

Qatar International Islamic Bank (Q.S.C)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Qatar International Islamic Bank ("QIIB" or the "Bank"), and its subsidiary (together referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of changes in shareholders' 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.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibility under those standards are further described in the Auditors' 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 of Accountants' Code 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. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Impairment of financing assets

There is a potential risk that financing assets are incorrectly measured, as this requires the management to make complex and subjective judgements. The QCB regulations requires the Group to estimate impairment allowance in accordance with IFRS and applicable provisions of QCB regulations. The Group makes an estimation of impairment allowance, when there is an objective evidence of impairment and the allowance is measured as the difference between the present value of estimated future cash flows and the carrying amount of the financing assets in accordance with the requirements of IFRS and the applicable provisions of QCB regulations.

This is considered a key audit matter, due to the significance of financing assets, subjectivity in identifying impairment indicators and estimation uncertainty in measuring impairment loss.

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

Key audit matters (continued)

Impairment of financing assets (continued)

Our procedures included selecting samples of financing assets based on our judgement and considering whether there is objective evidence (deterioration in credit quality, insolvency and default etc.) that impairment exists on these financing assets. We also assessed whether impairment losses for financing assets were determined in accordance with the requirements of IFRS and applicable provisions of QCB regulations. In addition, we considered, assessed and tested the relevant controls over financing assets relating to granting, booking, monitoring and settlement, and those relating to the calculation of impairment allowances to confirm the operating effectiveness of the key controls in place, which identify the impaired financing assets and the required provisions against them. The details relating to the impairment on financing assets is provided in Note 10 to the consolidated financial statements.

Impairment of Investment securities

There is a potential risk that investment securities are impaired and impairment losses is not provided for in accordance with the related IFRS as required by AAOIFI Standards and the applicable provisions of QCB regulations.

The group is required under the requirements of the standards to carry out an assessment at each reporting date whether an objective evidence exists that an investment or group of investment is impaired. The objective evidence for fair value through equity would include a significant or prolonged decline in the fair value of the investment below its cost. In case of debt-type investments, an impairment loss is recognized, if there is an objective evidence due to significant credit deterioration.

The impairment of investment securities is treated as a key audit matter due to the subjectivity in assessment of impairment indicators such as significant or prolonged decline in fair value, use of estimations and assumptions in measuring impairment losses, and the magnitude of the account balance.

Our procedures included, amongst others, selecting a sample of investment securities based on our judgement and checking whether there is objective evidence that impairment exists on these investment securities. We also reviewed the management's impairment assessment on investment securities for both equity and debt type securities. We recalculated the amount of impairment losses required for impaired investment securities and assessed whether they had been provided for in accordance with the requirements of AAOIFI Standards, IFRS and applicable provisions of QCB regulations. Refer to note 11 to the consolidated financial statements.

Other information

The Board of Directors is responsible for the other information. Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our Auditors' report thereon. The annual report is expected to be made available to us after the date of this audit report.

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 when it becomes available 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.

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

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 Financial Accounting Standards issued by AAOIFI and for the applicable provisions of the QCB regulations, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, 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 Group Board of Directors and Audit, Compliance and Governance Committee are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

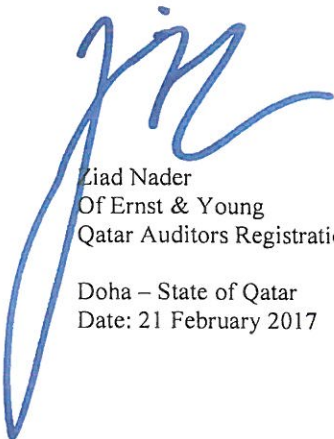
We communicate with the Group Board Audit, Compliance and Governance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

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

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

Report on other legal and regulatory requirements

We have obtained all the information and explanations, which we considered necessary for the purpose of our audit. We confirm that we are not aware of any contraventions by the Bank of its Articles of Association, the applicable provisions of Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015, during the financial year that would materially affect its activities or its financial position. The Group has also complied with the Islamic Sharia's Rules and Principles as determined by the Sharia's Supervisory Board of the Group.



Liad Nader
Of Ernst & Young
Qatar Auditors Registration No. 258

Doha – State of Qatar
Date: 21 February 2017

Qatar International Islamic Bank (Q.S.C)

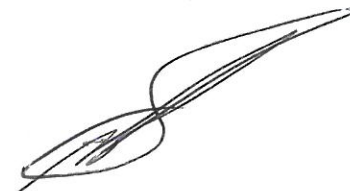
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 QR'000	2015 QR'000
Assets			
Cash and balances with Qatar Central Bank	8	2,037,951	1,919,039
Due from banks	9	3,771,169	4,612,256
Financing assets	10	27,233,326	24,978,073
Investment securities	11	7,374,908	7,043,423
Investment in associates	12	336,544	348,758
Investment properties	13	430,590	434,640
Fixed assets	14	680,618	673,175
Intangible assets	15	18,283	16,589
Other assets	16	667,571	514,092
Total assets		42,550,960	40,540,045
Liabilities, equity of unrestricted investment account holders and equity			
Liabilities			
Due to banks and financial institutions	17	6,039,310	4,986,561
Customers' current accounts	18	6,219,923	6,585,877
Sukuk financing	19	2,547,587	2,545,751
Other liabilities	20	646,995	814,710
Total liabilities		15,453,815	14,932,899
Equity of unrestricted investment account holders	21	20,420,115	20,078,034
Equity			
Share capital	22 (a)	1,513,687	1,513,687
Legal reserve	22 (b)	2,452,360	2,452,360
Risk reserve	22 (c)	572,152	548,401
Fair value reserve	22 (d)	13,036	1,877
Other reserves	22 (e)	84,796	84,477
Proposed cash dividends	22 (f)	605,476	605,476
Retained earnings		435,523	322,834
Total equity attributable to shareholders of the Bank		5,677,030	5,529,112
Sukuk eligible as additional capital	23	1,000,000	-
Total equity		6,677,030	5,529,112
Total liabilities, equity of unrestricted investment account holders and equity		42,550,960	40,540,045

These consolidated financial statements were approved by the Board of Directors on 25 January 2017 and were signed on its behalf by:


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


 Abdulbasit Ahmad Abdulrahman Al Shaibei
 Chief Executive Officer

The attached notes from 1 to 39 form an integral part of these consolidated financial statements



Qatar International Islamic Bank (Q.S.C)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2016

	<i>Notes</i>	2016 QR'000	2015 QR'000
Income from financing activities	24	1,261,932	1,135,637
Net income from investing activities	25	306,894	310,869
Total net income from financing and investing activities		1,568,826	1,446,506
Fee and commission income		160,586	159,833
Fee and commission expense		(42,939)	(33,008)
Net fee and commission income	26	117,647	126,825
Net foreign exchange gains	27	41,232	15,537
Share of results of investment in associates	12	(12,214)	1,244
Total income		1,715,491	1,590,112
Staff costs	28	(157,492)	(165,838)
Depreciation and amortisation	13,14&15	(18,106)	(15,495)
Finance expenses		(145,586)	(110,405)
Other expenses	29	(129,556)	(125,852)
Total expenses		(450,740)	(417,590)
Impairment losses on investment securities	11	-	(13,919)
Net impairment losses on financing assets	10	(116,820)	(100,818)
Impairment losses on investment in associate	12	-	(3,717)
Foreign exchange losses on translation of investment in associates	12	-	(853)
Net profit for the year before return to unrestricted investment account holders		1,147,931	1,053,215
Share of unrestricted investment account holders of profit	21	(363,160)	(269,063)
Net profit for the year		784,771	784,152
Earnings per share			
Basic and diluted earnings per share (QR per share)	33	5.18	5.18

The attached notes from 1 to 39 form an integral part of these consolidated financial statements

Qatar International Islamic Bank (Q.S.C)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Notes	Share capital QR'000	Legal reserve QR'000	Risk reserve QR'000	Fair value reserve QR'000	Other reserves QR'000	Proposed cash dividends QR'000	Retained earnings QR'000	Total equity attributable to holders of the Bank QR'000	Sukuk eligible as additional capital QR'000	Total QR'000
Balance at 1 January 2016		1,513,687	2,452,360	548,401	1,877	84,477	605,476	322,834	5,529,112	-	5,529,112
Fair value reserve movement		-	-	-	11,159	-	-	-	11,159	-	11,159
Net profit for the year		-	-	-	-	-	-	784,771	784,771	-	784,771
Total recognised income and expenses for the year		-	-	-	11,159	-	-	784,771	795,930	-	795,930
Cash dividends paid to shareholders	22(f)	-	-	-	-	-	(605,476)	-	(605,476)	-	(605,476)
Net movement in other reserves	22(e)	-	-	-	-	319	-	(319)	-	-	-
Proposed cash dividends	22(f)	-	-	-	-	-	605,476	(605,476)	-	-	-
Social and Sports Fund appropriation	38	-	-	-	-	-	-	(19,619)	(19,619)	-	(19,619)
Transfer to risk reserve	22(c)	-	-	23,751	-	-	-	(23,751)	-	-	-
Sukuk eligible as additional capital	23	-	-	-	-	-	-	-	-	1,000,000	1000,000
Dividend Appropriation to Sukuk eligible as additional capital	23	-	-	-	-	-	-	(22,917)	(22,917)	-	(22,917)
Balance at 31 December 2016		1,513,687	2,452,360	572,152	13,036	84,796	605,476	435,523	5,677,030	1,000,000	6,677,030

The attached notes from 1 to 39 form an integral part of these consolidated financial statements

Qatar International Islamic Bank (Q.S.C)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

	<i>Notes</i>	<i>Share capital QR'000</i>	<i>Legal reserve QR'000</i>	<i>Risk reserve QR'000</i>	<i>Fair value reserve QR'000</i>	<i>Other reserves QR'000</i>	<i>Proposed cash dividends QR'000</i>	<i>Retained earnings QR'000</i>	<i>Total QR'000</i>
Balance at 1 January 2015		<u>1,513,687</u>	<u>2,452,360</u>	<u>474,751</u>	<u>-</u>	<u>84,882</u>	<u>605,476</u>	<u>237,007</u>	<u>5,368,163</u>
Fair value reserve movement		-	-	-	1,877	-	-	-	1,877
Net profit for the year		-	-	-	-	-	-	784,152	784,152
Total recognised income and expenses for the year		-	-	-	1,877	-	-	784,152	786,029
Cash dividends paid to shareholders	22(f)	-	-	-	-	-	(605,476)	-	(605,476)
Net movement in other reserves	22(e)	-	-	-	-	(405)	-	405	-
Proposed cash dividends	22(f)	-	-	-	-	-	605,476	(605,476)	-
Social and Sports Fund appropriation	38	-	-	-	-	-	-	(19,604)	(19,604)
Transfer to risk reserve	22(c)	-	-	73,650	-	-	-	(73,650)	-
Balance at 31 December 2015		<u>1,513,687</u>	<u>2,452,360</u>	<u>548,401</u>	<u>1,877</u>	<u>84,477</u>	<u>605,476</u>	<u>322,834</u>	<u>5,529,112</u>

The attached notes from 1 to 39 form an integral part of these consolidated financial statements

Qatar International Islamic Bank (Q.S.C)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	<i>Notes</i>	2016 QR'000	2015 QR'000
Cash flows from operating activities			
Net profit for the year		784,771	784,152
<i>Adjustments for:</i>			
Net impairment losses on financing assets	10	116,820	100,818
Impairment losses on investment securities	11	-	13,919
Impairment losses on investment in associate	12	-	3,717
Foreign exchange losses on translation of investment in associate	12	-	853
Depreciation and amortisation	13,14&15	18,106	15,495
Net (gain) loss on sale of investments securities	25	(16,839)	5,281
Dividends income	25	(2,991)	(2,936)
Share of results of associates	12	12,214	(1,244)
Sukuk amortisation		1,836	1,836
Employees' end of service benefits	20	3,266	8,056
Net gain on disposal of investment property		-	(67,687)
Net gain on disposal of fixed assets		-	(124)
Profit before changes in operating assets and liabilities		917,183	862,136
Working capital changes:			
Cash reserve with Qatar Central Bank		8,291	(153,819)
Due from banks		273,933	208,476
Financing assets		(2,372,074)	(3,239,611)
Other assets		(153,479)	(63,111)
Due to banks and financial institutions		1,052,749	1,647,846
Customers' current accounts		(365,954)	370,172
Other liabilities		(209,289)	282,212
Employees' end of service benefits paid	20	(4,229)	(3,483)
Net cash flows used in operating activities		(852,869)	(89,182)
Cash flows from investing activities			
Acquisition of investment securities		(1,966,048)	(5,167,309)
Proceeds from sale of investment securities		1,681,078	3,706,423
Acquisition of fixed assets	14	(17,013)	(166,451)
Proceeds from sale of fixed assets		-	203
Acquisition of intangible assets	15	(6,187)	(3,462)
Dividends received from associate company	12	-	3,254
Proceeds from sale of investment property		-	115,372
Dividends income	25	2,991	2,936
Net cash flows used in investing activities		(305,179)	(1,509,034)
Cash flows from financing activities			
Change in equity of unrestricted investment account holders		323,573	(346,676)
Cash dividends paid to shareholders		(605,476)	(605,476)
Proceeds from issuance of sukuk eligible as additional capital		1,000,000	-
Net cash flows generated from (used in) financing activities		718,097	(952,152)
Net decrease in cash and cash equivalents		(439,951)	(2,550,368)
Cash and cash equivalents at 1 January		2,987,164	5,537,532
Cash and cash equivalents at 31 December	34	2,547,213	2,987,164

The attached notes from 1 to 39 form an integral part of these consolidated financial statements

Qatar International Islamic Bank (Q.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 REPORTING ENTITY

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

The commercial registration number of the Bank is 13023. The address of the Bank’s registered office is Doha, State of Qatar, P.O.Box 664. The consolidated financial statements of the Bank for the year ended 31 December 2016 comprise the Bank and its following special purpose entity:

	<i>Country of incorporation</i>	<i>Capital QR’000</i>	<i>Principal Business Activities</i>	<i>Effective percentage of ownership</i>	
				<i>2016</i>	<i>2015</i>
QIIB Sukuk Ltd (i)	Cayman Islands	-	Sukuk issuance	-	-

Note:

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

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 25 January 2017.

2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”), the Islamic Shari’a Rules and Principles as determined by the Shari’a Supervisory Board of the Group, the applicable provisions of Qatar Central Bank (“QCB”) regulations and the applicable provisions of the Qatar Commercial Company’s Law No. 11 of 2015. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

(b) Basis of measurement

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

(c) Functional and presentation currency

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

2 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Special purpose entities

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

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

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

(b) Investment in associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of the investee, but not to control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Investment in associates (continued)

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

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

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

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

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

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

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

(c) Foreign currency

Foreign currency transactions and balances

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment securities

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

(i) Classification

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

Debt-type instruments

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

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

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

Equity-type instruments

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

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

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

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

Initial recognition

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment securities (continued)

(iii) Measurement (continued)

Subsequent measurement

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

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

(e) Financing assets

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

Murabaha and Musawama

Murabaha and Musawama receivables are sales on deferred terms. The Group arranges a Murabaha and Musawama transaction by buying a commodity (which represents the object of the Murabaha) and selling it to the Murabaha (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in installments by the Murabaha over the agreed period. Murabaha and Musawama receivables are stated net of deferred profits and impairment allowance (if any).

Based on QCB regulations, the Group applies the rule of binding the purchase orderer to its promise in the Murabaha sale, and not enters into any Murabaha transaction in which the purchase orderer does not undertake to accept the goods if they meet the specifications.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financing assets (continued)

Mudaraba and Musharaka

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

Ijarah Muntahia Bittamleek

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

Istisna'a

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

Wakala

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

(f) Other financial assets and liabilities

(i) Recognition and initial measurement

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

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

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

(ii) De-recognition of financial assets and financial liabilities

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Other financial assets and liabilities (continued)

(ii) De-recognition of financial assets and financial liabilities (continued)

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

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

(iii) Offsetting

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

(g) Impairment of financial assets

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

Equity-type investments classified as fair value through equity

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

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

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated statement of income and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income, to the extent of previously recognised impairment losses. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Financial assets that are not individually significant are collectively assessed for impairment by grouping assets together with similar risk characteristics.

(h) Cash and cash equivalents

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment property

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

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

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

(j) Fixed assets

(i) Recognition and measurement

Items of fixed assets are measured at cost less accumulated depreciation and impairment losses.

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

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

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

(ii) Subsequent costs

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

Depreciation is recognised in consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of fixed assets since this closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value.

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

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

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

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

Renewals and improvement expenses concerning the Bank's rented building are amortized during the estimated life, or to the end of leasing contract, whichever is earlier.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

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

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

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

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

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

(l) Impairment of non-financial assets

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of non-financial assets (continued)

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

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

(m) Customer current accounts

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

(n) Equity of unrestricted investment account holders

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

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

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

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

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

(p) Sukuk financing

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Provisions

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

(r) Restructuring

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

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Employees' end of service benefits

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

(t) Share capital and reserves

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

(u) Revenue recognition

Murabaha and Musawama

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

Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas losses are charged to the consolidated statement of income on declaration by the Mudarib.

In case Mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Group. In case of termination or liquidation, unpaid portion by Mudarib is recognized as receivable due from Mudarib.

Musharaka

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

Ijara Muntahia Bittamleek

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

Wakala

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Revenue recognition (continued)

Istisn'a

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

Income from investment banking services

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

Fees and commission income

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

Dividend income

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

(v) Earnings per share

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

(w) Segment reporting

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

(x) Earnings prohibited by Shari'a

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

(y) Wakala payables

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Financial guarantees

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

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

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

(aa) Contingent liabilities

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

(ab) Comparatives

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

(ac) New standards and interpretations

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

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

FAS 27 updates and replaces previous accounting standards relating to investment accounts – FAS 5: Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Account Holders as well as FAS 6: Equity of Investment Account Holders and Their Equivalent. This standard applies to investment accounts based on Mudaraba contracts which represent "equity of Investment accountholders and on Mudaraba contracts that are placed on "short-term basis" (overnight, seven days, one month basis) by other financial institutions as "interbank-bank deposits" for the purpose of liquidity Management. However, it is not applicable to own equity instruments, Wakala contracts, Reverse murabaha, Musharaka or sukuk.

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

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

International Financial Reporting Standard No. 9 (IFRS 9): Financial Instruments The final version of IFRS 9 was issued in July 2014, replacing the earlier versions of introducing new Classification and measurement requirements (issued in 2009 and 2010) and a new hedge accounting model (Issued in 2013) and has an effective date of 1 January 2018. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of Financial assets and Financial Liabilities, a new model based on expected credit losses for recognising loan loss Provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an Entity's risk management methodology.

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

4 FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

Financial instruments

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

Risk management

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

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

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

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

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

Risk management framework

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

The Board has established various specialized committees that report directly to it and perform functions on its behalf to support efficient management practice which mainly include "Policies and Development Committee", "Executive Committee", "Risks Committee", "Nominations, Remunerations and Compensations Committee" and "Audit, Compliance and Governance Committee".

Policies and Development Committee

The membership of the committee includes five members, three of them are members of the Board of Directors, and two of them are from the senior management of the Bank. Term of membership of this committee is a maximum of three years or the mandate of the Board whichever is earlier, provided the Board have the right to reformulate the committee according to the interest of the Bank.

This committee is responsible for studying, preparing, and developing the Bank's strategies and objectives. It shall also supervise different policies, systems, plans, and balances of the Bank and approve them. Besides, it is also responsible for evaluating and developing such policies and their application procedures according to Bank's objectives, financial and Bank national and international developments, as well as rules, systems, and instructions of Qatar Central Bank.

The committee holds their ordinary meetings at least once every three months according to a request from its head and it is allowed to the committee to hold exceptional sessions according to the head's request.

The Executive Committee

The committee includes five members, four of whom are Board members and Bank' Chief Executive Officer. Heads of Bank's units shall attend meetings of this committee if necessary without any right to participate in the vote.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Introduction and overview (continued)

The Executive Committee (continued)

The committee performs tasks authorized to it from the Board including granting credit to the committee, renewing, and following it besides, investment resolution and capital employment in excess of powers of executive management according to powers authorized by board. The committee studies reports of executive management, investigates its commitment to achieve stipulated objectives, studying reasons behind deviation from objectives, and suggests recommendations to correct such deviations.

The committee holds its ordinary meetings at least once every three months according to a request from its head and it is allowed to the committee in urgent cases to hold exceptional sessions according to the head's request. It is allowed also to issue a decision in urgent cases and to be registered in the minute of the committee's first meeting following date of these decisions.

Risks Committee

The committee includes five members, three of whom are Board members and two are from senior management of Bank. Head of the committee and his deputy are Board members. This committee is responsible for supervising sector of credit and operations risks. It is also responsible for creating effective system for risks management, update, and develop such system to include strategy and policies of risks management in Bank and evaluating it periodically to ensure that it is suitable with changes happened to Bank's market, as well as revising reports submitted to it by risks sector regarding risks of operations, credit, and market.

The committee ensures application of policies, procedures, recommendations, and requirements of Qatar Central Bank. It also ensures that bank's risk management monitors all of risks elements and assets portfolio as well as making sure that needed requirements for preparing studies and credit analysis being applied accurately and regularly.

The committee holds its ordinary meetings periodically once every three months according to a request from its head and it is allowed to the committee in urgent cases to hold exceptional sessions according to the head's request. It is allowed to hold meeting by vote if there is a problem in holding, but at least four members should agree include head of committee and Board member and this should be registered in the minute of the committee's first meeting following date of these decisions.

Nominations, Remunerations and Compensations Committee

This committee has three members, who are directors including the Chief Executive Officer. The chairman will be appointed by the Board of Directors. The term of the members of the nominations, remunerations and compensations committee is three years maximum or the term of the board, whichever is shorter. The Board of Directors may re-form the committee as it may consider in the best interest of the Bank.

The committee will monitor and ensure the transparent nomination, renewal and substitution of directors, the Chief Executive Officer and the members of the Shariah Control Authority, assess the extent of effectiveness of the Board of Directors as a whole and the efficiency of each director individually. It will assess the efficiency of the members of the Shariah Control Authority as a whole and individually and will assess the performance and efficiency of the executive officers of the Bank. The Committee will supervise the remunerations, compensations and benefits policies and practices of the senior and executive management and all the applicable jobs, ensure their compliance with the instructions of the supervisory authorities, observe the interest of the Bank and of the shareholders and ensure these policies and Practices are consistent with the best banking and governance practices. The committee will hold its ordinary meetings periodically every three months or upon invitation by its chairman, as needed, or to consider such issues as received by the committee.

In accordance with international governance practices, a new policy and strategic plan are currently being prepared, on the basis of which the management and employees' incentives program will be linked to the long term success and strategy of the Bank.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Introduction and overview (continued)

Audit, Compliance and Governance Committee

The committee includes three Board members and head of committee is assigned by Board of Directors. Tasks of audit committee has been modified starting from 2011 to include in addition to its current tasks, governance, compliance, anti money laundry and terrorism finance.

The Committee plays effective role in auditing Bank's affairs in all sectors among powers authorized to each sector. It makes sure that employees perform and apply policies, procedures, and decisions approved from the Board as well as policies and instructions of Qatar Central Bank. The committee supervises internal and external audit, assessment of performance and risks, supervising all affairs of governance and commitment management as well as anti money laundry and terrorism finance.

(b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset will fail to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing assets, due from banks, investment securities and certain other assets.

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 collaterals obtained are as follows:

- For securities lending, cash or securities.
- For commercial and corporate lending, mortgages over real estate properties, inventory, cash and securities.
- For rental lending, mortgages over residential properties and securities.

Management monitors the market value of collaterals.

The Bank also obtains corporate guarantees from parent companies for receivables and balances from financing activities to their subsidiaries.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)****(i) Maximum exposure to credit risk before collateral held or other credit enhancements**

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

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Balances with Qatar Central Bank	1,743,325	1,666,482
Due from banks	3,771,169	4,612,256
Financing assets	27,233,326	24,978,073
Investment securities	7,196,719	6,862,331
Other assets	586,336	444,876
	<u>40,530,875</u>	<u>38,564,018</u>
Other credit risk exposures:		
Unutilised financing facilities	4,989,753	5,313,398
Guarantees	3,552,993	3,410,784
Letters of credit	344,008	626,337
Acceptances	-	35,703
Others	9,075	7,215
	<u>8,895,829</u>	<u>9,393,437</u>

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

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

At 31 December 2016

4 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)****(ii) Concentration of risks of financial assets with credit risk exposure****Geographical sectors**

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

2016

Assets recorded on the consolidated statement of financial position:	<i>Qatar</i> <i>QR'000</i>	<i>Other</i> <i>GCC</i> <i>QR'000</i>	<i>Other</i> <i>Middle</i> <i>East</i> <i>QR'000</i>	<i>Others</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Balances with Qatar Central Bank	1,743,325	-	-	-	1,743,325
Due from banks	3,320,924	205,022	4,829	240,394	3,771,169
Financing assets	26,342,651	-	-	890,675	27,233,326
Investment securities	6,669,026	362,089	-	165,604	7,196,719
Other assets	586,336	-	-	-	586,336
	<u>38,662,262</u>	<u>567,111</u>	<u>4,829</u>	<u>1,296,673</u>	<u>40,530,875</u>

2015

Assets recorded on the consolidated statement of financial position:	<i>Qatar</i> <i>QR'000</i>	<i>Other</i> <i>GCC</i> <i>QR'000</i>	<i>Other</i> <i>Middle</i> <i>East</i> <i>QR'000</i>	<i>Others</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Balances with Qatar Central Bank	1,666,482	-	-	-	1,666,482
Due from banks	4,354,096	48,018	3,280	206,862	4,612,256
Financing assets	24,087,339	-	-	890,734	24,978,073
Investment securities	6,421,718	262,234	-	178,379	6,862,331
Other assets	444,876	-	-	-	444,876
	<u>36,974,511</u>	<u>310,252</u>	<u>3,280</u>	<u>1,275,975</u>	<u>38,564,018</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

<i>Off balance sheet items</i>			<i>Other</i>		
<i>2016</i>	<i>Qatar</i>	<i>Other</i>	<i>Middle</i>	<i>Others</i>	<i>Total</i>
	<i>QR'000</i>	<i>GCC</i>	<i>East</i>	<i>QR'000</i>	<i>QR'000</i>
		<i>QR'000</i>	<i>QR'000</i>		
Unutilised financing facilities	4,989,753	-	-	-	4,989,753
Guarantees	3,552,993	-	-	-	3,552,993
Letters of credit	344,008	-	-	-	344,008
Acceptances	-	-	-	-	-
Others	9,075	-	-	-	9,075
	8,895,829	-	-	-	8,895,829
<i>2015</i>	<i>Qatar</i>	<i>Other</i>	<i>Middle</i>	<i>Others</i>	<i>Total</i>
	<i>QR'000</i>	<i>GCC</i>	<i>East</i>	<i>QR'000</i>	<i>QR'000</i>
		<i>QR'000</i>	<i>QR'000</i>		
Unutilised financing facilities	5,313,398	-	-	-	5,313,398
Guarantees	3,410,784	-	-	-	3,410,784
Letters of credit	626,337	-	-	-	626,337
Acceptances	35,703	-	-	-	35,703
Others	7,215	-	-	-	7,215
	9,393,437	-	-	-	9,393,437

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 categorised by the industry sectors of the Group's counterparties:

	<i>Gross exposure 2016 QR'000</i>	<i>Gross exposure 2015 QR'000</i>
Government and related entities	11,193,938	10,987,720
Contingent liabilities	8,895,829	9,393,437
Real estate	8,577,506	7,916,654
Services	7,196,017	7,576,596
Personal	9,482,471	8,511,686
Contracting	1,019,956	1,361,985
Commercial	1,817,474	1,353,186
Industry	195,043	327,951
Others	1,048,469	528,238
	<u>49,426,703</u>	<u>47,957,453</u>

Credit risk exposure

The tables below present an analysis of financial assets by rating agency designation, based on Standard & Poor's ratings (or their equivalents):

	<i>2016 QR'000</i>	<i>2015 QR'000</i>
Equivalents grades		
AAA to AA-	10,869,828	10,080,611
A+ to A-	4,602,505	5,195,751
BBB+ to BBB-	214,365	155,771
BB+ to B-	98,408	2,789
Unrated	24,745,769	23,129,096
	<u>40,530,875</u>	<u>38,564,018</u>

4 FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk (continued)****(iii) Credit quality**

The following table provides the details for the credit quality:

	<i>Financing assets</i>		<i>Due from banks</i>		<i>Investments in debt type securities</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<i>Neither past due nor impaired (low risk):</i>						
Gross amount	28,371,019	25,966,792	3,771,169	4,612,256	-	-
Deferred profit	(1,599,439)	(1,560,976)	-	-	-	-
<i>Carrying amount</i>	<u>26,771,580</u>	<u>24,405,816</u>	<u>3,771,169</u>	<u>4,612,256</u>	-	-
<i>Past due but not impaired (special mentioned):</i>						
<i>Carrying amount</i>	<u>347,052</u>	<u>388,120</u>	-	-	-	-
<i>Impaired</i>						
Substandard (overdue > 3 months)	61,203	65,427	-	-	-	-
Doubtful (overdue > 6 months)	23,761	19,203	-	-	-	-
Loss (overdue > 9 months)	424,954	371,905	-	-	-	-
	<u>509,918</u>	<u>456,535</u>	-	-	-	-
Less: Impairment allowance	(364,848)	(249,404)	-	-	-	-
Less: Suspended profit	(30,376)	(22,994)	-	-	-	-
	<u>(395,224)</u>	<u>(272,398)</u>	-	-	-	-
<i>Carrying amount – net</i>	<u>114,694</u>	<u>184,137</u>	-	-	-	-
<i>Investment securities</i>						
At amortised cost	-	-	-	-	7,196,719	6,862,331
<i>Carrying amount</i>	-	-	-	-	7,196,719	6,862,331
<i>Total carrying amount</i>	<u>27,233,326</u>	<u>24,978,073</u>	<u>3,771,169</u>	<u>4,612,256</u>	<u>7,196,719</u>	<u>6,862,331</u>

Impaired financing assets and investment in debt-type securities

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iii) Credit quality (continued)

Financing assets past due but not impaired

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

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Up to 30 days	241,590	274,827
31 to 89 days	105,462	113,293
Gross	347,052	388,120

(iv) Collateral

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

The Group has collateral in the form of blocked deposits, pledge of shares, mortgage interests over properties, and guarantees or legal mortgage against the past dues financing assets.

The aggregate collateral for past due up to 30 days QR 1,311 million (2015: QR 1,106 million) , for past due from 31 to 89 days QR 118 million (2015: 367 million) and QR 688 million (2015: QR 630 million) for past due more than 90 days.

Write-off policy

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

This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QR 1.4 million (2015: QR 1.3 million).

(c) Liquidity risk

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

(i) Management of liquidity risk

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(i) Management of liquidity risk (continued)

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

(ii) Exposure to liquidity risk

A key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers, i.e total assets by maturities against total liabilities by maturities. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt-type securities for which there is an active and liquid market less any deposits from banks, sukuk issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by QCB. The Market Risks Department monitors the liquidity risks of the Bank on a daily basis and run liquidity Stress Testing in order to make sure the Bank is in compliance with QCB requirements.

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

	2016	2015
	%	%
At December 31		
Average for the year	123	129
Maximum for the year	131	140
Minimum for the year	113	117

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4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iii) Maturity analysis

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

2016	<i>Carrying amount QR'000</i>	<i>Less than 1 month QR'000</i>	<i>1-3 months QR'000</i>	<i>3 months – 1 year QR'000</i>	<i>1-5 years QR'000</i>	<i>More than 5 years QR'000</i>
Cash and balances with Qatar Central Bank	2,037,951	660,611	-	-	-	1,377,340
Due from banks	3,771,169	1,147,377	739,225	1,726,162	158,405	-
Financing assets	27,233,326	3,390,723	1,703,811	8,774,537	10,450,087	2,914,168
Investment securities	7,374,908	178,190	-	199,300	1,615,505	5,381,913
Investment in associates	336,544	-	-	-	-	336,544
Investment properties	430,590	-	-	-	-	430,590
Fixed assets	680,618	-	-	-	26,020	654,598
Intangible assets	18,283	-	-	-	18,283	-
Other assets	667,571	-	586,291	81,280	-	-
Total assets	42,550,960	5,376,901	3,029,327	10,781,279	12,268,300	11,095,153
Due to banks and financial institutions	6,039,310	867,449	1,631,392	1,726,162	1,814,307	-
Customers' current accounts	6,219,923	6,219,923	-	-	-	-
Sukuk financing	2,547,587	-	-	-	2,547,587	-
Other liabilities	646,995	26,695	431,449	142,034	-	46,817
Total liabilities	15,453,815	7,114,067	2,062,841	1,868,196	4,361,894	46,817
Equity of unrestricted investment account holders	20,420,115	6,571,774	3,386,617	5,642,032	4,819,692	-
Total liabilities and equity of unrestricted investment account holders	35,873,930	13,685,841	5,449,458	7,510,228	9,181,586	46,817
Maturity gap	6,677,030	(8,308,940)	(2,420,131)	3,271,051	3,086,714	11,048,336

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

	<i>Carrying amount QR'000</i>	<i>Less than 1 month QR'000</i>	<i>1-3 months QR'000</i>	<i>3 months – 1 year QR'000</i>	<i>1-5 years QR'000</i>	<i>More than 5 years QR'000</i>
2015						
Cash and balances with Qatar Central Bank	1,919,039	533,408	-	-	-	1,385,631
Due from banks	4,612,256	2,453,756	-	2,158,500	-	-
Financing assets	24,978,073	3,517,384	2,502,335	6,771,686	9,962,757	2,223,911
Investment securities	7,043,423	46,509	224,422	226,878	5,727,515	818,099
Investment in associates	348,758	-	-	-	-	348,758
Investment properties	434,640	-	-	-	251,200	183,440
Fixed assets	673,175	-	-	-	29,744	643,431
Intangible assets	16,589	-	-	-	16,589	-
Other assets	514,092	-	444,868	69,224	-	-
Total assets	40,540,045	6,551,057	3,171,625	9,226,288	15,987,805	5,603,270
Due to banks and financial institutions	4,986,561	848,630	2,580,094	586,537	971,300	-
Customers' current accounts	6,585,877	6,585,877	-	-	-	-
Sukuk financing	2,545,751	-	-	-	2,545,751	-
Other liabilities	814,710	24,859	262,117	483,502	-	44,232
Total liabilities	14,932,899	7,459,366	2,842,211	1,070,039	3,517,051	44,232
Equity of unrestricted investment account holders	20,078,034	9,553,651	2,606,207	6,131,406	1,786,770	-
Total liabilities and equity of unrestricted investment account holders	35,010,933	17,013,017	5,448,418	7,201,445	5,303,821	44,232
Maturity gap	5,529,112	(10,461,960)	(2,276,793)	2,024,843	10,683,984	5,559,038

4 FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Market risks**

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

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

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

(i) Management of market risks

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

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

(ii) Exposure to profit rate risk – non-trading portfolios**Sensitivity analysis**

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non - standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-months portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

Sensitivity of net profit	100 bp parallel	
	Increase QR'000	Decrease QR'000
2016		
At 31 December	0	0
2015		
At 31 December	5	(5)

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

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

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

<i>Market Indices</i>	<i>Change in equity price</i> %	<i>Effect on equity</i>		<i>Effect on profit and loss</i>	
		<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
		<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Qatar Exchange	+/- 10	1,320	-	122	4,651
Damascus Securities Exchange	+/- 10	5,778	2,747	-	-

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

Currency risk

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

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

<i>Currency</i>	<i>Change in currency rate equity price</i> %	<i>Effect on consolidated statement of income</i>	
		<i>2016</i>	<i>2015</i>
		<i>QR'000</i>	<i>QR'000</i>
Euro	+/- 10	148	315
Sterling Pounds	+/- 10	177	279
Others	+/- 10	69,361	164,717

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

(e) Operational risks

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

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risks (continued)

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

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

(f) Capital management

Regulatory capital

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

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

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

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

	<u>2016</u>	<u>2015</u>
	<i>Basel III</i>	<i>Basel III</i>
Tier 1 capital	5,916,512	4,747,972
Tier 2 capital	-	-
Total regulatory capital	<u>5,916,512</u>	<u>4,747,972</u>

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (continued)

Risk weighted assets

	<u>2016</u>	<u>2015</u>
	<i>Basel III</i>	<i>Basel III</i>
Risk weighted assets for credit risk	26,805,919	25,565,114
Risk weighted assets for market risk	1,289,101	796,569
Risk weighted assets for operational risk	2,298,972	2,049,374
	<hr/>	<hr/>
Total risk weighted assets	30,393,992	28,411,057
Regulatory capital	5,916,512	4,747,972
Risk weighted assets as a percentage of regulatory capital (capital ratio)	19.47%	16.71%

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

- Minimum limit without capital conservation buffer is 10%
- Minimum limit including capital conservation buffer is 12.5%

5 USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

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

(i) Allowance for credit losses

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

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

(ii) Determining fair values

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

5 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

(a) Key sources of estimation uncertainty (continued)

(ii) Determining fair values (continued)

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

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

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

(i) Valuation of financial instruments

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

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

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

At 31 December 2016

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)**

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

(ii) Financial asset classification

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

2016	<i>Fair value measurement using</i>			
	<i>Total</i>	<i>Quoted</i>	<i>Significant</i>	<i>Significant</i>
	<i>QR'000</i>	<i>prices in</i>	<i>observable</i>	<i>unobservable</i>
		<i>active</i>	<i>inputs</i>	<i>inputs</i>
		<i>markets</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
		<i>(Level 1)</i>	<i>QR'000</i>	<i>QR'000</i>
		<i>QR'000</i>		
- Unquoted debt-type investments classified at amortized cost	4,033,218	-	-	4,033,218
- Quoted debt-type investments classified at amortized cost	3,163,501	3,163,501	-	-
- Quoted equity-type investments classified as fair value through income statement	1,220	1,220	-	-
- Quoted equity-type investments classified as fair value through equity	70,978	70,978	-	-
- Unquoted equity-type investments classified as fair value through equity	105,991	-	-	105,991
2015	<i>Fair value measurement using</i>			
	<i>Total</i>	<i>Quoted</i>	<i>Significant</i>	<i>Significant</i>
	<i>QR'000</i>	<i>prices in</i>	<i>observable</i>	<i>unobservable</i>
		<i>active</i>	<i>inputs</i>	<i>inputs</i>
		<i>markets</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
		<i>(Level 1)</i>	<i>QR'000</i>	<i>QR'000</i>
		<i>QR'000</i>		
- Unquoted debt-type investments classified at amortized cost	3,870,219	-	-	3,870,219
- Quoted debt-type investments classified at amortized cost	2,992,112	2,992,112	-	-
- Quoted equity-type investments classified as fair value through income statement	46,508	46,508	-	-
- Quoted equity-type investments classified as fair value through equity	27,473	27,473	-	-
- Unquoted equity-type investments classified as fair value through equity	107,111	-	-	107,111

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

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

5 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

(iii) Useful lives of fixed assets

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

(iv) Useful lives of intangible assets

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

(v) Impairment of fair value through equity investments

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

(vi) Valuation of investments designated at fair value through income statement

The fair value of unquoted investments designated at fair value through statement of income is determined by management using various valuation techniques. Valuation techniques employed include using a market multiples approach, a discounted cash flow analysis and a comparable transaction approach amongst others. These techniques require management to make certain assumptions and estimates about expected future cash flows, revenues, profits and expected market conditions. Management ensures that in all cases these assumptions are reasonable and realistic.

The chosen valuation techniques make maximum use of market inputs as well as on entity-specific inputs. They incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation techniques and test them for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

(vii) 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.

6 OPERATING SEGMENTS

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

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

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

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

<i>2016</i>	<i>Corporate Banking QR'000</i>	<i>Retail Banking QR'000</i>	<i>Treasury & Investments QR'000</i>	<i>Total QR'000</i>
<i>External revenue:</i>				
Total income from financing and investing activities	842,081	419,851	306,894	1,568,826
Net fee and commission income	62,124	55,523	-	117,647
Net foreign exchange gains	-	-	41,232	41,232
Share of results of associates	-	-	(12,214)	(12,214)
Total segment income	904,205	475,374	335,912	1,715,491
<i>Other material non-cash items:</i>				
Net impairment loss on financing assets	(112,065)	(4,755)	-	(116,820)
Reportable segment net profit before allocation of expenses	792,140	470,619	335,912	1,598,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 OPERATING SEGMENTS (CONTINUED)

<i>2015</i>	<i>Corporate Banking QR'000</i>	<i>Retail Banking QR'000</i>	<i>Treasury & Investments QR'000</i>	<i>Total QR'000</i>
<i>External revenue:</i>				
Total income from financing and investing activities	745,611	390,026	310,869	1,446,506
Net fee and commission income	75,225	51,600	-	126,825
Net foreign exchange gains	-	-	15,537	15,537
Share of results of associates	-	-	1,244	1,244
Total segment income	820,836	441,626	327,650	1,590,112
<i>Other material non-cash items:</i>				
Impairment loss on investment securities	-	-	(13,919)	(13,919)
Net impairment loss on financing assets	(92,138)	(8,680)	-	(100,818)
Impairment loss on investment in associate	-	-	(3,717)	(3,717)
Foreign exchange loss on translation of investment in associates	-	-	(853)	(853)
Reportable segment net profit before allocation of expenses	728,698	432,946	309,161	1,470,805
	<i>Corporate Banking QR'000</i>	<i>Retail Banking QR'000</i>	<i>Treasury & Investments QR'000</i>	<i>Total QR'000</i>
<i>2016</i>				
Reportable segment assets	20,437,913	6,795,413	12,279,196	39,512,522
Reportable segment liabilities and equity of unrestricted investment account holders	7,289,034	19,351,004	8,586,897	35,226,935
	<i>Corporate Banking QR'000</i>	<i>Retail Banking QR'000</i>	<i>Treasury & Investments QR'000</i>	<i>Total QR'000</i>
<i>2015</i>				
Reportable segment assets	18,724,297	6,253,202	12,720,501	37,698,000
Reportable segment liabilities and equity of unrestricted investment account holders	8,559,440	18,104,471	7,532,312	34,196,223

6 OPERATING SEGMENTS (CONTINUED)

The tables below provide reconciliation of reportable segment revenues, profit, assets and liabilities:

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Reportable segment net profit before allocation of expenses	1,598,671	1,470,805
Unallocated expenses	(813,900)	(686,653)
Consolidated net profit for the year	784,771	784,152
	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Assets		
Total assets for reportable segments	39,512,522	37,698,000
Other unallocated amounts	3,038,438	2,842,045
Consolidated total assets	42,550,960	40,540,045
Liabilities and equity of unrestricted investment account holders		
Total liabilities and equity of unrestricted investment account holders for reportable segments	35,226,935	34,196,223
Other unallocated amounts	646,995	814,710
Consolidated total liabilities and equity of unrestricted investment account holders	35,873,930	35,010,933

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 OPERATING SEGMENTS (CONTINUED)

Geographical areas

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

	<i>Qatar</i> <i>QR'000</i>	<i>Other</i> <i>GCC</i> <i>QR'000</i>	<i>Middle</i> <i>East other</i> <i>than GCC</i> <i>QR'000</i>	<i>Europe</i> <i>QR'000</i>	<i>North</i> <i>America</i> <i>QR'000</i>	<i>Rest of the</i> <i>World</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
2016							
External revenues	<u>1,681,136</u>	<u>10,708</u>	<u>-</u>	<u>16,830</u>	<u>91</u>	<u>6,726</u>	<u>1,715,491</u>
Non-current assets	<u>21,377,008</u>	<u>598,407</u>	<u>57,777</u>	<u>8,922</u>	<u>608</u>	<u>214,387</u>	<u>22,257,109</u>
2015							
External revenues	<u>1,557,384</u>	<u>15,313</u>	<u>(11,691)</u>	<u>16,705</u>	<u>3,233</u>	<u>9,168</u>	<u>1,590,112</u>
Non-current assets	<u>20,826,661</u>	<u>498,786</u>	<u>27,473</u>	<u>10,795</u>	<u>1,494</u>	<u>225,866</u>	<u>21,591,075</u>

Qatar International Islamic Bank (Q.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

7 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

<i>2016</i>	<i>Fair value through statement of income QR'000</i>	<i>Fair value through equity QR'000</i>	<i>Amortised cost QR'000</i>	<i>Total carrying amount QR'000</i>	<i>Fair value QR'000</i>
Cash and balances with Qatar Central Bank	-	-	2,037,951	2,037,951	2,037,951
Due from banks	-	-	3,771,169	3,771,169	3,771,169
Financing assets	-	-	27,233,326	27,233,326	27,233,326
Investment securities:					
- Measured at fair value	1,220	176,969	-	178,189	178,189
- Measured at amortised cost	-	-	7,196,719	7,196,719	7,154,922
Other assets	-	-	586,336	586,336	586,336
	<u>1,220</u>	<u>176,969</u>	<u>40,825,501</u>	<u>41,003,690</u>	<u>40,961,893</u>
Due to banks and financial institutions	-	-	6,039,310	6,039,310	6,039,310
Customers' current accounts	-	-	6,219,923	6,219,923	6,219,923
Sukuk financing	-	-	2,547,587	2,547,587	2,547,587
Other liabilities	-	-	646,995	646,995	646,995
	<u>-</u>	<u>-</u>	<u>15,453,815</u>	<u>15,453,815</u>	<u>15,453,815</u>

Qatar International Islamic Bank (Q.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

7 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

2015	<i>Fair value through statement of income QR'000</i>	<i>Fair value through equity QR'000</i>	<i>Amortised cost QR'000</i>	<i>Total carrying amount QR'000</i>	<i>Fair value QR'000</i>
Cash and balances with Qatar Central Bank	-	-	1,919,039	1,919,039	1,919,039
Due from banks	-	-	4,612,256	4,612,256	4,612,256
Financing assets	-	-	24,978,073	24,978,073	24,978,073
Investment securities:					
- Measured at fair value	46,508	134,584	-	181,092	181,092
- Measured at amortised cost	-	-	6,862,331	6,862,331	6,826,655
Other assets	-	-	444,876	444,876	444,876
	<u>46,508</u>	<u>134,584</u>	<u>38,816,575</u>	<u>38,997,667</u>	<u>38,961,991</u>
Due to banks and financial institutions	-	-	4,986,561	4,986,561	4,986,561
Customers' current accounts	-	-	6,585,877	6,585,877	6,585,877
Sukuk financing	-	-	2,545,751	2,545,751	2,545,751
Other liabilities	-	-	814,710	814,710	814,710
	<u>-</u>	<u>-</u>	<u>14,932,899</u>	<u>14,932,899</u>	<u>14,932,899</u>

Qatar International Islamic Bank (Q.S.C)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

8 CASH AND BALANCES WITH QATAR CENTRAL BANK

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Cash reserve with QCB (i)	1,377,340	1,385,631
Other balances with QCB	365,985	280,851
Cash	294,626	252,557
	<u>2,037,951</u>	<u>1,919,039</u>

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

9 DUE FROM BANKS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Mudaraba placements	3,420,210	4,215,382
Commodity Murabaha receivable	85,939	175,000
Current accounts	265,020	221,874
	<u>3,771,169</u>	<u>4,612,256</u>

10 FINANCING ASSETS

(a) By type

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Murabaha and Musawama	20,011,567	19,260,530
Ijarah Muntahia Bittamleek	6,379,816	5,147,794
Istisn'a	572,940	431,476
Mudaraba	220,526	263,908
Musharaka	1,389	5,126
Others	2,041,751	1,702,613
Total financing assets	29,227,989	26,811,447
Less: Deferred profit	(1,599,439)	(1,560,976)
Impairment allowance for financing assets	(364,848)	(249,404)
Suspended profit	(30,376)	(22,994)
Net financing assets	<u>27,233,326</u>	<u>24,978,073</u>

Total carrying amount of Istisn'a contracts under processing is QR 427 million (2015: QR 509 million).

During the year, the Bank had written off fully provided bad debts after meeting conditions stipulated in the instructions of QCB amounting to QR 1.4 million (2015: QR 1.3 million).

The total non-performing financing assets at 31 December 2016 amounted to QR 510 million, representing 1.74% of the gross financing assets (2015: QR 456 million, representing 1.70%)

10 FINANCING ASSETS (CONTINUED)**(a) By type (continued)**

Net financing assets distributed by nature of the customer is as follows:

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Corporate	9,893,973	8,970,643
Retail and others	14,178,262	12,741,228
Government and related agencies	3,161,091	3,266,202
	<u>27,233,326</u>	<u>24,978,073</u>

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

	<i>2016</i>			<i>2015</i>		
	<i>Impairment</i> <i>QR'000</i>	<i>Suspended</i> <i>profit</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>	<i>Impairment</i> <i>QR'000</i>	<i>Suspended</i> <i>profit</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Balance at 1 January	249,404	22,994	272,398	149,757	15,662	165,419
Charged during the year	168,853	7,878	176,731	108,680	7,496	116,176
Recoveries during the year	(52,033)	(474)	(52,507)	(7,862)	-	(7,862)
Written off during the year	(1,376)	(22)	(1,398)	(1,171)	(164)	(1,335)
Balance at 31 December	<u>364,848</u>	<u>30,376</u>	<u>395,224</u>	<u>249,404</u>	<u>22,994</u>	<u>272,398</u>

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

	<i>Corporate</i> <i>QR'000</i>	<i>Retail</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Balance at 1 January 2016	98,083	151,321	249,404
Charged during the year	116,206	52,647	168,853
Recoveries during the year	(4,262)	(47,771)	(52,033)
Written off	(977)	(399)	(1,376)
Balance at 31 December 2016	<u>209,050</u>	<u>155,798</u>	<u>364,848</u>
	<i>Corporate</i> <i>QR'000</i>	<i>Retail</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Balance at 1 January 2015	20,752	129,005	149,757
Charged during the year	85,272	23,408	108,680
Recoveries during the year	(7,862)	-	(7,862)
Written off	(79)	(1,092)	(1,171)
Balance at 31 December 2015	<u>98,083</u>	<u>151,321</u>	<u>249,404</u>

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10 FINANCING ASSETS (CONTINUED)

(d) By sector

2016	<i>Murabaha and Musawama QR'000</i>	<i>Musharaka QR'000</i>	<i>Ijarah Muntahia Bittamleek QR'000</i>	<i>Istisna'a QR'000</i>	<i>Mudaraba QR'000</i>	<i>Others QR'000</i>	<i>Total QR'000</i>
Government and related entities	1,408,441	-	-	180,187	-	1,653,163	3,241,791
Industry	172,386	-	2,701	45,792	-	6,615	227,494
Commercial	1,458,059	-	361,344	12,457	5,333	68,727	1,905,920
Services	2,394,036	-	223,707	5,409	7,200	2,389	2,632,741
Contracting	747,992	-	22,818	51,522	197,915	275,811	1,296,058
Real estate	3,799,833	-	5,278,062	-	-	3	9,077,898
Personal	9,603,933	1,389	469,237	264,907	-	32,801	10,372,267
Others	426,887	-	21,947	12,666	10,078	2,242	473,820
Total financing assets	<u>20,011,567</u>	<u>1,389</u>	<u>6,379,816</u>	<u>572,940</u>	<u>220,526</u>	<u>2,041,751</u>	<u>29,227,989</u>
Less: Deferred profit							(1,599,439)
Impairment allowance for financing assets							(364,848)
Suspended profit							(30,376)
Net financing assets							<u>27,233,326</u>

Note:

Details of financing assets related to the Sukuk issued during 2012 are disclosed in Note 19.

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10 FINANCING ASSETS (CONTINUED)

(d) By sector (continued)

2015	<i>Murabaha and Musawama QR'000</i>	<i>Musharaka QR'000</i>	<i>Ijarah Muntahia Bittamleek QR'000</i>	<i>Istisna'a QR'000</i>	<i>Mudaraba QR'000</i>	<i>Others QR'000</i>	<i>Total QR'000</i>
Government and related entities	2,179,789	-	-	-	-	1,202,161	3,381,950
Industry	267,052	-	40,881	35,053	-	976	343,962
Commercial	1,132,176	-	260,351	2,544	8,117	14,761	1,417,949
Services	1,911,711	-	312,661	3,079	6,000	4,074	2,237,525
Contracting	759,428	-	42,010	95,299	249,791	390,632	1,537,160
Real estate	4,269,620	-	4,159,317	22,906	-	1	8,451,844
Personal	8,692,952	5,126	332,574	260,220	-	62,127	9,352,999
Others	47,802	-	-	12,375	-	27,881	88,058
Total financing assets	19,260,530	5,126	5,147,794	431,476	263,908	1,702,613	26,811,447
Less: Deferred profit							(1,560,976)
Impairment allowance for financing assets							(249,404)
Suspended profit							(22,994)
Net financing assets							24,978,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 INVESTMENT SECURITIES

	2016			2015		
	<i>Quoted</i> <i>QR'000</i>	<i>Unquoted</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>	<i>Quoted</i> <i>QR'000</i>	<i>Unquoted</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
<i>Investments classified as fair value through income statement</i>						
· equity-type investments	<u>1,220</u>	<u>-</u>	<u>1,220</u>	<u>46,508</u>	<u>-</u>	<u>46,508</u>
	<u>1,220</u>	<u>-</u>	<u>1,220</u>	<u>46,508</u>	<u>-</u>	<u>46,508</u>
<i>Debt-type investments classified at amortised cost (i)</i>						
- State of Qatar Sukuk	<u>1,941,899</u>	<u>4,014,300</u>	<u>5,956,199</u>	<u>1,941,402</u>	<u>3,849,423</u>	<u>5,790,825</u>
- Fixed rate	<u>1,221,602</u>	<u>18,918</u>	<u>1,240,520</u>	<u>1,050,710</u>	<u>18,918</u>	<u>1,069,628</u>
- Floating rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,878</u>	<u>1,878</u>
	<u>3,163,501</u>	<u>4,033,218</u>	<u>7,196,719</u>	<u>2,992,112</u>	<u>3,870,219</u>	<u>6,862,331</u>
<i>Equity-type investments classified as fair value through equity</i>						
	<u>70,978</u>	<u>105,991</u>	<u>176,969</u>	<u>27,473</u>	<u>107,111</u>	<u>134,584</u>
Total	<u>3,235,699</u>	<u>4,139,209</u>	<u>7,374,908</u>	<u>3,066,093</u>	<u>3,977,330</u>	<u>7,043,423</u>

Notes:

- (i) The fair value of the investments carried at amortised cost as at 31 December 2016 amounted to QR 7,155 million (2015: QR 6,827 million).
- (ii) The fair value hierarchy and the transfers between categories of fair value hierarchy are disclosed in Note 5 (b).

11 INVESTMENT SECURITIES (CONTINUED)

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

	2016			2015		
	<i>Positive fair value QR'000</i>	<i>Negative fair value QR'000</i>	<i>Total QR'000</i>	<i>Positive fair value QR'000</i>	<i>Negative fair value QR'000</i>	<i>Total QR'000</i>
Balance at 1 January	3,951	-	3,951	-	-	-
Net change in fair value	29,667	(2)	29,665	3,951	-	3,951
Balance at 31 December	33,618	(2)	33,616	3,951	-	3,951

During the year, the Group has not recognized fair value change in the consolidated statement of income (2015: Nil).

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

	2016 QR'000	2015 QR'000
Balance at 1 January	104,594	94,040
Charge during the year	-	13,919
Change in fair value	(7,772)	(3,365)
Balance at 31 December	96,822	104,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

12 INVESTMENT IN ASSOCIATES

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Balance at 1 January	348,758	355,338
Foreign currency translation loss	-	(853)
Share of results	(12,214)	1,244
Cash dividends received	-	(3,254)
Impairment provided during the year	-	(3,717)
Balance at 31 December	<u>336,544</u>	<u>348,758</u>

The Group has the following investments in associates:

<i>Name of the Company</i>	<i>Company's activities</i>	<i>Country of incorporation</i>	<i>Ownership percentage</i>	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Mackeen Holding Q.P.S.C.	Real estate	Qatar	49%	279,693	292,097
Al Tashelat Islamic Company W.L.L.	Financing	Qatar	49%	51,637	51,765
Syria Islamic Insurance Company (i)	Insurance	Syria	20%	-	-
Al Moqawil Company W.L.L.	Contracting	Qatar	49%	5,214	4,896
				<u>336,544</u>	<u>348,758</u>

Note:

(i) During the year 2015, the Group provided impairment loss amounting to QR 3,717 thousand for the investment on its associate "Syria Islamic Insurance Company" until the provisions reached to 100% of its carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

12 INVESTMENT IN ASSOCIATES (CONTINUED)

The financial position and revenue of associates based on its financial statements which were considered by the Group for the year ended 31 December 2016 and 2015 are as follows:

<i>31 December 2016</i>	<i>Al Tashelat Islamic Company W.L.L. QR'000</i>	<i>Al Moqawil Company W.L.L. QR'000</i>	<i>Syria Islamic Insurance Company QR'000</i>	<i>Mackeen Holding Q.P.S.C. QR'000</i>	<i>Total QR'000</i>
Total assets	<u>36,599</u>	<u>10,807</u>	<u>48,910</u>	<u>980,693</u>	<u>1,077,009</u>
Total liabilities	<u>20,533</u>	<u>47</u>	<u>24,155</u>	<u>350,396</u>	<u>395,131</u>
Total revenue	<u>16,007</u>	<u>1,983</u>	<u>4,002</u>	<u>25,366</u>	<u>47,358</u>
Share of (loss)/ profit	<u>(128)</u>	<u>319</u>	<u>-</u>	<u>(12,405)</u>	<u>(12,214)</u>

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12 INVESTMENT IN ASSOCIATES (CONTINUED)

<i>31 December 2015</i>	<i>Al Tashelat Islamic Company W.L.L. QR'000</i>	<i>Al Moqawil Company W.L.L. QR'000</i>	<i>Syria Islamic Insurance Company QR'000</i>	<i>Mackeen Holding Q.P.S.C. QR'000</i>	<i>Total QR'000</i>
Total assets	<u>126,508</u>	<u>10,590</u>	<u>48,209</u>	<u>1,017,866</u>	<u>1,203,173</u>
Total liabilities	<u>27,506</u>	<u>90</u>	<u>25,702</u>	<u>367,884</u>	<u>421,182</u>
Total revenue	<u>16,191</u>	<u>2,905</u>	<u>5,690</u>	<u>42,701</u>	<u>67,487</u>
Share of profit / (loss)	<u>2,415</u>	<u>434</u>	<u>-</u>	<u>(1,605)</u>	<u>1,244</u>

13 INVESTMENT PROPERTIES

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Balance at 1 January	434,640	486,374
Disposals	-	(47,686)
Depreciation during the year	<u>(4,050)</u>	<u>(4,048)</u>
	<u>430,590</u>	<u>434,640</u>

Note:

The fair value of investment properties as at 31 December 2016 is QR 1,030 million (2015: QR 1,108 million).

The fair value of investments properties based on average valuations performed by independent valuers possessing relevant professional qualification, with recent experience in the location and category of the properties being fair valued, as of 31 December 2016 and 31 December 2015. The fair values have been determined based on recent transactions in the market, the independent valuers' knowledge and professional judgment.

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

Rental income included in the consolidated statement of income from investments properties amounted to QR 26,432 thousand (2015: QR 25,170 thousand).

Direct operating expenses (including repairs and maintenance) amounting to QR 340 thousand (2015: QR 377 thousand) arising from investment properties that generate rental income during the year are included in the consolidated statement of income under other expenses.

Investment properties include the Bank's share of QR 178,987 thousand (2015: QR 180,026 thousand) which are jointly owned with related parties and other third parties and are subject to normal conditions applicable to joint ownership.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 FIXED ASSETS

	<i>Land and Buildings QR'000</i>	<i>IT equipments QR'000</i>	<i>Fixtures and fittings QR'000</i>	<i>Motor vehicles QR'000</i>	<i>Total QR'000</i>
Cost					
Balance at 1 January 2016	608,749	89,455	106,687	1,568	806,459
Additions	14,144	1,159	1,710	-	17,013
Disposals	-	-	(7)	-	(7)
Balance at 31 December 2016	622,893	90,614	108,390	1,568	823,465
Balance at 1 January 2015	505,416	73,019	60,569	1,505	640,509
Additions	103,333	16,436	46,118	564	166,451
Disposals	-	-	-	(501)	(501)
Balance at 31 December 2015	608,749	89,455	106,687	1,568	806,459
Accumulated depreciation					
Balance at 1 January 2016	17,579	60,699	54,425	581	133,284
Depreciation during the year	1,261	4,616	3,419	267	9,563
Balance at 31 December 2016	18,840	65,315	57,844	848	142,847
Balance at 1 January 2015	16,321	56,648	50,938	746	124,653
Depreciation during the year	1,258	4,051	3,487	257	9,053
Related to disposals	-	-	-	(422)	(422)
Balance at 31 December 2015	17,579	60,699	54,425	581	133,284
Carrying amounts					
Balance at 31 December 2015	591,170	28,756	52,262	987	673,175
Balance at 31 December 2016	604,053	25,299	50,546	720	680,618

15 INTANGIBLE ASSETS

	<i>Software QR'000</i>	<i>Work in progress QR'000</i>	<i>Total QR'000</i>
Cost			
Balance at 1 January 2016	16,589	-	16,589
Additions	6,187	-	6,187
Amortisation charged during the year	(4,493)	-	(4,493)
Balance at 31 December 2016	18,283	-	18,283
Balance at 1 January 2015	-	15,521	15,521
Additions	-	3,462	3,462
Transfers	18,983	(18,983)	-
Amortisation charged during the year	(2,394)	-	(2,394)
Balance at 31 December 2015	16,589	-	16,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16 OTHER ASSETS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Accrued profit	507,229	357,039
Prepayments and advances	81,235	69,216
Others	<u>79,107</u>	<u>87,837</u>
	<u>667,571</u>	<u>514,092</u>

17 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Wakala payable	5,778,029	4,756,986
Current accounts	<u>261,281</u>	<u>229,575</u>
	<u>6,039,310</u>	<u>4,986,561</u>

Note:

Wakala payable includes various facilities with maturities ranging from 3 days to 18 months (2015: 13 days to 29 months) and carries profit rates of 0.30 % - 3.00% (2015: 0.40 % - 2.35%).

18 CUSTOMERS' CURRENT ACCOUNTS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
<i>Current accounts by sector:</i>		
- Individuals	3,859,286	3,467,629
- Corporate	1,835,615	2,387,872
- Government	522,275	727,034
- Non-Banking Financial Institutions	<u>2,747</u>	<u>3,342</u>
	<u>6,219,923</u>	<u>6,585,877</u>

19 SUKUK FINANCING

On 18 October 2012, the Bank raised USD 700 million (QR 2,549 million) through a 5 year Sharia'a compliant Sukuk financing arrangement (the "Sukuk"). The Sukuk is listed at the Irish Stock Exchange. The Sukuk issue cost of QR 8.7 million is amortised over the tenor of the Sukuk life.

According to the terms of the arrangement, the Bank has transferred certain identified assets ("the Sukuk assets") to QIIB Sukuk Ltd (the "Issuer"), an entity incorporated in Cayman Islands for that purpose.

The Sukuk bear a fixed annual profit rate of 2.688% payable to the investors on a semi-annual basis. The issuer will pay the distribution amount from returns received in respect of the Sukuk assets.

The Bank controls the Sukuk assets which will continue to be serviced by the Bank. Upon maturity of the Sukuk, the Bank has undertaken to repurchase the Sukuk assets at the exercise price of USD 700 million.

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19 SUKUK FINANCING (CONTINUED)

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

<i>At 31 December</i>	<i>2016 QR'000</i>	<i>2015 QR'000</i>
Ijarah Muntahia Bittamleek	2,207,389	2,263,731
Musawama	369,860	362,824
Total financing assets related to the Sukuk	2,577,249	2,626,555

The movement of the Sukuk financing liability as at 31 December is as follows:

	<i>2016 QR'000</i>	<i>2015 QR'000</i>
Sukuk financing liability	2,549,050	2,549,050
Un-amortised prepaid expenses	(1,463)	(3,299)
Balance at 31 December	2,547,587	2,545,751

20 OTHER LIABILITIES

	<i>2016 QR'000</i>	<i>2015 QR'000</i>
Cash margins	157,064	100,940
Manager cheques	75,829	413,574
Accrued expenses	47,585	46,444
Dividend payable	42,841	33,438
Retention from suppliers	32,620	38,106
Accrued profit distribution to Sukuk holders and banks	30,094	28,602
Employees' end of service benefits (i)	26,943	27,906
Clearing suspense accounts	21,842	13,734
Contribution to Social and Sports fund	19,619	19,604
Customers advances	16,364	15,613
NAPS and visa settlements	10,331	9,246
Unclaimed balances	3,492	3,220
Others	162,371	64,283
	646,995	814,710

Note:

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

	<i>2016 QR'000</i>	<i>2015 QR'000</i>
Balance at 1 January	27,906	23,333
Charge for the year (Note 28)	3,266	8,056
Payments made during the year	(4,229)	(3,483)
Balance at 31 December	26,943	27,906

21 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Unrestricted investment account holders balance before share of profit	20,319,174	20,016,761
Add: Profits for unrestricted investment account holders for the year (a)	363,160	269,063
Less: Profit paid during the year	(282,799)	(209,864)
	<hr/> 20,399,535	<hr/> 20,075,960
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)		
<i>By type:</i>	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Term accounts	13,834,410	13,414,463
Saving accounts	6,565,125	6,661,497
	<hr/> 20,399,535	<hr/> 20,075,960
Total (b)		
<i>By sector:</i>		
Retail	14,690,351	12,253,249
Government	2,305,160	2,362,640
Corporate	2,677,504	4,067,314
Non-banking financial institution	368,366	619,075
Semi government organizations	358,154	773,682
	<hr/> 20,399,535	<hr/> 20,075,960
Total (b)		
	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Total unrestricted investment account holders balance after share of profit and before share of fair value reserve (b)	20,399,535	20,075,960
Share in fair value reserve	20,580	2,074
	<hr/> 20,420,115	<hr/> 20,078,034
Total unrestricted investment account holders balance		
Share of unrestricted investment account holders' of the profit for the year before the bank's share as Mudarib	702,799	652,648
Bank's share as Mudarib	(455,575)	(429,525)
Support provided by the bank	115,936	45,940
	<hr/> 363,160	<hr/> 269,063
Net return to unrestricted investment account holders (a)		

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22 SHAREHOLDERS EQUITY

(a) Share capital

At 31 December	Number of shares (thousand)	
	2016	2015
Issued and fully paid*	<u>151,369</u>	<u>151,369</u>

* Issued and fully paid capital of QR 1,513,687 thousands comprises 151.4 million shares with a nominal value of QR 10 each, (2015: QR 1,513,687 thousands comprises 151.4 million shares with a nominal value of QR 10 each).

(b) Legal reserve

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

(c) Risk reserve

In accordance with QCB regulations, the minimum requirement for risk reserve is 2.5% of the total private sector exposure granted by the Group inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to / or secured by the Ministry of Finance – Qatar or finance against cash guarantees is excluded from the gross direct finance. The total amount transferred to the risk reserve during the year amounted to QR 23.75 million (2015: QR 73.65 million).

(d) Fair value reserves

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

	2016 QR'000	2015 QR'000
Investments carried as fair value through equity:		
Balance at 1 January	1,877	-
Revaluation for the year	29,665	3,951
Share of unrestricted investment account holders	<u>(18,506)</u>	<u>(2,074)</u>
As at 31 December	<u>13,036</u>	<u>1,877</u>

(e) Other reserves

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

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

	2016 QR'000	2015 QR'000
<i>Undistributed share of associates profit:</i>		
Balance at 1 January	84,477	84,882
Less: Dividend received from associates	-	(3,254)
Add: Undistributed profit of associates for the year	<u>319</u>	<u>2,849</u>
Balance at 31 December	<u>84,796</u>	<u>84,477</u>

22 SHAREHOLDERS EQUITY (CONTINUED)

(f) Proposed cash dividends

The Board of Directors has proposed a cash dividend of 40% of paid up share capital amounting to QR 605.48 million – QR 4 per share (2015: 40 % of paid up share capital amounting to QR 605.48 million – QR 4 per share) which is subject to approval at the Annual General Meeting of the shareholders of the Bank.

23 SUKUK ELIGIBLE AS ADDITIONAL CAPITAL

During the year 2016, the Group issued perpetual sukuk eligible as additional capital for an amount of QR 1billion. The sukuk is unsecured and the profit distribution are discretionary, non –cumulative, and payable annually , the profit rate for the first five years is fixed and it will be revised in case of renewal. The Group has right not to pay profit and the sukuk holders have no right to claim profit on the sukuk. The sukuk do not have a maturity date and has been classified as equity.

24 INCOME FROM FINANCING ACTIVITIES

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Murabaha and Musawama	920,732	828,819
Ijarah Muntahia Bittamleek	297,251	275,059
Istisn'a	30,213	16,240
Mudaraba	13,736	15,186
Musharaka	-	333
	<u>1,261,932</u>	<u>1,135,637</u>

25 NET INCOME FROM INVESTING ACTIVITIES

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Income from investment in debt-type instruments	206,995	193,581
Income from inter-bank placements with Islamic banks	52,691	24,627
Rental income from investment properties	26,432	25,170
Net gain from debt-type investments	21,249	12,375
Dividends income	2,991	2,936
Income from short term Murabaha with QCB	946	2,026
Net gain on sale of investment in real estate	-	67,811
Net loss from equity-type investments	(4,410)	(17,657)
	<u>306,894</u>	<u>310,869</u>

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26 NET FEE AND COMMISSION INCOME

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Fee and commission income		
Bank charges	82,064	70,674
Commission on local financing	60,945	68,848
Commission on letters of credit and guarantees	17,577	20,311
	<u>160,586</u>	<u>159,833</u>
Fee and commission expenses	<u>(42,939)</u>	<u>(33,008)</u>
Net fee and commission income	<u>117,647</u>	<u>126,825</u>

27 NET FOREIGN EXCHANGE GAINS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Dealing in foreign currencies	21,321	13,590
Revaluation of assets and liabilities	19,911	1,947
	<u>41,232</u>	<u>15,537</u>

28 STAFF COSTS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Basic salaries	62,989	61,340
Housing allowance	25,381	26,201
Employees' end of service benefits (Note 20)	3,266	8,056
Staff pension fund costs	3,090	3,791
Training	878	1,381
Other staff benefits	61,888	65,069
	<u>157,492</u>	<u>165,838</u>

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29 OTHER EXPENSES

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Computer and ATMs expenses	25,679	23,093
Rent	25,456	26,065
Telephone, telex and post	18,287	15,471
Board of Directors remuneration	13,704	13,774
Advertising and promotion	9,536	12,270
Fees and subscriptions	8,378	7,249
Outsource expenses	8,346	6,834
Professional fees	3,861	4,558
Maintenance and cleaning expenses	3,413	4,001
Investment expenses	3,072	2,935
Security service expenses	1,489	982
Water and electricity	1,393	1,010
Stationery and printing	1,242	1,603
Business travelling expenses	977	1,317
Insurance	904	1,210
Shari'a Committee remuneration	767	811
Donations	630	75
Hospitality expenses	469	951
Miscellaneous expenses	1,953	1,643
	<u>129,556</u>	<u>125,852</u>

30 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Contingent liabilities		
Unused financing facilities	4,989,753	5,313,398
Guarantees	3,552,993	3,410,784
Letters of credit	344,008	626,337
Acceptances	-	35,703
Others	9,075	7,215
	<u>8,895,829</u>	<u>9,393,437</u>

Unused financing facilities

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

Guarantees and Letters of Credit

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

31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

Geographical sector

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

<i>2016</i>	<i>Qatar</i> <i>QR'000</i>	<i>Other</i> <i>GCC</i> <i>QR'000</i>	<i>Europe</i> <i>QR'000</i>	<i>North</i> <i>America</i> <i>QR'000</i>	<i>Others</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Cash and balances with Qatar Central Bank	2,037,951	-	-	-	-	2,037,951
Due from banks	3,320,924	205,022	116,865	89,144	39,214	3,771,169
Financing assets	26,342,651	-	890,674	-	1	27,233,326
Investment securities	6,683,447	409,767	8,922	608	272,164	7,374,908
Investment in associates	336,544	-	-	-	-	336,544
Investment properties	241,951	188,639	-	-	-	430,590
Fixed assets	680,618	-	-	-	-	680,618
Intangible assets	18,283	-	-	-	-	18,283
Other assets	667,571	-	-	-	-	667,571
Total assets	<u>40,329,940</u>	<u>803,428</u>	<u>1,016,461</u>	<u>89,752</u>	<u>311,379</u>	<u>42,550,960</u>
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks and financial institutions	1,038,761	4,185,697	-	-	814,852	6,039,310
Customers' current accounts	6,219,562	26	36	-	299	6,219,923
Sukuk financing	2,547,587	-	-	-	-	2,547,587
Other liabilities	646,995	-	-	-	-	646,995
Total liabilities	<u>10,452,905</u>	<u>4,185,723</u>	<u>36</u>	<u>-</u>	<u>815,151</u>	<u>15,453,815</u>
Equity of unrestricted investment account holders	<u>19,518,111</u>	<u>901,274</u>	<u>-</u>	<u>-</u>	<u>730</u>	<u>20,420,115</u>
Total liabilities and equity of unrestricted investment account holders	<u>29,971,016</u>	<u>5,086,997</u>	<u>36</u>	<u>-</u>	<u>815,881</u>	<u>35,873,930</u>

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

Geographical sector (continued)

2015	<i>Qatar</i> <i>QR'000</i>	<i>Other</i> <i>GCC</i> <i>QR'000</i>	<i>Europe</i> <i>QR'000</i>	<i>North</i> <i>America</i> <i>QR'000</i>	<i>Others</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Cash and balances with Qatar Central Bank	1,919,039	-	-	-	-	1,919,039
Due from banks	4,354,096	48,018	163,715	39,994	6,433	4,612,256
Financing assets	24,087,338	-	890,690	-	45	24,978,073
Investment securities	6,468,226	310,147	10,795	1,494	252,761	7,043,423
Investment in associates	348,758	-	-	-	-	348,758
Investment properties	246,001	188,639	-	-	-	434,640
Fixed assets	673,175	-	-	-	-	673,175
Intangible assets	16,589	-	-	-	-	16,589
Other assets	514,092	-	-	-	-	514,092
Total assets	<u>38,627,314</u>	<u>546,804</u>	<u>1,065,200</u>	<u>41,488</u>	<u>259,239</u>	<u>40,540,045</u>

Liabilities and equity of unrestricted investment account holders

Liabilities

Due to banks and financial institutions	649,344	4,111,929	5,424	9,146	210,718	4,986,561
Customers' current accounts	6,584,188	842	79	116	652	6,585,877
Sukuk financing	2,545,751	-	-	-	-	2,545,751
Other liabilities	814,710	-	-	-	-	814,710
Total liabilities	<u>10,593,993</u>	<u>4,112,771</u>	<u>5,503</u>	<u>9,262</u>	<u>211,370</u>	<u>14,932,899</u>
Equity of unrestricted investment account holders	<u>19,175,184</u>	<u>901,275</u>	<u>1</u>	<u>5</u>	<u>1,569</u>	<u>20,078,034</u>
Total liabilities and equity of unrestricted investment account holders	<u>29,769,177</u>	<u>5,014,046</u>	<u>5,504</u>	<u>9,267</u>	<u>212,939</u>	<u>35,010,933</u>

32 MATURITY PROFILE

<i>2016</i>	<i>Up to 3 months QR'000</i>	<i>3 to 6 months QR'000</i>	<i>6 months - 1 year QR'000</i>	<i>1 to 3 years QR'000</i>	<i>Over 3 years QR'000</i>	<i>Total QR'000</i>
Cash and balances with Qatar Central Bank	660,611	-	-	-	1,377,340	2,037,951
Due from banks	2,821,465	764,351	185,353	-	-	3,771,169
Financing assets	5,094,534	2,712,260	6,062,277	3,755,954	9,608,301	27,233,326
Investment securities	599,300	400,000	326,129	4,017,068	2,032,411	7,374,908
Investment in associates	-	-	-	-	336,544	336,544
Investment properties	-	-	-	-	430,590	430,590
Fixed assets	-	-	-	-	680,618	680,618
Intangible assets	-	-	-	-	18,283	18,283
Other assets	586,291	81,280	-	-	-	667,571
Total assets	9,762,201	3,957,891	6,573,759	7,773,022	14,484,087	42,550,960
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks and financial institutions	4,162,005	327,371	396,559	1,153,375	-	6,039,310
Customers' current accounts	6,219,923	-	-	-	-	6,219,923
Sukuk financing	-	-	2,547,587	-	-	2,547,587
Other liabilities	458,144	30,094	111,940	-	46,817	646,995
Total liabilities	10,840,072	357,465	3,056,086	1,153,375	46,817	15,453,815
Equity of unrestricted investment account holders	11,875,954	2,940,051	2,201,493	3,402,617	-	20,420,115
Total liabilities and equity of unrestricted investment account holders	22,716,026	3,297,516	5,257,579	4,555,992	46,817	35,873,930
Maturity gap	(12,953,825)	660,375	1,316,180	3,217,030	14,437,270	6,677,030

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32 MATURITY PROFILE (CONTINUED)

2015	<i>Up to 3 months QR'000</i>	<i>3 to 6 months QR'000</i>	<i>6 months - 1 year QR'000</i>	<i>1 to 3 years QR'000</i>	<i>Over 3 years QR'000</i>	<i>Total QR'000</i>
Cash and balances with Qatar Central Bank	533,408	-	-	-	1,385,631	1,919,039
Due from banks	4,612,256	-	-	-	-	4,612,256
Financing assets	6,019,718	3,429,143	3,342,543	6,206,516	5,980,153	24,978,073
Investment securities	270,930	75,000	151,880	4,619,240	1,926,373	7,043,423
Investment in associates	-	-	-	-	348,758	348,758
Investment properties	-	-	-	251,199	183,441	434,640
Fixed assets	-	-	-	-	673,175	673,175
Intangible assets	-	-	-	-	16,589	16,589
Other assets	444,869	69,223	-	-	-	514,092
Total assets	11,881,181	3,573,366	3,494,423	11,076,955	10,514,120	40,540,045
Liabilities and equity of unrestricted investment account holders						
Liabilities						
Due to banks and financial institutions	3,428,724	586,537	-	971,300	-	4,986,561
Customers' current accounts	6,585,877	-	-	-	-	6,585,877
Sukuk financing	-	-	-	2,545,751	-	2,545,751
Other liabilities	286,976	28,602	454,900	-	44,232	814,710
Total liabilities	10,301,577	615,139	454,900	3,517,051	44,232	14,932,899
Equity of unrestricted investment account holders	12,159,859	3,172,725	2,958,680	1,786,770	-	20,078,034
Total liabilities and equity of unrestricted investment account holders	22,461,436	3,787,864	3,413,580	5,303,821	44,232	35,010,933
Maturity gap	(10,580,255)	(214,498)	80,843	5,773,134	10,469,888	5,529,112

33 BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>2016</i>	<i>2015</i>
Net profit for the year attributable to the shareholders of the Bank (QR'000)	784,771	784,152
Weighted average number of outstanding shares (thousands)	151,369	151,369
Basic and diluted earnings per share (QR)	<u>5.18</u>	<u>5.18</u>

34 CASH AND CASH EQUIVALENTS

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

	<i>2016</i> <i>QR'000</i>	<i>2015</i> <i>QR'000</i>
Cash and balances with Qatar Central Bank (excluding restricted QCB reserve account)	660,611	533,408
Due from banks	1,886,602	2,453,756
	<u>2,547,213</u>	<u>2,987,164</u>

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

35 RELATED PARTIES

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

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

	2016			2015		
	<i>Associate companies QR'000</i>	<i>Board of Directors QR'000</i>	<i>Sharholders and others QR'000</i>	<i>Associate Companies QR'000</i>	<i>Board of Directors QR'000</i>	<i>Sharholders and others QR'000</i>
Assets:						
Financing assets	7,458	662,231	3,097,261	18,316	700,376	2,796,260
Equity of unrestricted investment account holders	14,453	84,133	149,024	31,125	109,858	336,332
Off balance sheet items:						
Contingent liabilities, guarantees and other commitments	3,046	200	24,382	4,668	200	81,134
Consolidated statement of income items:						
Income from financing assets	753	28,810	108,936	1,007	38,521	153,794
Profit paid on deposits	217	1,262	2,235	467	1,648	5,045
Board remunerations	-	13,704	-	-	13,774	-

Transactions with key management personnel

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

	2016 QR'000	2015 QR'000
Mortgage and other secured financings	2,747	2,241
Credit cards	88	44
	<u>2,835</u>	<u>2,285</u>

Key management personnel compensation for the year comprised:

	2016 QR'000	2015 QR'000
Short-term benefits	12,152	12,662
Long-term benefits	755	801
	<u>12,907</u>	<u>13,463</u>

36 ZAKAH

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

37 SHARI'A SUPERVISORY BOARD

The Shari'a Supervisory Board of the Group consists of 3 scholars who are specialised in Shari'a principles and they ensure the Group's compliance with general Islamic principles and work in accordance with the issued Fatwas and guiding rules. The Board's review includes examining the evidence related to documents and procedures adopted by the Group in order to ensure that its activities are according to the principles of Islamic Shari'a.

38 SOCIAL AND SPORTS FUNDS APPROPRIATION

The Group discharges its social responsibilities through donations to charitable causes and organizations when profits are reported. The Group has created provisions during the year of 2016 by QR 19.62 million which represents 2.5% of net profit as per Law No.13 for year 2008 and explanatory notes issued for 2010 (2015: QR 19.60 million).

39 COMPARATIVE FIGURES

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