3,000	(3,000)
Investment securities (equity) from available-for-sale to those measured at fair value through profit or loss	6,276	(6,276)
Investment securities (mutual funds) from available-for-sale to those measured at fair value through profit or loss	125	(125)
Investment securities (debt) from available-for-sale to those measured at fair value through other comprehensive income	7,981	(7,981)
Investment securities (debt) from loans and advances to customers to those measured at amortized cost	-	975
	<u>17,382</u>	<u>(16,407)</u>
<i>Impact on recognition of Expected Credit Losses</i>		
Due from banks	(89)	-
Investment securities (debt) at fair value through other comprehensive income	(1,500)	-
Investment securities (debt) at amortised cost	(758)	-
Loans and advances to customers	(191,644)	-
Loan commitments and financial guarantees	(41,169)	-
Net impairment losses on due from banks, Central Bank and other financial assets	(235,160)	-
	<u>(217,778)</u>	<u>(16,407)</u>
Transfer from risk reserve	-	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	<b><u>839,258</u></b>	<b><u>(3,877)</u></b>

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

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

**Classification and Measurement of Financial Instruments**

The Group performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount QAR'000	Impact of IFRS 9		
				Re-measurement QAR'000	Re-classification QAR'000	New carrying amount QAR'000
<b>Financial assets</b>						
Cash and balances with central bank	Loans and receivables	Amortised cost	1,979,872	-	-	1,979,872
Due from banks	Loans and receivables	Amortised cost	2,202,199	(89)	-	2,202,110
Loans and advances to customers	Loans and receivables	Amortised cost	28,915,434	(190,858)	-	28,724,576
Investment securities – debt	Available-for-sale	Amortised cost	1,964,087	-	-	1,964,087
Investment securities – debt	Held to Maturity	Amortised cost	3,190,528	(758)	-	3,189,770
Investment securities – debt	Available-for-sale	FVOCI	856,638	(1,500)	-	855,138
Investment securities – debt	Available-for-sale	FVTPL	-	-	-	-
Investment securities – Loans & receivables	Loans and advances	Amortised cost	20,865	(786)	-	20,079
Investment securities – equity	Available-for-sale	FVOCI	18,000	-	-	18,000
Investment securities – equity	Available-for-sale	FVTPL	69,383	-	-	69,383
Investment securities – funds	Available-for-sale	FVTPL	1,233	-	-	1,233
Other assets:						
Accrued interest receivable	Loans and receivables	Amortised cost	196,587	-	-	196,587
Derivatives with positive fair value	FVTPL	FVTPL	4,578	-	-	4,578
Others	Loans and receivables	Amortised cost	205,388	-	-	205,388
			<b>39,624,792</b>	<b>(193,991)</b>	<b>-</b>	<b>39,430,801</b>
<b>Financial liabilities</b>						
Due to banks and central bank	Amortised cost	Amortised cost	3,982,103	-	-	3,982,103
Certificate of deposits and commercial papers	Amortised cost	Amortised cost	418,534	-	-	418,534
Customer deposits	Amortised cost	Amortised cost	23,568,578	-	-	23,568,578
Other borrowings	Amortised cost	Amortised cost	2,192,233	-	-	2,192,233
Debt securities	Amortised cost	Amortised cost	3,624,368	-	-	3,624,368
Subordinated debt	Amortised cost	Amortised cost	-	-	-	-
Other liabilities:						
Accounts payable	Amortised cost	Amortised cost	76,299	-	-	76,299
Derivatives with negative fair value	FVTPL	FVTPL	11,458	-	-	11,458
Accrued interest payable	Amortised cost	Amortised cost	152,358	-	-	152,358
Acceptances	Amortised cost	Amortised cost	287,817	-	-	287,817
Others	Amortised cost	Amortised cost	275,808	-	-	275,808
ECL for financial guarantees and undrawn commitments	-	Amortised cost	-	41,169	-	41,169
			<b>34,589,556</b>	<b>41,169</b>	<b>-</b>	<b>34,630,725</b>

**Financial Liabilities**

There were no changes to the classification and measurement of financial liabilities.

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

**(y) Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

**(i) IFRS 9 Financial Instruments (continued)**

The following table shows the effects of the reclassification of financial assets from IAS 39 categories into the amortised cost category under IFRS 9.

	<b>QAR 000</b>
<i>From available-for-sale financial assets under IAS 39:</i>	
Fair value at 31 December 2017	261
Fair value loss that would have been recognised during 2018 in OCI if the financial assets had not been reclassified	(806)

**(ii) IFRS 15 'Revenue from Contracts with Customers'**

The Group implemented this new revenue recognition standard with effect from 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Group has assessed the impact of IFRS 15 and concluded that the standard has no material effect, on the consolidated financial statements of the Group.

***Standards issued but not yet effective***

A number of standards and amendments to standards are issued but not yet effective and the Group has not adopted these in the preparation of these consolidated financial statements. The below standards may have a significant impact on the Group's consolidated financial statements, however, the Group is currently evaluating the impact of these new standards. The Group will adopt these new standards on the respective effective dates.

**IFRS 16 Leases**

In January 2016, the IASB published IFRS 16 'Leases', replacing the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determine whether an arrangement contains a lease', SIC 15 'Operating leases' and SIC 27 'Evaluating the substance of transactions in the legal form of a lease'. It will result in almost all leases being recognized on the balance sheet by lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only recognition exemptions are short-term and low-value leases. Right-of-use assets for QAR 21.55 million will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16.

As at the reporting date, the Group has non-cancellable operating lease commitments of QAR 24.72 million. Of these commitments, approximately QAR 3.17 million relate to short-term leases and low value leases which will both be recognised on a straight-line basis as an expense in the income statement.

For the remaining lease commitments the Group, considering the preliminary assessment, expects to recognise right-of-use assets of approximately QAR 17.40 million on 1 January 2019, lease liabilities of QAR 18.78 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Bank, considering the preliminary assessment, expects that net profit after tax will decrease by approximately QAR 0.02 million for 2019 as a result of adopting the new rules. Net interest income is expected to decrease by approximately QAR 5.05 million, as the interest on the lease liability will be part of interest expense, Other expenses will decrease by QAR 6.02 million as operating lease payments were included in other expenses, however depreciation will increase by QAR 0.98 million due to amortization of the right-of-use assets.

Operating cash flows will increase and financing cash flows decrease by approximately QAR 5.04 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Bank does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year

The Group will apply the standard from its mandatory effective date of 1 January 2019. The Group intends to apply the modified retrospective approach and will not restate comparative information for the period prior to date of adoption.

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

**(y) Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

*Standards issued but not yet effective (continued)*

**Standards issued but not yet effective**

A number of standards and amendments to standards are issued but not yet effective and the Group has not adopted these in the preparation of these consolidated financial statements. The below standards may have a significant impact on the Group's consolidated financial statements, however, the Group is currently evaluating the impact of these new standards. The Group will adopt these new standards on the respective effective dates.

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 16 <i>Leases</i>	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing costs</i> .	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments in IFRS 9 <i>Financial Instruments</i> relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 <i>Employee Benefits</i> relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 <i>Business Combinations</i> relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 16 as highlighted in next paragraphs, may have no material impact on the financial statements of the Company in the period of initial application.

#### **4. FINANCIAL RISK MANAGEMENT**

##### **(a) Introduction and Overview**

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**

###### **Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit, liquidity, market, including trading and non-trading, and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

###### **• Risk Management Structure**

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

###### **• Executive Committee**

The Executive Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and managing and monitoring relevant risk decisions.

###### **• Risk Management Department**

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

###### **• Treasury**

Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure, as laid down by the Asset Liability Committee (ALCO) from time to time.

###### **• Internal Audit**

Risk management processes throughout the Group are audited annually by the Internal Audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **(a) Introduction and Overview (Continued)**

###### **Risk Management (continued)**

###### *Risk measurement and reporting systems*

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors and the Executive Committee.

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for impairment on a quarterly basis.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business departments have access to necessary and up-to-date information.

Frequent briefing is given to the senior management and all other relevant members of the Group on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

###### ***Risk mitigation***

As part of its overall risk management strategy, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into any hedging transactions, which are authorised by the appropriate approval authority mechanism within the Group. The effectiveness of hedges is assessed by the Treasury and senior management (based on economic considerations too rather than purely the IFRS hedge based accounting regulations). The effectiveness of all the hedge relationships is monitored by risk department quarterly at each reporting period. In cases of ineffectiveness, the Group will continuously monitor the expected performance of the hedge and take mitigating action such as re-hedging wherever necessary to make the hedge more effective on the underlying instrument concerned.

The Group actively uses collaterals to reduce its credit risks (see Note 4(b) Credit risk below for more detail).

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Introduction and Overview (Continued)**

**Risk Management (continued)**

*Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly.

**(b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments, affecting a particular industry or geographic location.

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

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, mortgages over real estate properties, inventory, trade receivables, cash and securities.
- For retail lending, mortgages over residential properties, cash or securities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Group also obtains corporate guarantees from parent companies for loans, advances and financing activities to their subsidiaries.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

	2018	2017
<b>Credit risk exposures relating to assets recorded on the consolidated statement of financial position are as follows:</b>		
Balances with central bank	2,234,884	1,847,200
Due from banks	4,099,682	2,202,199
Loans and advances to customers	27,300,910	28,936,299
Investment securities - debt	5,727,893	6,011,252
Other assets	319,080	237,224
Total as at 31 December	<u>39,682,449</u>	<u>39,234,174</u>
Other credit risk exposures are as follows:		
Contingent liabilities	9,044,346	9,016,408
Unutilized facilities	11,048,219	9,408,427
Total as at 31 December	<u>20,092,565</u>	<u>18,424,835</u>
Total credit risk exposure	<u>59,775,014</u>	<u>57,659,009</u>

The above table 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 in the consolidated statement of financial position.

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 support), as categorized by geographical region.

	Qatar	Other GCC	Europe	Rest of the world	Total
<b>At 31 December 2018</b>					
Balances with central bank	2,234,884	-	-	-	2,234,884
Due from banks	3,819,611	8,082	52,475	219,514	4,099,682
Loans and advances to customers	27,233,619	67,120	-	171	27,300,910
Investment securities – debt	5,189,523	402,931	-	135,439	5,727,893
Other assets	316,649	1,344	1,087	-	319,080
<b>Total</b>	<b>38,794,286</b>	<b>479,477</b>	<b>53,562</b>	<b>355,124</b>	<b>39,682,449</b>

Other credit risk exposure are as follows:

Guarantees and letters of credit	9,019,812	867	18,453	5,214	9,044,346
Unutilized facilities	11,048,219	-	-	-	11,048,219
<b>Total</b>	<b>20,068,031</b>	<b>867</b>	<b>18,453</b>	<b>5,214</b>	<b>20,092,565</b>

	Qatar	Other GCC	Europe	Rest of the world	Total
<b>At 31 December 2017</b>					
Balances with central bank	1,847,200	-	-	-	1,847,200
Due from banks	2,150,000	7,306	39,149	5,744	2,202,199
Loans and advances to customers	28,910,219	26,080	-	-	28,936,299
Investment securities – debt	5,550,231	405,254	-	55,767	6,011,252
Other assets	237,224	-	-	-	237,224
<b>Total</b>	<b>38,694,874</b>	<b>438,640</b>	<b>39,149</b>	<b>61,511</b>	<b>39,234,174</b>

Other credit risk exposure are as follows:

Guarantees and letters of credit	8,967,082	7,298	30,066	11,962	9,016,408
Unutilized facilities	9,408,427	-	-	-	9,408,427
<b>Total</b>	<b>18,375,509</b>	<b>7,298</b>	<b>30,066</b>	<b>11,962</b>	<b>18,424,835</b>

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

Industry sectors

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

	Gross maximum exposure 2018	Net maximum exposure 2018	Gross maximum exposure 2017	Net maximum exposure 2017
<b>Funded</b>				
Government	7,923,242	7,918,615	9,298,750	9,298,750
Government agencies	419,760	419,572	327,038	327,038
Industry	618,148	596,654	708,923	705,594
Commercial	12,358,218	12,177,481	12,286,432	12,225,430
Services	8,924,167	8,877,206	6,751,221	6,681,838
Contracting	1,846,950	1,729,723	2,021,881	2,021,881
Real estate	5,310,735	5,215,569	5,010,090	5,010,090
Personal	2,916,694	2,747,629	3,246,107	2,963,553
Total funded	<u>40,317,914</u>	<u>39,682,449</u>	<u>39,650,442</u>	<u>39,234,174</u>
<b>Unfunded</b>				
Government institutions & semi government agencies	3,200,779	3,200,722	1,605,018	1,605,018
Services	1,408,665	1,406,423	1,331,635	1,331,635
Commercial and others	15,483,121	15,468,326	15,488,182	15,488,182
<b>Total unfunded</b>	<u>20,092,565</u>	<u>20,075,471</u>	<u>18,424,835</u>	<u>18,424,835</u>
<b>Total</b>	<u>60,410,479</u>	<u>59,757,920</u>	<u>58,075,277</u>	<u>57,659,009</u>

Total maximum exposure net of tangible collateral is QAR 30.0 billion (2017: QAR 29.96 billion). The types of collateral obtained include cash, mortgages over real estate properties and pledges of shares.

**Collateral**

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

The fair value of the collateral held against credit-impaired loans and advances as at 31 December 2018 is QAR 25,045 thousands (2017: QAR 21,526 thousands).

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

**(iii) Credit quality**

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings. The Group follows an internal obligor risk rating (ORR) mechanism for grading relationships across its credit portfolio. The Group utilises a ten-scale credit rating system of which rating 1-7 relate to performing and 8-10 relate to non-performing. Within performing, ORR 1 to 4 represents investment grade, ORR 5 to 6 represents sub-investment grade and ORR 7 represent watchlist. ORR 8 to 10 represents sub-standard, doubtful and loss respectively. All credits are assigned a rating in accordance with the defined criteria. The Group endeavors continuously to improve upon the 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 lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

The following table sets out information about the credit quality of financial assets, commitments and financial guarantees.

<i>Balances with Central Bank and Due from banks</i>	<b>2018</b>				<b>2017</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>
Investment grade - ORR 1 to 4	<b>6,298,298</b>	-	-	<b>6,298,298</b>	3,764,091
Sub-investment grade - ORR 5 to 7	-	<b>36,658</b>	-	<b>36,658</b>	285,308
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	-	-	-
	<b>6,298,298</b>	<b>36,658</b>	-	<b>6,334,956</b>	4,049,399
Loss allowance	<b>(273)</b>	<b>(117)</b>	-	<b>(390)</b>	-
<b>Carrying amount</b>	<b>6,298,025</b>	<b>36,541</b>	-	<b>6,334,566</b>	4,049,399

<i>Loans and advances to customers</i>	<b>2018</b>				<b>2017</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>
Investment grade - ORR 1 to 4	<b>14,530,695</b>	<b>76,053</b>	-	<b>14,606,748</b>	15,138,254
Sub-investment grade - ORR 5 to 7	<b>11,194,221</b>	<b>1,657,489</b>	-	<b>12,851,710</b>	13,943,584
Substandard - ORR 8	-	-	<b>273,248</b>	<b>273,248</b>	14,119
Doubtful ORR 9	-	-	<b>66,785</b>	<b>66,785</b>	18,292
Loss - ORR 10	-	-	<b>130,644</b>	<b>130,644</b>	238,118
	<b>25,724,916</b>	<b>1,733,542</b>	<b>470,677</b>	<b>27,929,135</b>	29,352,367
Loss allowance	<b>(133,329)</b>	<b>(166,254)</b>	<b>(328,642)</b>	<b>(628,225)</b>	(416,268)
<b>Carrying amount</b>	<b>25,591,587</b>	<b>1,567,288</b>	<b>142,035</b>	<b>27,300,910</b>	28,936,299

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iii) Credit quality (continued)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Investment securities - debt</b>					
Investment grade - ORR 1 to 4	5,593,381	-	-	5,593,381	5,963,141
Sub-investment grade - ORR 5 to 7	124,663	16,699	-	141,362	56,093
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	-	-	-
	5,718,044	16,699	-	5,734,743	6,019,234
Loss allowance	(5,508)	(1,342)	-	(6,850)	(7,982)
<b>Carrying amount</b>	<b>5,712,536</b>	<b>15,357</b>	<b>-</b>	<b>5,727,893</b>	<b>6,011,252</b>

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Loan commitments and financial guarantees</b>					
Investment grade - ORR 1 to 4	1,727,423	3,222	-	1,730,645	1,320,550
Sub-investment grade - ORR 5 to 7	2,239,102	242,952	-	2,482,054	2,109,857
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	-	-	-
Total	3,966,525	246,174	-	4,212,699	3,430,407
Loss allowance	(14,302)	(2,792)	-	(17,094)	-
<b>Carrying amount</b>	<b>3,952,223</b>	<b>243,382</b>	<b>-</b>	<b>4,195,605</b>	<b>3,430,407</b>

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

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### (b) Credit risk (continued)

##### iv) Write-off policy

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Group Credit determines that the loan or security is uncollectible and after QCB's approval.

This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QAR 145,661 thousands (2017: NIL).

##### (v) 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's are considered:

- i. Two notches downgrade for ratings from Aaa to Baa or one notch downgrade for ratings from Ba to Caa
- ii. Facilities restructured during previous twelve months
- iii. Facilities overdue by 45 days as applicable as at reporting date

###### 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 borrower. 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 loan 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 loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### (b) Credit risk (continued)

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

###### Definition of default

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

- the borrower 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 borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is internally rated 8, 9 or 10.

In assessing whether a borrower is in default, the Group also 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.

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

###### 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 primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment 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. Also the regulatory required minimum haircuts are applied on the eligible collaterals to arrive at the LGD.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

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

***Forward looking information incorporated in ECL models***

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 as per the IFRS 9 Policy of the Group.

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.

The group has calculated the PD based on the process described below:

1. Obtain the observed defaults rates (ODRs)

ODRs are computed for wholesale portfolio and each of the retail segment for which ECL is separately computed.

2. Obtain the value of the expected relevant economic variables

The various expected relevant economic indicators such as Nominal GDP, Oil & Gas product, good and service exports are sourced from IMF, World Economic Organization or any other data source as considered appropriate.

3. Transform the macroeconomic data from yearly to monthly data point

Historical and forecasted values of macroeconomic indicators considered for regression analysis purposes are generally provided at a yearly level. However, ODRs are computed at a monthly frequency. Accordingly, the group interpolates the macroeconomics data. The Group has adopted the cubic spline interpolation technique for interpolation of economic variable data

4. Perform regression analysis

Perform the ordinary least square (OLS) regression analysis of ODR for the each of the portfolio on the historical observed value of the economic indicators

5. Test the statistical significance of the model

Significance of the overall model as well as each of individual parameters are assessed based on various statistical tests such as adjusted R<sup>2</sup>, F test and t test.

6. Forecast the Point in Time (PiT) default rate

Based on the projected value of the economic variables under different scenario and their coefficient value as determined based on the related regression analysis, point in time (PiT) average default rate is estimated for each of ECL computation segment for each of the projected years.

Based on the detailed analysis, the significant economic variables identified for ECL computation purpose is as under:

S. No	ECL segment	Identified relevant economic variables
1	Wholesale portfolio	- Nominal GDP - Natural Gas production
2	Mortgage Loan	- Export
3	Personal Loan (Non Qatari) - Stage 1	- Export
4	Personal Loan (Qatari) - Stage 1	- Export
5	Personal Loan - Stage 2	- Export
6	Auto Loan	- Export
7	Retail OD- Stage 1	- Export
8	Credit Card – Stage 1	- 3 Month growth rate natural gas production
9	Credit Card – Stage 2	- Natural gas hydrocarbon

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### (b) Credit risk (continued)

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

###### *Forward looking information incorporated in ECL models (continued)*

###### *Approach for scenario analysis*

QCB advises banks to arrive at the final ECL as the scenario weighted ECL under different macroeconomic scenarios. Considering the same, the group has formulated the methodology for creation of macro-economic scenarios under the premise of economic baseline, upturn and downturn condition. Following are the key inputs for arriving at the different macroeconomic scenarios:

- The Baseline scenario is built on the baseline systemic factor data given by IMF/WEO or any other reliable data source. The baseline is a 50% scenario, implying, there is a 50% probability that the actual outcome is worse than the baseline forecast and an equal probability of 50% that the outcome is better than the baseline. It can be considered as the median of the latent distribution of the systemic factors.
  - The Upturn scenario has a 15% probability attached to it (i.e. 15% probability that the outcome is better; or 85% probability that the outcome is worse).
  - Similarly, the Downturn scenario has a 15% probability attached to it (15% probability that the outcome is worse; 85% probability that the outcome is better).
- These upside and downside scenarios are constructed as the 15% lower and upper tail scenarios, taking into account the IFRS 9 guidance which recommends that banks "should not estimate a worst-case scenario nor the best-case scenario", i.e. avoiding extreme scenarios. However, there would be other scenarios that will exist within the economy of the region. In order to take these scenarios into consideration, the probability of the upturn (15%), base (50%) and down (15%) scenarios has to be normalized such that they account for the 100% probability of a normal distributed curve.

###### *Grouping of instruments for losses measured on a collective basis*

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Based on the observed default rates, historical performance and other internal statistical studies the group calculates the ECL at a pool level for the below categories.

1. Mortgage Loan
2. Personal loan to residents
3. Personal loan to expats
4. Personal Loan - Resident & expats
5. Auto loans
6. Retail overdrafts

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(v) Inputs, assumptions and techniques for estimating impairment (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 for credit losses and reflect measurement basis under IAS 39.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<b>Exposure subject to ECL</b>				
- Loans and advances to customers	25,725,916	1,733,542	470,677	27,929,135
- Investment securities (Debt)	5,718,044	16,699	-	5,734,743
- Loan commitments and financial guarantees	3,966,565	246,174	-	4,212,699
- Due from banks, central bank and other financial assets	6,298,298	36,658	-	6,334,956
<b>Opening balance (Day 1 impact) - as at 1 January 2018</b>				
- Loans and advances to customers	247,242	63,774	296,896	607,912
- Net impairment losses on investment securities (Debt)	1,097	1,161	-	2,258
- Loan commitments and financial guarantees	37,211	3,958	-	41,169
- Net impairment losses on due from banks, central bank and other financial assets	88	1	-	89
	<u>285,638</u>	<u>68,894</u>	<u>296,896</u>	<u>651,428</u>
<b>Net transfer between stages</b>				
- Loans and advances to customers	(116,413)	58,980	76,615	19,182
- Net impairment losses on investment securities (Debt)	4,411	181	-	4,592
- Loan commitments and financial guarantees	(22,909)	(1,166)	-	(24,075)
- Net impairment losses on due from banks, central bank and other financial assets	185	116	-	301
	<u>(134,726)</u>	<u>58,111</u>	<u>76,615</u>	<u>-</u>
<b>Charge for the period (net)</b>				
- Loans and advances to customers (including interest in suspense for Stage 3)	2,500	43,500	100,792	146,792
- Net impairment losses on investment securities (Debt)	-	-	-	-
- Loan commitments and financial guarantees	-	-	-	-
- Net impairment losses on due from banks, central bank and other financial assets	-	-	-	-
	<u>2,500</u>	<u>43,500</u>	<u>100,792</u>	<u>146,792</u>
<b>Written off</b>				
- Loans and advances to customers	-	-	(145,661)	(145,661)
- Net impairment losses on investment securities (Debt)	-	-	-	-
- Loan commitments and financial guarantees	-	-	-	-
- Net impairment losses on due from banks, central bank and other financial assets	-	-	-	-
	<u>-</u>	<u>-</u>	<u>(145,661)</u>	<u>(145,661)</u>
<b>Closing balance - as at 31 December 2018</b>				
- Loans and advances to customers	133,329	166,254	328,642	628,225
- Net impairment losses on investment securities (Debt)	5,508	1,342	-	6,850
- Loan commitments and financial guarantees	14,302	2,792	-	17,094
- Net impairment losses on due from banks, central bank and other financial assets	273	117	-	390
	<u>153,412</u>	<u>170,505</u>	<u>328,642</u>	<u>652,559</u>

#### 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 derivatives etc. Such outflows would deplete available cash resources for client lending, 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 lending 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

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

In addition, the Group maintains 4.5% of average customer deposits as a mandatory deposit with Qatar Central Bank.

The Group's Asset and Liability Committee (ALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Treasury.

The liquidity coverage ratio as of 31 December 2018 is 156.4% (2017:383.9%).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(ii) Maturity analysis (including all assets and liabilities)

	Carrying amount	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2018</b>						
Cash and balances with central bank	2,405,483	1,280,745	432,277	674,348	18,113	-
Due from banks	4,099,682	4,099,682	-	-	-	-
Loans and advances to customers	27,300,910	1,344,485	3,713,156	5,003,547	9,304,701	7,935,021
Investment securities	5,862,489	-	99,999	617,131	2,347,984	2,797,375
Property and equipment	247,835	-	-	-	-	247,835
Others assets	486,493	12,518	327,039	14,255	-	132,681
<b>Total</b>	<b>40,402,892</b>	<b>6,737,430</b>	<b>4,572,471</b>	<b>6,309,281</b>	<b>11,670,798</b>	<b>11,112,912</b>
Due to banks and central bank	5,729,432	5,078,377	570,045	81,010	-	-
Certificate of deposits and commercial papers	495,270	18,068	144,522	332,680	-	-
Customer deposits	21,594,419	10,726,699	4,176,854	6,515,854	175,012	-
Debt securities	3,628,605	-	-	-	3,628,605	-
Other borrowings	2,497,516	-	-	859,516	1,638,000	-
Other liabilities	957,019	141,565	486,495	251,972	36,587	40,400
Total equity	5,500,631	-	-	-	-	5,500,631
<b>Total</b>	<b>40,402,892</b>	<b>15,964,709</b>	<b>5,377,916</b>	<b>8,041,032</b>	<b>5,478,204</b>	<b>5,541,031</b>
<b>Difference</b>	<b>-</b>	<b>(9,227,279)</b>	<b>(805,445)</b>	<b>(1,731,751)</b>	<b>6,192,594</b>	<b>5,571,881</b>

	Carrying amount	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2017</b>						
Cash and balances with central bank	1,979,872	1,422,892	235,188	315,759	6,033	-
Due from banks	2,202,199	2,202,199	-	-	-	-
Loans and advances to customers	28,936,299	2,023,818	2,472,226	6,240,175	10,505,027	7,695,053
Investment securities	6,099,869	-	212,675	1,469,208	2,324,126	2,093,860
Property and equipment	258,608	-	-	-	-	258,608
Others assets	406,553	31,506	237,649	4,717	-	132,681
<b>Total</b>	<b>39,883,400</b>	<b>5,680,415</b>	<b>3,157,738</b>	<b>8,029,859</b>	<b>12,835,186</b>	<b>10,180,202</b>
Due to banks and central bank	3,982,103	2,711,210	127,400	1,143,493	-	-
Certificate of deposits and commercial papers	418,534	43,672	197,388	177,474	-	-
Customer deposits	23,568,578	8,722,739	6,242,356	8,442,673	160,810	-
Debt securities	3,624,368	-	-	-	3,624,368	-
Other borrowings	2,192,233	-	-	273,000	1,919,233	-
Other liabilities	803,740	140,286	370,299	163,904	83,726	45,525
Total equity	5,293,844	-	-	-	-	5,293,844
<b>Total</b>	<b>39,883,400</b>	<b>11,617,907</b>	<b>6,937,443</b>	<b>10,200,544</b>	<b>5,788,137</b>	<b>5,339,369</b>
<b>Difference</b>	<b>-</b>	<b>(5,937,492)</b>	<b>(3,779,705)</b>	<b>(2,170,685)</b>	<b>7,047,049</b>	<b>4,840,833</b>

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iii) Maturity analysis (financial liabilities and derivatives)

	Carrying amount	Gross undiscouted cash flows	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2018</b>							
<b>Non-derivative financial liabilities</b>							
Due to banks and central bank	5,729,432	5,746,530	5,092,187	572,231	82,112	-	-
Certificate of deposits and commercial papers	495,270	496,252	18,504	144,901	332,847	-	-
Customer deposits	21,594,419	22,128,338	10,959,137	4,271,960	6,816,886	80,355	-
Debt securities	3,628,605	3,988,933	11,167	21,252	97,256	3,859,258	-
Other borrowings	2,497,516	2,627,851	8,266	15,731	923,896	1,679,958	-
<b>Total</b>	<b>33,945,242</b>	<b>34,987,904</b>	<b>16,089,261</b>	<b>5,026,075</b>	<b>8,252,997</b>	<b>5,619,571</b>	<b>-</b>

**Derivative financial instruments**

Risk Management:

Outflow	1,502,197	927,479	340,566	98,063	136,089	-	-
Inflow	(1,504,047)	(929,548)	(338,666)	(99,068)	(136,765)	-	-
	<b>34,986,054</b>	<b>16,087,192</b>	<b>5,027,975</b>	<b>8,251,992</b>	<b>5,618,895</b>	<b>-</b>	<b>-</b>

	Carrying amount	Gross undiscouted cash flows	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2017</b>							
<b>Non-derivative financial liabilities</b>							
Due to banks and central bank	3,982,103	3,997,862	2,719,012	132,854	1,145,996	-	-
Certificate of deposits and commercial papers	418,534	423,278	44,348	198,388	180,542	-	-
Customer deposits	23,568,578	23,765,386	8,742,631	6,278,324	8,564,125	180,306	-
Debt securities	3,624,368	4,116,172	11,166	21,252	97,257	3,986,497	-
Other borrowings	2,192,233	2,308,793	5,041	9,595	316,272	1,977,885	-
<b>Total</b>	<b>33,785,816</b>	<b>34,611,491</b>	<b>11,522,198</b>	<b>6,640,413</b>	<b>10,304,192</b>	<b>6,144,688</b>	<b>-</b>

**Derivative financial instruments**

Risk Management:

Outflow	1,211,700	672,452	118,635	387,946	32,667	-	-
Inflow	(1,201,711)	(669,848)	(116,816)	(385,495)	(29,552)	-	-
	<b>34,621,480</b>	<b>11,524,802</b>	<b>6,642,232</b>	<b>10,306,643</b>	<b>6,147,803</b>	<b>-</b>	<b>-</b>

(d) Market risks

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as interest rates commodities prices, foreign exchange rates and equity prices.

(i) Management of market risks

The Group manages its market risks within the regulatory framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this methodology is the responsibility of the Asset and Liability Committee (ALCO) which consists of senior management including members of the Risk management function. The Group is exposed to interest rate risk created as a result of assets and liabilities mismatch or off balance sheet instruments that mature or reprice over a given period.

Both interest rate gaps and foreign exchange rate fluctuations are managed within the prescribed board limits. All risk exposures are monitored and reported on a daily basis to senior management and any breaches are escalated immediately. In addition all trading activity is continuously being monitored at ALCO level.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

(ii) Exposure to interest 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 interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Group central Treasury in its day-to-day monitoring activities.

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

	Carrying amount	Less than 3 months	Repricing in:			Non-interest sensitive	Effective interest rate
			3-12 months	1-5 years	More than 5 years		
<b>2018</b>							
Cash and balances with central bank	2,405,483	978,000	-	-	-	1,427,483	
Due from banks	4,099,682	4,074,279	-	-	-	25,403	2.44%
Loans and advances to customers	27,300,910	8,985,209	17,393,331	117,548	477,487	327,335	5.14%
Investment securities	5,862,489	99,999	609,633	2,355,482	2,662,778	134,596	3.87%
Property and equipment	247,835	-	-	-	-	247,835	
Other assets	486,493	-	-	-	-	486,493	
	<b>40,402,892</b>	<b>14,137,488</b>	<b>18,002,964</b>	<b>2,473,030</b>	<b>3,140,265</b>	<b>2,649,145</b>	
Due to banks and central bank	5,729,432	5,708,640	-	-	-	20,792	2.57%
Certificate of deposits and commercial paper	495,270	162,590	332,680	-	-	-	2.59%
Customer deposits	21,594,419	13,836,964	5,251,178	175,012	-	2,331,265	2.69%
Debt securities	3,628,605	-	-	3,628,605	-	-	3.68%
Other borrowings	2,497,516	2,497,516	-	-	-	-	3.66%
Other liabilities	957,019	-	-	-	-	957,019	
Total equity	5,500,631	-	-	-	-	5,500,631	
	<b>40,402,892</b>	<b>22,205,710</b>	<b>5,583,858</b>	<b>3,803,617</b>	<b>-</b>	<b>8,809,707</b>	
Statement of financial position items		(8,068,222)	12,419,106	(1,330,587)	3,140,265	(6,160,562)	
Off statement of financial position items		(841,680)	113,680	728,000	-	-	
<b>Interest rate sensitivity gap</b>		<b>(8,909,902)</b>	<b>12,532,786</b>	<b>(602,587)</b>	<b>3,140,265</b>	<b>(6,160,562)</b>	
<b>Cumulative Interest rate sensitivity gap</b>		<b>(8,909,902)</b>	<b>3,622,884</b>	<b>3,020,297</b>	<b>6,160,562</b>	<b>-</b>	

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

	Carrying amount	Less than 3 months	Repricing in:			Non-interest sensitive	Effective interest rate
			3-12 months	1-5 years	More than 5 years		
2017							
Cash and balances with central bank	1,979,872	884,000	-	-	-	1,095,872	
Due from banks	2,202,199	2,186,644	-	-	-	15,555	1.38%
Loans and advances to customers	28,936,299	8,606,666	19,432,538	428,077	167,966	301,052	4.86%
Investment securities	6,099,869	212,676	1,469,208	2,324,126	2,005,243	88,616	3.82%
Property and equipment	258,608	-	-	-	-	258,608	
Other assets	406,553	-	-	-	-	406,553	
	<u>39,883,400</u>	<u>11,889,986</u>	<u>20,901,746</u>	<u>2,752,203</u>	<u>2,173,209</u>	<u>2,166,256</u>	
Due to banks and central bank	3,982,103	2,824,225	1,143,493	-	-	14,385	1.83%
Certificate of deposits and commercial paper	418,534	241,060	177,474	-	-	-	1.70%
Customer deposits	23,568,578	13,965,014	7,124,777	160,810	-	2,317,977	2.26%
Debt securities	3,624,368	-	-	3,624,368	-	-	3.68%
Other borrowings	2,192,233	2,192,233	-	-	-	-	3.10%
Other liabilities	803,740	-	-	-	-	803,740	
Total equity	<u>5,293,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,293,844</u>	
	<u>39,883,400</u>	<u>19,222,532</u>	<u>8,445,744</u>	<u>3,785,178</u>	<u>-</u>	<u>8,429,946</u>	
Statement of financial position items		(7,332,546)	12,456,002	(1,032,975)	2,173,209	(6,263,090)	
Off statement of financial position items		(918,960)	-	918,960	-	-	
Interest rate sensitivity gap		<u>(8,251,506)</u>	<u>12,456,002</u>	<u>(114,015)</u>	<u>2,173,209</u>	<u>(6,263,690)</u>	
Cumulative Interest rate sensitivity gap		<u>(8,251,506)</u>	<u>4,204,496</u>	<u>4,090,481</u>	<u>6,263,690</u>	<u>-</u>	

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Market risks (continued)**

**(ii) Exposure to interest rate risk – non-trading portfolios (continued)**

**Sensitivity analysis**

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement and equity.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest sensitive non-trading financial assets and financial liabilities held at 31 December 2018, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate for fair value through other comprehensive income (2017:available-for-sale) financial assets, including the effect of swaps designated as cash flow hedges at 31 December 2018 for the effects of the assumed changes in interest rates and based on the assumption that there are parallel shifts in the yield curve. The effect of decreases in interest rates is expected to have an equal and opposite effect of the increases shown.

	<i>Change in basis points</i>	<i>Sensitivity of net interest income</i>		<i>Sensitivity of equity</i>	
		<b>2018</b>	2017	<b>2018</b>	2017
<i>Currency</i>					
Qatari Riyal	25	<b>21,829</b>	27,656	-	-
US Dollar	25	<b>7,487</b>	8,980	<b>1,500</b>	2,238

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

**Foreign currency transactions**

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

The Group had the following net open positions at the year end:

**Functional currency of Group entities**

	<b>2018</b>	2017
Net foreign currency exposure:		
Pounds Sterling	<b>1,568</b>	(115)
Euro	<b>15,744</b>	6,905
USD	<b>(3,206,152)</b>	(5,121,730)
Other currencies	<b>73,912</b>	33,682
Total	<b>(3,114,928)</b>	(5,081,258)

The others above include an exposure to Egyptian Pounds (EGP) amounting to QAR 66,216 thousand (2017: QAR 26,494 thousand). This exposure arises from the investment made in 2006.

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Market risks (continued)**

**(iii) Exposure to currency risks – non-trading portfolios (continued)**  
 Sensitivity Analysis

1% change in currency exchange rate	Increase / (decrease) in profit or loss		Increase / (decrease) in other comprehensive income	
	2018	2017	2018	2017
Pound Sterling	16	1	-	-
Euro	157	69	-	-
USD	-	-	-	-
Other currencies	739	72	-	265

**(iv) Exposure to equity price risks – non-trading portfolios**

**Equity price risk**

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's ALCO. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity, as a result of a change in the fair value of equity instruments held as fair value through profit & Loss at the year end, due to change in equity indices, with all other variables held constant, is as follows:

	Change in Equity price %	Effect on equity 2018	Effect on Equity 2017
<i>Market index</i>			
Qatar Exchange	10%	5,171	4,289

**(e) Operational risks**

Operational Risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank manages its Operational Risk primarily through the Board approved Operational Risk Framework (ORF) consisting of the Operational Risk Policy (ORP) and the Operational Risk Committee (ORC), which has representation across all departments. The Bank utilizes a Basel III compliant approach known as 'Operational Risk Self-Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of normal business activity.

The ORC approves the ORSA every two years and reviews operational risks faced by various functions in the Bank on a regular basis throughout the year to track the status of open risks and pursuing appropriate controls wherever necessary. Furthermore both compliance and internal audit perform independent periodic reviews to assess adequacy of check and controls at any given point in time.

The Bank has a robustly documented Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP). These documents outline the procedures to be followed in a disaster scenario. The BCP aims to establish the level of impact upon the Bank's business activity of having to operate from a different site in the event of an emergency or natural disaster. This includes access to critical computer systems, connectivity to local area network, database servers, internet, intranet and e-mails etc. This is a well-established process and takes place periodically throughout the year. The last Disaster Recovery (DR) test and Business Continuity (BC) was performed on 08 November 2018. The completion of DR & BCP is signed off by all concerned departments to confirm tests were successfully carried out by them as well as a report circulated to all ORC members for their comments and reference. Both the BCP & DR processes were independently audited by external auditors as per QCB requirements and were found to be thorough and well implemented.

Basic firefighting training is provided to staff fire wardens periodically (last performed on 30 December 2018) with the assistance of Civil Defense Authority. An evacuation drill is normally conducted annually as part of safety and security procedures across the branches network.

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

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

	<u>2018</u>	<u>2017</u>
	<b>Basel III</b>	Basel III
Common Equity Tier 1 (CET 1) Capital		
Tier 1 capital	<b>5,290,270</b>	4,845,285
Tier 2 capital	<b>323,917</b>	354,532
Total regulatory capital	<b><u>5,614,187</u></b>	<u>5,199,817</u>
<b>Risk weighted assets</b>		
	<u>2018</u>	<u>2017</u>
	<b>Basel III</b>	Basel III
Risk weighted assets for credit risk	<b>28,824,988</b>	28,813,284
Risk weighted assets for market risk	<b>51,224</b>	40,587
Risk weighted assets for operational risk	<b>1,907,929</b>	1,837,956
Total risk weighted assets	<b><u>30,784,141</u></b>	<u>30,691,827</u>
Regulatory capital	<b><u>5,614,187</u></b>	<u>5,199,817</u>

	CET 1 ratio without capital conservation buffer	CET 1 ratio including capital conservation buffer	Tier 1 capital ratio including capital conservation buffer	Tier 2 capital ratio including capital conservation buffer	Total capital including capital conservation buffer and domestic systematic important bank buffer	Total capital including conservation buffer, domestic systematic important bank buffer and ICAAP Pillar II capital charge
Actual	17.19%	17.19%	17.19%	18.24%	18.24%	18.24%
Minimum limit as per QCB	6.0%	8.50%	10.50%	12.50%	12.50%	13.50%

Had the Group not adopted IFRS 9, total capital adequacy ratio and common equity tier 1 (CET 1) capital adequacy ratio would have been as follows:

	<b>31 December 2018</b>
Common equity tier 1 (CET 1) ratio	<b>18.24%</b>
Total capital adequacy ratio	<b>18.24%</b>

**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) Going concern**

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

**(ii) Allowances for credit losses**

**Policy applicable from 1 January 2018**

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

**Policy applicable upto 31 December 2017**

The Group reviews its individually significant loans, advances and financing activities to customers at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). Furthermore, management complies with all applicable provisions of Qatar Central Bank regulations in this regard.

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

**(iii) Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as volatility, discount rates etc.

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

**(i) Valuation of financial instruments**

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

(i) Valuation of financial instruments (continued)

**Financial instruments measured at fair value – Fair value hierarchy**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
<b>31 December 2018</b>				
Derivative assets held for risk management	-	12,668	-	12,668
Investment securities (FVOCI/FVTPL)	652,434	81,990	-	734,424
	<u>652,434</u>	<u>94,658</u>	-	<u>747,092</u>
Derivative liabilities held for risk management	-	11,035	-	11,035
	<u>-</u>	<u>11,035</u>	-	<u>11,035</u>
<b>31 December 2017</b>				
Derivative assets held for risk management	-	4,578	-	4,578
Investment securities – available-for-sale (IAS 39)	1,481,818	1,427,524	-	2,909,342
	<u>1,481,818</u>	<u>1,432,102</u>	-	<u>2,913,920</u>
Derivative liabilities held for risk management	-	11,458	-	11,458
	<u>-</u>	<u>11,458</u>	-	<u>11,458</u>

During the year ending 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

In 2017, financial investments in level 2 above include Qatar Government Bonds amounting to QAR 283,030 carried at amortised cost which were issued in lieu of sale of certain real estate loss and equity investments listed in Qatar Exchange to the Government of Qatar.

**Financial instruments not measured at fair value**

The following financial instruments which are not measured at fair value are not being included in fair value hierarchy, as carrying amount is a reasonable approximation of fair value, except for investment securities classified as amorised cost which the fair value amounts to QAR 5,101,349 thousands (2017 : QAR 3,173,756 thousands), which is derived using level 1.

The fair value of the following financial instruments approximate their carrying values:

**Financial assets**

Cash and balances with Central Bank  
 Due from banks and other financial institutions  
 Loans, advances and financing activities to customers

**Financial liabilities**

Due to banks and Central Bank and other financial institutions  
 Customer deposits  
 Debt securities  
 Subordinated debt  
 Other borrowings

**5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)**

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

**(i) Valuation of financial instruments (continued)**

**Financial instruments not measured at fair value (continued)**

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to call accounts, demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

**(ii) Financial asset and liability classification**

**Policy applicable for 1 January 2018**

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Refer to note 4(b) for further information.

**Policy applicable up to 31 December 2017**

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as trading, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policies.
- In designating financial assets at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policies.
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policies.

Details of the Group's classification of financial assets and liabilities are given in Note 7.

**(iii) Qualifying hedge relationships**

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

**(iv) Impairment of investments in equity and debt securities**

**Policy applicable from 1 January 2018**

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

**Policy applicable up to 31 December 2017**

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

**(v) Useful lives of property and equipment**

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

**6. OPERATING SEGMENTS**

For management purposes, the Group is organised into two major operating segments:

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Retail and private banking and wealth management

Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities. Private banking and wealth management represents servicing high net worth individuals through a range of investment products, funds, credit facilities, trusts and alternative investments.

Corporate banking, treasury, investments and brokerage subsidiary

Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Group's funding. The brokerage services are offered through the wholly owned subsidiary, Ahli Brokerage Company L.L.C.

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

**QAR '000s**

**6. OPERATING SEGMENTS (CONTINUED)**  
**(i) Information about operating segments**

**2018**

	Retail & private banking and wealth management	Corporate banking, treasury, investments and brokerage	Total
Net interest income	205,383	623,904	829,287
Net fee and commission income	49,430	135,129	184,559
Foreign exchange gain - net	16,166	9,174	25,340
Income from investment securities	-	50,923	50,923
Other operating income	-	11,014	11,014
<b>Total segment revenue</b>	<b>270,979</b>	<b>830,144</b>	<b>1,101,123</b>
Other material non-cash items:			
Impairment losses and provisions	(5,338)	(120,855)	(126,193)
<b>Reportable segment profit before tax</b>	<b>125,945</b>	<b>539,621</b>	<b>665,566</b>
<b>Reportable segment assets</b>	<b>6,547,838</b>	<b>33,855,054</b>	<b>40,402,892</b>
<b>Reportable segment liabilities</b>	<b>11,365,448</b>	<b>23,536,813</b>	<b>34,902,261</b>

\*There is no inter group transactions in the above segmental information.

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

**QAR'000s**

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

2017

	Retail & private banking and wealth management	Corporate banking, treasury, investments and brokerage	Total
Net interest income	196,886	637,557	834,443
Net fee and commission income	50,063	123,550	173,613
Foreign exchange gain – net	16,721	6,524	23,245
Income from investment securities	-	6,627	6,627
Other operating income	-	6,484	6,484
Total segment revenue	263,670	780,742	1,044,412
Other material non-cash items: Impairment losses and provisions	(22,278)	(63,163)	(85,441)
Reportable segment profit before tax	97,847	541,865	639,712
Reportable segment assets	6,248,440	33,634,960	39,883,400
Reportable segment liabilities	10,668,000	23,921,556	34,589,556

\*There is no inter group transactions in the above segmental information.

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

**QAR'000s**

**7. FINANCIAL ASSETS AND LIABILITIES**

**(a) Accounting classifications and fair values**

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

	Fair value through profit or loss		Fair value through other comprehensive income		Amortised cost	Total carrying Amount	Fair value
	Debt instruments	Equity instruments	Debt instruments	Equity instruments			
<b>2018</b>							
Cash and balances with central bank	-	-	-	-	2,405,483	2,405,483	2,405,483
Due from banks	-	-	-	-	4,099,682	4,099,682	4,099,682
Derivative assets	-	12,668	-	-	-	12,668	12,668
Loans and advances to customers	-	-	-	-	27,300,910	27,300,910	27,300,910
Investment securities:							
Measured at fair value	-	118,821	-	599,828	-	734,424	734,424
At amortised cost	-	-	-	-	5,128,065	5,128,065	5,101,349
	-	118,821	12,668	599,828	38,934,140	39,681,232	39,654,516
Derivative liabilities	-	-	11,035	-	-	11,035	11,035
Due to banks and central bank	-	-	-	-	5,729,432	5,729,432	5,729,432
Certificate of deposits and commercial papers	-	-	-	-	495,270	495,270	495,270
Customer deposits	-	-	-	-	21,594,419	21,594,419	21,594,419
Debt securities	-	-	-	-	3,628,605	3,628,605	3,628,605
Other borrowings	-	-	-	-	2,497,516	2,497,516	2,497,516
	-	-	11,035	-	33,945,242	33,956,277	33,956,277

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

**QAR'000s**

**7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

**(a) Accounting classifications and fair values (continued)**

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities (ISA 39):

	Fair value through profit or loss	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2017							
Cash and balances with central bank	-	-	1,979,872	-	-	1,979,872	1,979,872
Due from banks	-	-	-	-	2,202,199	2,202,199	2,202,199
Derivative assets held for risk management	4,578	-	-	-	-	4,578	4,578
Loans and advances to customers	-	-	28,936,299	-	-	28,936,299	28,936,299
Investment securities:							
Measured at fair value	-	-	-	2,909,341	-	2,909,341	2,909,341
Measured at amortised cost	-	3,190,527	-	-	-	3,190,527	3,173,756
	4,578	3,190,527	30,916,171	2,909,341	2,202,199	39,222,816	39,206,045
Derivative liabilities held for risk management	11,458	-	-	-	-	11,458	11,458
Due to banks and central bank	-	-	-	-	3,982,103	3,982,103	3,982,103
Certificate of deposits and commercial paper	-	-	-	-	418,534	418,534	418,534
Customer deposits	-	-	-	-	23,568,578	23,568,578	23,568,578
Debt securities	-	-	-	-	3,624,368	3,624,368	3,624,368
Other borrowings	-	-	-	-	2,192,233	2,192,233	2,192,233
	11,458	-	-	-	33,785,816	33,797,274	33,797,274

**8. CASH AND BALANCES WITH CENTRAL BANK**

	2018	2017
Cash	170,599	132,672
Cash reserve with QCB*	978,021	884,248
Other balances with QCB	1,256,863	962,952
	<u>2,405,483</u>	<u>1,979,872</u>

\*The cash reserve with QCB is mandatory reserve not available for use in the Group's day to day operations.

**9. DUE FROM BANKS**

	2018	2017
Current accounts	25,403	15,799
Placements	4,074,669	2,186,400
Allowance for impairment – IFRS9	(390)	-
	<u>4,099,682</u>	<u>2,202,199</u>

**10. LOANS AND ADVANCES TO CUSTOMERS**

**a) By type**

	2018	2017
Loans	24,535,086	24,815,729
Overdrafts	2,320,116	3,788,569
Bills discounted	670,225	365,034
Reclassified AFS Securities (IAS 39)	-	20,865
Acceptances	325,079	287,817
Other loans	81,539	79,257
	<u>27,932,045</u>	<u>29,357,271</u>
Deferred profit	(2,910)	(4,704)
Allowance for impairment of loans and advances to customers – Performing (Stage 1 and 2)	299,583	50,400
Allowance for impairment of loans and advances to customers – Non performing (Stage 3)	285,574	353,307
Interest in suspense	43,068	62,961
<b>Net loans and advances to customers (Note 10(a)(i))</b>	<u>27,300,910</u>	<u>28,936,299</u>

The aggregate amount of non-performing loans and advances to customers (excluding performing loans under watch list) amounted QAR 470.67 million, which represents 1.69% of total loans and advances to customers (2017: QAR 292.04 million, 0.99% of total loans and advances to customers).

**Note 1**

	2018	2017
Government and related agencies	1,258,512	2,873,379
Corporate	21,803,277	21,094,324
Retail	4,239,121	4,968,596
	<u>27,300,910</u>	<u>28,936,299</u>

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**b) By industry**

**At 31 December 2018:**

	<b>Loans</b>	<b>Overdrafts</b>	<b>Bills discounted</b>	<b>Acceptances</b>	<b>Other loans</b>	<b>Total</b>
Government and related agencies	451,172	807,433	-	-	-	1,258,605
Industry	551,597	52,273	-	14,263	16	618,149
Commercial	10,542,518	983,861	553,395	271,481	6,963	12,358,218
Services	3,500,286	85,522	29,257	4,874	227	3,620,166
Contracting	1,434,319	290,295	87,573	34,461	302	1,846,950
Real estate	5,235,812	74,923	-	-	-	5,310,735
Personal	2,819,382	25,809	-	-	74,031	2,919,222
	<b>24,535,086</b>	<b>2,320,116</b>	<b>670,225</b>	<b>325,079</b>	<b>81,539</b>	<b>27,932,045</b>
Less: deferred profit						(2,910)
Allowance for impairment of loans and advances to customers						(628,225)
						<b>27,300,910</b>

**At 31 December 2017:**

	<b>Loans</b>	<b>Overdrafts</b>	<b>Bills discounted</b>	<b>Reclassified AFS securities</b>	<b>Acceptance</b>	<b>Other loans</b>	<b>Total</b>
Government and related agencies	706,992	2,166,387	-	-	-	-	2,873,379
Industry	609,967	42,235	1,360	20,865	10,860	58	685,345
Commercial	10,810,049	912,649	281,453	-	220,086	1,196	12,225,433
Services	3,052,571	159,473	43,610	-	8,223	238	3,264,115
Contracting	1,610,652	324,185	38,066	-	48,648	332	2,021,883
Real Estate	5,027,342	80,036	-	-	-	2,750	5,110,128
Personal	2,998,156	103,604	545	-	-	74,683	3,176,988
	<b>24,815,729</b>	<b>3,788,569</b>	<b>365,034</b>	<b>20,865</b>	<b>287,817</b>	<b>79,257</b>	<b>29,357,271</b>
Less: deferred profit							(4,704)
Specific impairment of loans and advances to customers							(365,868)
Collective impairment allowance							(50,400)
							<b>28,936,299</b>

**c) Movement in impairment provisions on loans and advances to customers (excluding ECL for customers in Stage 1 and 2)**

	<b>2018</b>	<b>2017</b>
Balance at 1 January	416,268	336,412
Adjustment for IFRS 9	(119,372)	-
Provisions made during the year	202,403	107,452
Recoveries during the year	(24,996)	(27,596)
	<b>474,303</b>	<b>416,268</b>
Written off during the year	(145,661)	-
<b>Balance at 31 December</b>	<b>328,642</b>	<b>416,268</b>

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**c) Movement in impairment provisions on loans and advances to customers (excluding ECL for customers in Stage 1 and 2) (continued)**

The movement includes the effect of interest suspended on loans and advances to customers as per QCB regulations.

	Corporate	Retail	Total
Balance at 1 January 2018	142,979	273,289	416,268
Adjustment for IFRS 9	(68,972)	(50,400)	(119,372)
Provision made during the year	170,107	32,296	202,403
Recoveries during the year	(1,939)	(23,057)	(24,996)
Amounts written off	(8,214)	(137,447)	(145,661)
<b>Balance at 31 December 2018</b>	<b>233,961</b>	<b>94,681</b>	<b>328,642</b>
Balance at 1 January 2017	93,248	243,164	336,412
Provision made during the year	52,044	55,408	107,452
Recoveries during the year	(2,313)	(25,283)	(27,596)
Amounts written off	-	-	-
Balance at 31 December 2017	142,979	273,289	416,268

The above impairment provisions include collective impairment on the Group's loans, advances and financing activities to customers' portfolio for QAR NIL (2017: QAR 50,400 thousands).

Included in the above movement in impairment provisions of loans and advances to customers is an amount of QAR 20,599 thousands (2017: QAR 13,182 thousands) as per the QCB regulations.

**By internal business segment**

	Corporates			Retail			Total		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance at 1 January 2018	68,972	-	74,007	40,307	10,093	222,889	109,279	10,093	296,896
Adjustments as a result of adopting IFRS 9	137,963	51,759	-	-	1,922	-	137,963	53,681	-
Adjusted balance at beginning year	206,935	51,759	74,007	40,307	12,015	222,889	247,242	63,774	296,896
Charge for the year	2,500	43,500	170,107	-	-	32,296	2,500	43,500	202,403
Recoveries during the year	-	-	(1,939)	-	-	(23,057)	-	-	(24,996)
Net impairment losses during the year	2,500	43,500	168,168	-	-	9,239	2,500	43,500	177,407
Adjustments	(122,200)	37,703	-	5,787	21,277	-	116,413	58,980	-
Written off during the year	-	-	(8,214)	-	-	(137,447)	-	-	(145,661)
<b>Balance at 31 December 2018</b>	<b>87,235</b>	<b>132,962</b>	<b>233,961</b>	<b>46,094</b>	<b>33,292</b>	<b>94,681</b>	<b>133,329</b>	<b>166,254</b>	<b>328,642</b>

**11. INVESTMENT SECURITIES**

Investment securities as at 31 December 2018 totaled QAR 5,862,489 thousands (2017: QAR 6,099,869 thousands). The analysis of investment securities is detailed below:

	2018	2017
Investments measured at fair value through profit or loss (FVTPL)	118,821	-
Investments measured at fair value through other comprehensive income (FVOCI)	615,603	-
Investments measured at amortised cost (AC)	5,134,915	-
Available-for-sale	-	3,020,093
Held to maturity	-	3,190,527
Total	5,869,339	6,210,620
Impairment loss	(6,850)	(110,751)
Total	5,862,489	6,099,869

**a) Fair value through profit or loss (FVTPL)**

	2018		2017	
	Quoted	Unquoted	Quoted	Unquoted
Mutual funds and equities	52,605	66,216	-	-
	52,605	66,216	-	-

**b) Fair value through other comprehensive income (FVOCI)**

	2018		2017	
	Quoted	Unquoted	Quoted	Unquoted
State of Qatar debt securities	256,302	-	-	-
Other debt securities	343,526	-	-	-
Equities	-	15,775	-	-
	599,828	15,775	-	-

During the year, the Group recorded dividend of QAR 6,448 thousands on these securities.

**c) Amortised Cost**

State of Qatar debt securities	3,696,720	383,030	-	-
Other debt securities	1,055,165	-	-	-
	4,751,885	383,030	-	-

11. INVESTMENT SECURITIES (CONTINUED)

d) Available-for-sale (IAS 39)	2018		2017	
	Quoted	Unquoted	Quoted	Unquoted
Equities	-	-	82,154	101,489
State of Qatar debt securities/T-Bills	-	-	847,060	1,383,030
Other debt securities	-	-	598,617	-
Mutual funds	-	-	7,743	-
Less: impairment loss	-	-	(53,756)	(56,995)
<b>Total</b>	-	-	1,481,818	1,427,524

e) Held to maturity (IAS 39)	2018		2017	
	Quoted	Unquoted	Quoted	Unquoted
<b>-By issuer</b>				
State of Qatar debt securities	-	-	2,365,706	-
Other debt securities	-	-	824,821	-
<b>Total</b>	-	-	3,190,527	-
<b>-By interest rate</b>				
Fixed rate securities	-	-	3,190,527	-
Floating rate securities	-	-	-	-
<b>Total</b>	-	-	3,190,527	-

**12. PROPERTY AND EQUIPMENT**

<b>Balance at 31 December 2017</b>	<b>Land and building</b>	<b>Leasehold improvements</b>	<b>Furniture and equipment</b>	<b>Motor Vehicles</b>	<b>Capital Work in Progress</b>	<b>Total</b>
<b>Cost</b>						
Balance at 1 January 2017	216,081	88,285	160,411	156	51,593	516,526
Acquisitions / transfers	2,780	5,280	2,220	-	-	10,280
Disposals / write offs	-	(1,522)	-	-	-	(1,522)
<b>Balance at 31 December 2017</b>	<b>218,861</b>	<b>92,043</b>	<b>162,631</b>	<b>156</b>	<b>51,593</b>	<b>525,284</b>
Acquisitions / transfers	162	10,042	4,893	-	-	15,097
Disposals / write offs	(1,932)	(636)	-	-	-	(2,568)
<b>Balance at 31 December 2018</b>	<b>217,091</b>	<b>101,449</b>	<b>167,524</b>	<b>156</b>	<b>51,593</b>	<b>537,813</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2017	41,165	64,002	136,020	153	-	241,340
Depreciation for the year	6,458	6,765	13,568	3	-	26,794
Disposals / write offs	-	(1,458)	-	-	-	(1,458)
<b>Balance at 31 December 2017</b>	<b>47,623</b>	<b>69,309</b>	<b>149,588</b>	<b>156</b>	<b>-</b>	<b>266,676</b>
Depreciation for the year	6,504	8,314	9,363	-	-	24,181
Disposals / write offs	(243)	(636)	-	-	-	(879)
<b>Balance at 31 December 2018</b>	<b>53,884</b>	<b>76,987</b>	<b>158,951</b>	<b>156</b>	<b>-</b>	<b>289,978</b>
<b>Carrying amounts</b>						
Balance at 31 December 2017	171,238	22,734	13,043	-	51,593	258,608
<b>Balance at 31 December 2018</b>	<b>163,207</b>	<b>24,462</b>	<b>8,573</b>	<b>-</b>	<b>51,593</b>	<b>247,835</b>

**13. OTHER ASSETS**

	<b>2018</b>	2017
Interest receivable	<b>271,798</b>	196,587
Profit receivable (Islamic)	<b>3,770</b>	4,451
Prepaid expenses	<b>23,707</b>	25,050
Positive fair value of derivatives (Note 30)	<b>12,668</b>	4,578
Sundry debtors	<b>37,901</b>	32,063
Advances and deposits	<b>1,574</b>	1,855
Repossessed collateral*	<b>132,681</b>	132,681
Others	<b>2,394</b>	9,288
	<b>486,493</b>	406,553

\* This represents the value of the properties acquired in settlement of debts which are stated at their acquisition value. The estimated market values of these properties as at 31 December 2018 are not materially different from the carrying values.

**14. DUE TO BANKS AND CENTRAL BANK**

Ahli Bank Q.P.S.C.  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

**QAR '000s**

	2018	2017
Balances due to central bank	728,524	1,820,513
Current accounts	20,172	14,392
Deposits	4,980,736	2,147,198
	<b>5,729,432</b>	<b>3,982,103</b>

**15. CUSTOMER DEPOSITS**

	2018	2017
<b>a) By type</b>		
Current and call deposits	2,920,387	2,926,163
Saving deposits	1,035,712	1,056,800
Time deposits	17,638,320	19,585,615
	<b>21,594,419</b>	<b>23,568,578</b>
<b>b) By sector</b>		
Government	4,554,142	6,438,149
Government and semi government agencies	2,943,478	3,457,282
Retail	6,725,586	6,559,867
Corporate	7,371,213	7,113,280
	<b>21,594,419</b>	<b>23,568,578</b>

**16. (a) DEBT SECURITIES**

	2018	2017
3.625% Euro Medium Term Note – Maturing in April 2021	1,815,037	1,812,831
3.50% Euro Medium Term Note – Maturing in February 2022	1,813,568	1,811,537
	<b>3,628,605</b>	<b>3,624,368</b>

**16. (b) OTHER BORROWINGS**

	2018	2017
Term loan facilities	2,497,516	2,192,233

The table below shows the other borrowings of the Bank as at 31 December 2018 and 2017:

Currency	Coupon Rate	2018		2017	
		Maturity	Amount	Maturity	Amount
QAR	3 MONTH LIBOR +180 Bps	October 2019	149,716	October 2019	299,433
USD	3 MONTH LIBOR + 140 Bps	September 2019	709,800	September 2019	709,800
USD	3 MONTH LIBOR +100 Bps	June 2020	910,000	June 2020	910,000
USD	3 MONTH LIBOR + 85 Bps	-	-	December 2018	91,000
USD	3 MONTH LIBOR + 95 Bps	-	-	October 2018	182,000
USD	3 MONTH LIBOR + 150 Bps	October 2020	182,000	-	-
USD	3 MONTH LIBOR + 85 Bps	June 2020	182,000	-	-
USD	3 MONTH LIBOR + 100 Bps	December 2020	364,000	-	-
	<b>Total</b>		<b>2,497,516</b>		<b>2,192,233</b>

**17. OTHER LIABILITIES**

	2018	2017
Interest payable	224,070	152,358
Accrued expense payable	83,168	76,299
Other provisions (Refer (i) below)	47,722	44,014
Bills payable	12,376	7,629
Negative fair value of derivatives (Note 30)	11,035	11,458
Unearned income (Commission received in advance)	80,598	92,577
Cash margins	92,435	70,561
Dividend payable	6,994	8,554
QE clients payable	508	567
Social and sports fund	16,639	15,993
Staff pension fund	1,644	1,391
Due in relation to acceptances	325,079	287,817
Others	37,657	34,522
Allowance for impairment for loan commitments and financial guarantees	17,094	-
<b>Total</b>	<b>957,019</b>	<b>803,740</b>

**(i) Other provisions**

	Staff indemnity	Legal provision	Others	Total 2018	Total 2017
Balance at 1 January	43,988	26	-	44,014	40,992
Provisions made/transferred during the year	7,573	500	-	8,073	9,619
	<b>51,561</b>	<b>526</b>	<b>-</b>	<b>52,087</b>	50,611
Provisions paid and written off during the year	(4,365)	-	-	(4,365)	(6,597)
<b>Balance at 31 December</b>	<b>47,196</b>	<b>526</b>	<b>-</b>	<b>47,722</b>	44,014

**18. CAPITAL AND RESERVES**

**(a) Share capital**

	Ordinary shares	
<i>In millions of shares</i>	2018	2017
On issue at the beginning of the reporting year	200.34	190.81
New shares issued (bonus issue)	10.02	9.53
<b>On issue at 31 December</b>	<b>210.36</b>	200.34

At 31 December 2018 the authorised share capital comprised 210.36 million ordinary shares (2017: 200.34 million). These instruments have a par value of QAR 10. All issued shares are fully paid.

**Bonus issue**

On 20 February 2018, the Bank issued bonus shares (ordinary shares) at the rate of one share for every twenty shares held by the ordinary shareholders upon obtaining approval from the shareholders in the Annual General Meeting held on 20 February 2018 .

**18. CAPITAL AND RESERVES (CONTINUED)**

**(b) Legal reserve**

In accordance with Qatar Central Bank's Law No. 13 of 2012 as amended, 10% of the net profit for the year is required to be transferred to legal reserve until the legal reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' Law and is subject to the approval of QCB. In the year ended 31 December 2018, the Group has transferred QAR 66.56 million being 10% of the net profits (2017: QAR 63.97 million).

**(c) Risk reserve**

In accordance with Qatar central Bank circular 102/2011, 2.5% of the net loans and advances to customers is required to be maintained, except for facilities granted to government and facilities against cash collateral. The total amount of the transfer made to the risk reserve was QAR Nil (2017: QAR 21,573 thousands).

**(d) Fair value reserves**

This reserve comprises the fair value changes recognised on available-for-sale financial assets / and the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss

	<i>Available-for-sale investments</i>	
	<i>2018</i>	<i>2017</i>
At 1 January	<b>12,530</b>	11,801
Adoption for IFRS 9 (Note 3(y)(i))	<b>(16,407)</b>	-
Realised during the year	<b>(196)</b>	504
Fair value (losses) during the year	<b>(7,416)</b>	(23,160)
Net amount of impairment transferred to profit or loss	-	23,317
Amortised during the year on reclassification to loans and receivables	-	68
<b>At 31 December</b>	<b>(11,489)</b>	<b>12,530</b>

**(e) Proposed bonus shares and dividend**

A cash dividend of QAR 1 per share amounting to QAR. 210,360 thousands has been proposed by the Board of Directors for the year ended 31 December 2018 (2017: QAR 1 per share amounting to QAR 200,343 thousands).

The Board of Directors have also proposed the issue of bonus shares at the rate of 1 share for every 10 shares held by ordinary shareholders as at 31 December 2018 amounting to QAR. 210,360 thousands (2017: one shares for every twenty shares amounting to QAR 100,171 thousands).

The above proposed cash dividend and issue of bonus shares is subject to the approval of the shareholders in their Annual General Meeting.

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

**QAR '000s**

**19. INTEREST INCOME**

	2018	2017
Balances with Qatar Central Bank	5,403	14,713
Due from banks	46,409	21,375
Debt securities	228,004	235,693
Loans and advances to customers	1,464,822	1,328,015
	<u>1,744,638</u>	<u>1,599,796</u>

The amounts reported above include interest income, calculated using the effective interest method, that relate to the following items:

Financial assets measured at amortised cost /(2017: HTM IAS 39)	1,719,107	1,448,152
Financial assets measured at fair value /(2017: AFS IAS 39)	25,531	151,644
<b>Total</b>	<u>1,744,638</u>	<u>1,599,796</u>

**20. INTEREST EXPENSE**

	2018	2017
Balances with Qatar Central Bank	45,980	25,373
Due to banks	46,442	56,080
Customer deposits	611,987	501,672
Others	210,942	182,228
	<u>915,351</u>	<u>765,353</u>

The amounts reported above include interest expense, calculated using the effective interest method, on financial liabilities at amortised cost.

**21. FEE AND COMMISSION INCOME**

	2018	2017
Credit related fees	97,035	89,350
Brokerage fees	14,230	8,224
Banking services	12,596	8,408
Commission on unfunded facilities	64,170	63,975
Others	3,112	10,230
	<u>191,143</u>	<u>180,817</u>

**22. FOREIGN EXCHANGE GAIN - NET**

	2018	2017
Dealing in foreign currencies	25,319	23,251
Revaluation of assets and liabilities	21	(6)
	<u>25,340</u>	<u>23,245</u>

**23. INCOME FROM INVESTMENT SECURITIES**

	2018	2017
Net gains on investments/ Mark to Market of FVTPL (IFRS9)	44,275	4,017
Dividend income	6,648	2,610
	<u>50,923</u>	<u>6,627</u>

**24. OTHER OPERATING INCOME**

	2018	2017
Rental income	5,649	5,490
Others	5,365	994
	<u>11,014</u>	<u>6,484</u>

**25. STAFF COSTS**

	2018	2017
Basic salaries	76,963	79,130
Staff pension fund costs	3,520	3,404
Staff indemnity costs	7,573	9,619
Training	314	387
Others	84,409	90,154
	<u>172,779</u>	<u>182,694</u>

**26. OTHER EXPENSES**

	2018	2017
Professional fees	7,124	8,363
Communication and insurance	14,682	15,405
Board of directors' remuneration	12,545	12,120
Occupancy and maintenance	15,302	16,521
Computer and IT costs	17,987	21,519
Marketing Expenses	5,104	3,541
Printing and stationary	2,652	2,644
Others	37,008	29,658
	<u>112,404</u>	<u>109,771</u>

**27. BASIC AND DILUTED 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:

	2018	2017
Profit for the year attributable to the equity holders of the Bank - QAR '000	665,566	639,712
Weighted average number of outstanding shares	<u>210,360,434</u>	210,360,434
<b>Basic and Diluted Earnings per share (QAR)</b>	<u>3.16</u>	3.04

\*There were no potentially dilutive shares outstanding at any time during the year, therefore, the diluted earnings per share is equal to the basic earnings per share.

**The weighted average number of shares (2017 adjusted) have been calculated as follows:**

	2018	2017
Weighted average number of shares at 1 January	200,343,271	200,343,271
Bonus shares issued on 20 February 2018	<u>10,017,163</u>	10,017,163
Weighted average number of shares at 31 December	<u>210,360,434</u>	210,360,434

**28. CONTINGENT LIABILITIES AND OTHER COMMITMENTS**

	2018	2017
<b>a) Contingent liabilities</b>		
Unutilized facilities-cancellable and non cancellable	11,048,219	9,408,427
Guarantees	8,397,869	8,238,506
Letters of credit	646,477	777,902
	<u>20,092,565</u>	<u>18,424,835</u>
	2018	2017
<b>b) Other commitments</b>		
Forward foreign exchange contracts	2,069,418	1,066,379
Interest rate swaps	841,680	918,960
<b>Total</b>	<u>2,911,098</u>	<u>1,985,339</u>

**Unused facilities**

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash requirements.

**Guarantees and Letters of credit**

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credits, advance payment guarantees and endorsements liabilities from bills rediscounted.

**29. CASH AND CASH EQUIVALENTS**

	2018	2017
Cash and balances with banks	474,865	227,422
Money market placements	5,052,669	3,070,400
	<u>5,527,534</u>	<u>3,297,822</u>

\*Cash and balances with central bank do not include the mandatory cash reserve.

**Ahli Bank Q.P.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2018**

QAR '000s

**30. DERIVATIVES**

	Positive fair value	Negative fair value	Notional amount	Notional / expected amount by term to maturity				
				Within 3 months	3 - 12 months	1-5 Years	More than 5 years	
<b>At 31 December 2018:</b>								
<b>Derivatives held for trading/fair value hedges:</b>								
Forward foreign exchange contracts	10,078	10,875	2,069,418	1,630,129	439,036	253	-	-
Interest rate swaps	2,590	160	841,680	-	113,680	728,000	-	-
<b>Total</b>	<b>12,668</b>	<b>11,035</b>	<b>2,911,098</b>	<b>1,630,129</b>	<b>552,716</b>	<b>728,253</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2017:</b>								
<b>Derivatives held for trading/fair value hedges:</b>								
Forward foreign exchange contracts	4,578	3,070	1,066,379	343,995	722,384	-	-	-
Interest rate swaps	-	8,388	918,960	-	-	918,960	-	-
<b>Total</b>	<b>4,578</b>	<b>11,458</b>	<b>1,985,339</b>	<b>343,995</b>	<b>722,384</b>	<b>918,960</b>	<b>-</b>	<b>-</b>

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

### 30. DERIVATIVES (CONTINUED)

#### Derivative product types

Forwards exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards exchange contracts are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

#### Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

#### Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall consolidated statement of financial position exposures.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the interest rate risk arising from specifically identified fixed rate exposures. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate liabilities. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges. Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

### 31. FIDUCIARY ACTIVITIES

The Group provides investment brokerage and custody services to customers. Those assets that are held in a fiduciary capacity are excluded from these consolidated financial statements and amount to QAR 192,307 thousands at 31 December 2018 (2017: QAR 225,886 thousands).

### 32. SOCIAL AND SPORTS FUND

During the year, the Group made an appropriation of QAR 16,639 thousands (31 December 2017: QAR 15,993 thousands) representing 2.5% of the net profit for the year ended 31 December 2018, pursuant to the Law No.13 of 2008 and further clarifications for the Law issued in 2010.

### 33. 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 entities over which the Group exercises significant influence, major shareholders, directors and key management personnel of the Group.

The Group enters into transactions with major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled, or significantly influenced by such parties. All the loans, advances and financing activities to related parties are given at market rates and these are performing and free of any allowance for possible credit losses

**33. RELATED PARTIES (CONTINUED)**

The balances of related parties included in the consolidated financial statements are as follows:

	2018		2017	
	Board of directors	Shareholders	Board of directors	Shareholders
<b>Assets:</b>				
Loans and advances to customers	773,220	-	776,274	-
<b>Liabilities:</b>				
Customer deposits	2,163,487	1,792,219	540,477	3,760,193
<b>Unfunded items:</b>				
Letters of guarantee, letters of credit, commitments and indirect credit facilities	15,099	-	12,022	-
<b>Income statement items:</b>				
Interest and fee and commission income	42,449	-	34,747	-
Interest and fee and commission expense	59,101	46,215	10,372	53,255
Board of Directors' remuneration	12,545	-	12,120	-

**a) Transactions with key management personnel**

Key management personnel (other than Board of Directors) and their immediate relatives have transacted with the Group during the year as follows:

	<b>2018</b>	2017
Other loans	<b>4,611</b>	4,709
Key management personnel compensation for the year ended comprised:		
	<b>2018</b>	2017
Salaries and short term employee benefits	<b>18,571</b>	18,976
Post employment benefits	<b>8,143</b>	8,474
	<b>26,714</b>	27,450

34 FINANCIAL STATEMENTS OF THE PARENT BANK

a) Statement of Financial Position – Parent Bank

	2018	2017
<b>As at 31 December</b>		
<b>ASSETS</b>		
Cash and balances with central bank	2,405,482	1,979,871
Due from banks	4,099,682	2,202,199
Loans and advances to customers	27,300,910	28,936,299
Investment securities	5,862,489	6,099,869
Investment in subsidiary	50,000	50,000
Property and equipment	247,189	258,206
Other assets	486,342	405,029
<b>TOTAL ASSETS</b>	<b>40,452,094</b>	<b>39,931,473</b>
<b>LIABILITIES</b>		
Due to banks and central bank	5,729,432	3,982,103
Certificate of deposits and commercial paper	495,270	418,534
Customer deposits	21,640,820	23,604,888
Debt securities	3,628,605	3,624,368
Other borrowings	2,497,516	2,192,233
Other liabilities	950,165	802,816
<b>TOTAL LIABILITIES</b>	<b>34,941,808</b>	<b>34,624,942</b>
<b>EQUITY</b>		
Share capital	2,103,604	2,003,433
Legal reserve	1,655,936	1,589,767
Risk reserve	631,078	631,078
Fair value reserve	(11,489)	12,365
Retained earnings	1,131,157	1,069,888
<b>TOTAL EQUITY</b>	<b>5,510,286</b>	<b>5,306,531</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>40,452,094</b>	<b>39,931,473</b>

34 FINANCIAL STATEMENTS OF PARENT BANK (CONTINUED)

b) Income Statement – Parent Bank

	2018	2017
<b>For the year ended 31 December</b>		
Interest income	1,744,480	1,599,796
Interest expense	<u>(916,030)</u>	<u>(766,360)</u>
<b>Net interest income</b>	<u><b>828,450</b></u>	<u>833,436</u>
<b>Net fee and commission income</b>	<u><b>170,935</b></u>	<u>165,515</u>
Foreign exchange gain - net	25,340	23,245
Income from investment securities	50,923	6,627
Other operating income	<u>11,014</u>	<u>6,484</u>
<b>Net operating income</b>	<b>1,086,122</b>	1,035,307
Staff costs	(169,872)	(180,208)
Depreciation	(23,916)	(26,440)
Impairment loss on loans and advances to customers	(126,193)	(66,674)
Net impairment losses on investment securities	-	(18,767)
Other expenses	<u>(103,687)</u>	<u>(104,270)</u>
<b>Profit for the year</b>	<u><b>662,456</b></u>	<u>638,948</u>