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

UNAUDITED INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

30 JUNE 2017

Building a better working world

Ernst & Young - (Qatar Branch)
P.O. Box 164
Burj Al Gassar, 24th floor
Majlis Al Taawon Street, Onaiza
West Bay
Doha, State of Qatar

Tel: +974 4457 4111
Fax: +974 4441 4649
doha@qa.ey.com
ey.com/mena

REPORT ON REVIEW OF UNAUIDTED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF QATAR INTERNATIONAL ISLAMIC BANK (Q.P.S.C)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Qatar International Islamic Bank (Q.P.S.C) ("QIIB" or the "Bank") and its subsidiary (together referred to as the "Group") as at 30 June 2017, and the related interim condensed consolidated statement of income for the three-month and six-month periods ended 30 June 2017, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended and the related explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.

Firas Qoussous
of Ernst & Young
Auditor's Registration No. 236

Date: 23 July 2017
Doha

ERNST & YOUNG
Doha
محاسبون قانونيون
الدوحة
22 - 2
ارنست ويونغ

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	*30 June 2017 (Unaudited) QR'000*	*31 December 2016 (Audited) QR'000*	*30 June 2016 (Unaudited) QR'000*
Assets				
Cash and balances with Qatar Central Bank		**2,773,291**	2,037,951	1,966,536
Due from banks		**5,216,551**	3,771,169	4,684,953
Financing assets	6	**28,692,524**	27,233,326	26,692,222
Investment securities	7	**6,797,552**	7,374,908	6,802,193
Investment in associates		**381,546**	336,544	347,892
Investment properties		**428,565**	430,590	432,614
Fixed assets		**722,021**	680,618	671,110
Intangible assets		**18,331**	18,283	19,209
Other assets		**836,185**	667,571	648,883
Total assets		**45,866,566**	42,550,960	42,265,612
Liabilities, equity of investment account holders and equity				
Liabilities				
Due to banks and financial institutions		**7,229,289**	6,039,310	5,429,576
Customers' current accounts		**7,210,837**	6,219,923	6,810,881
Sukuk financing		**2,548,505**	2,547,587	2,546,670
Other liabilities		**713,881**	646,995	568,169
Total liabilities		**17,702,512**	15,453,815	15,355,296
Equity of investment account holders	8	**21,609,946**	20,420,115	21,533,064
Equity				
Share capital		**1,513,687**	1,513,687	1,513,687
Legal reserve	9	**2,452,360**	2,452,360	2,452,360
Risk reserve	10	**572,152**	572,152	548,401
Fair value reserves		**30,339**	13,036	12,400
Other reserves	11	**83,169**	84,796	84,477
Proposed cash dividends	12	**-**	605,476	-
Retained earnings		**902,401**	435,523	765,927
Total equity attributable to shareholders of the Bank		**5,554,108**	5,677,030	5,377,252
Sukuk eligible as additional capital	13	**1,000,000**	1,000,000	-
Total equity		**6,554,108**	6,677,030	5,377,252
Total liabilities, equity of investment account holders and equity		**45,866,566**	42,550,960	42,265,612

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors on 23 July 2017 and were signed on its behalf by:

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

Jamal Abdulla Al-Jamal
Acting Chief Executive Officer

The attached notes 1 to 16 form part of these unaudited interim condensed consolidated financial statements

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the six months ended 30 June 2017

	Three months ended		*Six months ended*	
	30 June 2017 (Unaudited) QR'000	*30 June 2016 (Unaudited) QR'000*	***30 June 2017 (Unaudited) QR'000***	*30 June 2016 (Unaudited) QR'000*
Income from financing activities	**329,289**	309,895	**671,471**	605,089
Net income from investing activities	**78,198**	71,897	**149,468**	138,803
Total income from financing and investing activities	**407,487**	381,792	**820,939**	743,892
Fee and commission income	**39,977**	38,377	**86,444**	80,442
Fee and commission expense	**(9,449)**	(10,650)	**(18,685)**	(21,674)
Net fee and commission income	**30,528**	27,727	**67,759**	58,768
Net foreign exchange gains	**11,931**	8,135	**21,265**	15,308
Share of results of investments in associates	**-**	(866)	**(2)**	(866)
Total income	**449,946**	416,788	**909,961**	817,102
Staff costs	**(35,612)**	(37,450)	**(75,704)**	(71,621)
Depreciation and amortisation	**(5,075)**	(4,564)	**(9,878)**	(8,880)
Finance expense	**(40,633)**	(36,862)	**(81,023)**	(69,147)
Other expenses	**(33,644)**	(31,430)	**(70,307)**	(54,517)
Total expenses	**(114,964)**	(110,306)	**(236,912)**	(204,165)
Impairment provision recovered on investment securities	**-**	-	**485**	-
Impairment loss provided on financing assets	**-**	-	**(3,000)**	-
Net profit for the period before return to investment account holders	**334,982**	306,482	**670,534**	612,937
Share of investment account holders of profit	**(106,242)**	(86,500)	**(205,283)**	(169,844)
Net profit for the period	**228,740**	219,982	**465,251**	443,093
Earnings per share				
Basic and diluted earnings per share (QR per share)	**1.51**	1.45	**3.07**	2.93

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Notes	*Share capital QR'000*	*Legal reserve QR'000*	*Risk reserve QR'000*	*Fair value reserves 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 2017 (*Audited*)		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
Fair value reserve movement		-	-	-	17,303	-	-	-	17,303	-	17,303
Net profit for the period		-	-	-	-	-	-	465,251	465,251	-	465,251
Total recognised income and expense for the period		-	-	-	17,303	-	-	465,251	482,554	-	482,554
Cash dividends paid to the shareholders	12	-	-	-	-	-	(605,476)	-	(605,476)	-	(605,476)
Net movement in other reserves	11	-	-	-	-	(1,627)	-	1,627	-	-	-
Balance at 30 June 2017 (*Unaudited*)		**1,513,687**	**2,452,360**	**572,152**	**30,339**	**83,169**	**-**	**902,401**	**5,554,108**	**1,000,000**	**6,554,108**

The attached notes 1 to 16 form part of these unaudited interim condensed consolidated financial statements

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

	Note	*Share capital QR'000*	*Legal reserve QR'000*	*Risk reserve QR'000*	*Fair value reserves QR'000*	*Other reserves QR'000*	*Proposed cash dividends QR'000*	*Retained earnings QR'000*	*Total QR'000*
Balance at 1 January 2016 (*Audited*)		1,513,687	2,452,360	548,401	1,877	84,477	605,476	322,834	5,529,112
Fair value reserve movement		-	-	-	10,523	-	-	-	10,523
Net profit for the period		-	-	-	-	-	-	443,093	443,093
Total recognised income and expense for the period		-	-	-	10,523	-	-	443,093	453,616
Cash dividends paid to the shareholders	12	-	-	-	-	-	(605,476)	-	(605,476)
Balance at 30 June 2016 (*Unaudited*)		1,513,687	2,452,360	548,401	12,400	84,477	-	765,927	5,377,252

The attached notes 1 to 16 form part of these unaudited interim condensed consolidated financial statements

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2017

	Notes	*Six months ended*	
		30 June 2017 (Unaudited) QR'000	*30 June 2016 (Unaudited) QR'000*
Cash flows from operating activities			
Net profit for the period		**465,251**	443,093
Net changes in operating assets and liabilities		**(615,965)**	(2,561,572)
Net cash flows used in operating activities		**(150,714)**	(2,118,479)
Cash flows from investing activities			
Purchase of investment securities		**(682,232)**	(228,533)
Acquisition of investment in associates		**(46,630)**	-
Proceed from sale / redemption of investment securities		**1,292,987**	490,479
Purchase of fixed assets		**(46,870)**	(2,574)
Purchase of intangible assets		**(2,438)**	(4,838)
Dividends received from associate companies		**1,627**	-
Dividends income received		**815**	1,821
Net cash flows from investing activities		**517,259**	256,355
Cash flows from financing activities			
Change in equity of investment account holders		**1,164,117**	1,444,628
Dividends paid to shareholders	12	**(605,476)**	(605,476)
Net cash flows from financing activities		**558,641**	839,152
Net increase (decrease) in cash and cash equivalents		**925,186**	(1,022,972)
Cash and cash equivalents at 1 January		**2,547,213**	2,987,164
Cash and cash equivalents at 30 June	14	**3,472,399**	1,964,192

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Qatar International Islamic Bank (Q.P.S.C) ("QIIB" or "the Bank") was incorporated under Amiri Decree No. 52 of 1990. The Bank operates through its head office located on Grand Hamad Street in Doha and 20 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 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 Bank and regulations of Qatar Central Bank (QCB).

The unaudited interim condensed consolidated financial statements of the Group for the period ended 30 June 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 23 July 2017.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements of the Bank and its subsidiary (together referred to as the "Group") for the six months ended 30 June 2017 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting". The unaudited interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. In addition, results for the six month period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

The preparation of the unaudited interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The actual results may differ from these estimates.

The significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

The Group's financial risk management objectives are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, which were prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (the "AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, related regulations of Qatar Central Bank and applicable provisions of the Qatar Commercial Company's Law No. 11 of 2015. In line with the requirements of AAOIFI, for matters which are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards (the "IFRSs") as issued by the International Accounting Standards Board ("IASB").

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New standards and amendments and interpretations effective from 1 January 2017
There are no news standards, amendments and interpretations effective from 1 January 2017.

New standards and 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 program is further advanced.

Basis of consolidation
The unaudited interim condensed consolidated financial statements include the financial statements of the Bank and its following special purpose entity after elimination of intercompany balances and transactions:

	Country of incorporation	*Principal business activity*	*Effective percentage of ownership*	
			30 June 2017	*31 December 2016*
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.

Investment in an associate (Umnia Bank)
The Group has entered into an agreement with Crédit Immobilier et Hôtelier SA to establish a new bank in Morocco. The management has assessed that Group has a significant influence over this entity through 40% equity share. Therefore, the Group interest in Umnia Bank is accounted using the equity method. Umnia Bank is engaged in banking, financing and investment activities in accordance with its Article of Association and is incorporated in Morocco. Investment is initially recognised at cost and will be adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

3 SEGMENT INFORMATION

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 monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Corporate banking	Includes financings, deposits and other transactions and balances with corporate customers, government and semi government institutions and SME customers.
Retail banking	Includes financings, deposits and other transactions and balances with retail customers.

3 SEGMENT INFORMATION (CONTINUED)

Treasury & Investments	Undertakes the Group's funding and centralised risk management activities through borrowings, issues 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.

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

Six months ended 30 June 2017 (Unaudited)	***Corporate banking QR'000***	***Retail banking QR'000***	***Treasury & Investments QR'000***	***Total QR'000***
External revenue:				
Total income from financing and investing activities	**460,400**	**211,071**	**149,468**	**820,939**
Net fee and commission income	**36,371**	**31,388**	**-**	**67,759**
Net foreign exchange gains	**-**	**-**	**21,265**	**21,265**
Share of results of investments in associates	**-**	**-**	**(2)**	**(2)**
Total segment income	**496,771**	**242,459**	**170,731**	**909,961**
Other material non-cash items:				
Impairment provision recovered on investment securities	**-**	**-**	**485**	**485**
Impairment loss provided on financing assets	**(3,000)**	**-**	**-**	**(3,000)**
Reportable segment net profit before allocation of expenses	**493,771**	**242,459**	**171,216**	**907,446**

Six months ended 30 June 2016 (Unaudited)	*Corporate banking QR'000*	*Retail banking QR'000*	*Treasury & Investments QR'000*	*Total QR'000*
External revenue:				
Total income from financing and investing activities	396,785	208,304	138,803	743,892
Net fee and commission income	31,969	26,799	-	58,768
Net foreign exchange gains	-	-	15,308	15,308
Share of results of investments in associates	-	-	(866)	(866)
Reportable segment net profit before allocation of expenses	428,754	235,103	153,245	817,102

3 SEGMENT INFORMATION (CONTINUED)

30 June 2017 (Unaudited)	***Corporate banking QR'000***	***Retail banking QR'000***	***Treasury & Investments QR'000***	***Total QR'000***
Reportable segment assets	**21,641,584**	**7,050,940**	**13,616,574**	**42,309,098**
Reportable segment liabilities and equity of investment account holders	**8,632,586**	**20,188,196**	**9,777,794**	**38,598,576**

31 December 2016 (Audited)	*Corporate banking QR'000*	*Retail banking QR'000*	*Treasury & Investments QR'000*	*Total QR'000*
Reportable segment assets	20,437,913	6,795,413	12,279,196	39,512,522
Reportable segment liabilities and equity of investment account holders	7,289,034	19,351,004	8,586,897	35,226,935

30 June 2016 (Unaudited)	*Corporate banking QR'000*	*Retail banking QR'000*	*Treasury & Investments QR'000*	*Total QR'000*
Reportable segment assets	19,888,388	6,803,834	12,522,972	39,215,194
Reportable segment liabilities and equity of investment account holders	9,250,805	19,093,140	7,976,246	36,320,191

The tables below provide reconciliation of reportable segment revenues, profit, assets, liabilities and equity of investment account holders:

	Six months ended	
	30 June 2017 (Unaudited) QR'000	*30 June 2016 (Unaudited) QR'000*
Reportable segment net profit before allocation of expenses	**907,446**	817,102
Unallocated expenses	**(442,195)**	(374,009)
Net profit for the period	**465,251**	443,093

3 SEGMENT INFORMATION (CONTINUED)

	30 June 2017 (Unaudited) QR'000	*31 December 2016 (Audited) QR'000*	*30 June 2016 (Unaudited) QR'000*
Assets			
Total assets for reportable segments	**42,309,098**	39,512,522	39,215,194
Other unallocated amounts	**3,557,468**	3,038,438	3,050,418
Consolidated total assets	**45,866,566**	42,550,960	42,265,612
Liabilities and equity of investment account holders			
Total liabilities and equity of investment account holders for reportable segments	**38,598,576**	35,226,935	36,320,191
Other unallocated amounts	**713,882**	646,995	568,169
Consolidated total liabilities and equity of investment account holders	**39,312,458**	35,873,930	36,888,360

4 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

30 June 2017 (Unaudited)	***Fair value through statement of income QR'000***	***Fair value through equity QR'000***	***Amortised cost QR'000***	***Total carrying amount QR'000***	***Fair value QR'000***
Cash and balances with Qatar Central Bank	**-**	**-**	**2,773,291**	**2,773,291**	**2,773,291**
Due from banks	**-**	**-**	**5,216,551**	**5,216,551**	**5,216,551**
Financing assets	**-**	**-**	**28,692,524**	**28,692,524**	**28,692,524**
Investment securities:					
- Measured at fair value	**1,030**	**246,367**	**-**	**247,397**	**247,397**
- Measured at amortised cost	**-**	**-**	**6,550,155**	**6,550,155**	**6,481,535**
Other assets	**-**	**-**	**741,479**	**741,479**	**741,479**
	1,030	**246,367**	**43,974,000**	**44,221,397**	**44,152,777**
Due to banks and financial institutions	**-**	**-**	**7,229,289**	**7,229,289**	**7,229,289**
Customers' current accounts	**-**	**-**	**7,210,837**	**7,210,837**	**7,210,837**
Sukuk financing	**-**	**-**	**2,548,505**	**2,548,505**	**2,548,505**
Other liabilities	**-**	**-**	**713,881**	**713,881**	**713,881**
	-	**-**	**17,702,512**	**17,702,512**	**17,702,512**

4 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

31 December 2016 (Audited)	*Fair value through statement of income QR'000*	*Fair value through equity QR'000*	*Amortised cost QR'000*	*Total carrying amount QR'000*	*Fair value QR'000*
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
	1,220	176,969	40,825,501	41,003,690	40,961,893
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
	-	-	15,453,815	15,453,815	15,453,815

30 June 2016 (Unaudited)	*Fair value through statement of income QR'000*	*Fair value through equity QR'000*	*Amortised cost QR'000*	*Total carrying amount QR'000*	*Fair value QR'000*
Cash and balances with Qatar Central Bank	-	-	1,966,536	1,966,536	1,966,536
Due from banks	-	-	4,684,953	4,684,953	4,684,953
Financing assets	-	-	26,692,222	26,692,222	26,692,222
Investment securities:					
- Measured at fair value	1,240	168,278	-	169,518	169,518
- Measured at amortised cost	-	-	6,632,675	6,632,675	6,633,631
Other assets	-	-	552,626	552,626	552,626
	1,240	168,278	40,529,012	40,698,530	40,699,486
Due to banks and financial institutions	-	-	5,429,576	5,429,576	5,429,576
Customers' current accounts	-	-	6,810,881	6,810,881	6,810,881
Sukuk financing	-	-	2,546,670	2,546,670	2,546,670
Other liabilities	-	-	568,169	568,169	568,169
	-	-	15,355,296	15,355,296	15,355,296

4 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Valuation of financial investments
The Group measures fair value using the following fair value hierarchy that reflects the significant the impacts used in making the measurement valuation technique:

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

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

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

Financial asset classification
The table below analyses investment securities measured at fair value at the end of the period, by the level in the fair value hierarchy into which the fair value measurementis categorised:

30 June 2017 (Unaudited)	*Fair value measurement using*			
	Total QR'000	*Quoted prices in active markets (Level 1) QR'000*	*Significant observable inputs (Level 2) QR'000*	*Significant unobservable inputs (Level 3) QR'000*
- **Quoted equity-type investments classified as fair value through income statement**	**1,030**	**1,030**	-	-
- **Quoted equity-type investments classified as fair value through equity**	**140,027**	**140,027**	-	-
- **Unquoted equity-type investments classified as fair value through equity**	**106,340**	-	-	**106,340**

4 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial asset classification (continued)

31 December 2016 (Audited)	*Total QR'000*	*Fair value measurement using*		
		Quoted prices in active markets (Level 1) QR'000	*Significant observable inputs (Level 2) QR'000*	*Significant unobservable inputs (Level 3) QR'000*
- 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

5 IMPAIRMENT

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 assets 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, or economic conditions that correlate with defaults. 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 at 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 at fair value through equity, the cumulative loss previously recognised in the unaudited interim condensed consolidated statement of changes in equity is removed from equity and recognised in the unaudited interim condensed consolidated statement of income. Impairment losses recognised in the unaudited interim condensed consolidated statement of income on equity-type investments are subsequently reversed through equity. The Group has recovered QR 0.5 million (30 June 2016: nil) as impairment on investment securities which were recognised under "Impairment provision recovered on investment securities" in the unaudited interim condensed consolidated statement of income.

Financial assets carried at amortised cost (including investment in Sukuk 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 unaudited interim condensed 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 unaudited interim condensed 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. The Group has provided QR 3 million (30 June 2016: nil) as impairment on financing assets which was recognised under "Impairment loss provided on financing assets" in the unaudited interim condensed consolidated statement of income.

Investment in associates
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 unaudited interim condensed consolidated statement of income. The Group has not recognised impairment during the period.

6 FINANCING ASSETS

	30 June 2017 (Unaudited) QR'000	*31 December 2016 (Audited) QR'000*	*30 June 2016 (Unaudited) QR'000*
Total financing assets	**30,699,598**	29,227,989	28,541,002
Less: Deferred profit	**(1,598,092)**	(1,599,439)	(1,571,919)
Specific impairment of financing assets	**(367,168)**	(364,848)	(248,227)
Suspended profit	**(41,814)**	(30,376)	(28,634)
Net financing assets	**28,692,524**	27,233,326	26,692,222

Note:
The total non-performing financing assets including past dues but not impaired amounted to QR 659 million, representing 2.15 % of the gross financing assets as at 30 June 2017 (31 December 2016: amounted to QR 510 million, representing 1.74% of the gross financing assets).

7 INVESTMENT SECURITIES

	30 June 2017 (Unaudited)			*31 December 2016 (Audited)*			*30 June 2016 (Unaudited)*		
	Quoted QR'000	***Unquoted QR'000***	***Total QR'000***	*Quoted QR'000*	*Unquoted QR'000*	*Total QR'000*	*Quoted QR'000*	*Unquoted QR'000*	*Total QR'000*
Investments classified at fair value through income statement									
· Equity-type investments	**1,030**	-	**1,030**	1,220	-	1,220	1,240	-	1,240
	1,030	-	**1,030**	1,220	-	1,220	1,240	-	1,240
Debt-type investments classified at amortised cost									
- State of Qatar Sukuk	**1,969,846**	**3,214,020**	**5,183,866**	1,941,899	4,014,300	5,956,199	1,934,238	3,550,000	5,484,238
- Fixed rate	**1,347,372**	**18,917**	**1,366,289**	1,221,602	18,918	1,240,520	1,128,266	18,919	1,147,185
- Floating rate	-	-	-	-	-	-	-	1,252	1,252
	3,317,218	**3,232,937**	**6,550,155**	3,163,501	4,033,218	7,196,719	3,062,504	3,570,171	6,632,675
Equity-type investments classified at fair value through equity	**140,027**	**106,340**	**246,367**	70,978	105,991	176,969	62,277	106,001	168,278
	3,458,275	**3,339,277**	**6,797,552**	3,235,699	4,139,209	7,374,908	3,126,021	3,676,172	6,802,193

8 EQUITY OF INVESTMENT ACCOUNT HOLDERS

	30 June 2017 (Unaudited) QR'000	*31 December 2016 (Audited) QR'000*	*30 June 2016 (Unaudited) QR'000*
Term accounts	**15,376,304**	13,834,410	15,273,798
Savings accounts	**6,187,348**	6,565,125	6,246,790
	21,563,652	20,399,535	21,520,588
Share in fair value reserve	**46,294**	20,580	12,476
Total	**21,609,946**	20,420,115	21,533,064

9 LEGAL RESERVE

In accordance with QCB Law No. 13 of 2012 as amended, 10% of net profit 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 as the legal reserve equal more than 100% of the paid up share capital.

10 RISK RESERVE

In accordance with QCB regulations, the minimum requirement for risk is 2.5% of the 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. No transfer to risk reserve has been made during the period as the required amount will be transferred at year end (the year ended 31 December 2016: QR 23.7 million was transferred to risk reserve).

11 OTHER RESERVES

Other reserves represent the undistributed share of associates profits after deducting the cash dividends received. The dividends received from associates during the period amounted to QR 1.6 Million (30 June 2016: nil).

12 CASH DIVIDENDS

On 3 April 2017, the shareholders of the Group approved in the general assembly meeting 40% cash dividends for the year ended 31 December 2016 (QR 4 per share), (30 June 2016: 40% cash dividends for the year ended 31 December 2015 (QR 4 per share).

13 SUKUK ELIGIBLE AS ADDITIONAL CAPITAL

During the year 2016, the Group issued perpetual sukuk eligible as additional capital for an amount of QR 1 billion. 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.

14 CASH AND CASH EQUIVALENTS

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

	30 June 2017 (Unaudited) QR'000	*31 December 2016 (Audited) QR'000*	*30 June 2016 (Unaudited) QR'000*
Cash and balances with Qatar Central Bank (excluding restricted QCB reserve account)	**1,361,684**	660,611	543,843
Due from banks	**2,110,715**	1,886,602	1,420,349
	3,472,399	2,547,213	1,964,192

15 CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2017 (Unaudited) QR'000	*31 December 2016 (Audited) QR'000*	*30 June 2016 (Unaudited) QR'000*
Contingent liabilities			
Unused financing facilities	**6,123,626**	4,989,753	5,479,220
Guarantees	**3,963,140**	3,552,993	3,573,556
Letters of credit	**431,170**	344,008	402,730
Others	**11,609**	9,075	9,203
	10,529,545	8,895,829	9,464,709

16 RELATED PARTY TRANSACTIONS

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 significant shareholders and entities over which the Group and the shareholders' exercise significant influence, directors and executive management of the Group.

The amount outstanding/transactions during the period / year with members of the Board or the companies in which they have significant interests were as follows:

	30 June 2017 (Unaudited)			*31 December 2016 (Audited)*			*30 June 2016 (Unaudited)*		
	Associate companies QR'000	***Board of Directors QR'000***	***Others QR'000***	*Associate companies QR'000*	*Board of Directors QR'000*	*Others QR'000*	*Associate companies QR'000*	*Board of Directors QR'000*	*Others QR'000*
Assets:									
Financing assets	**14,431**	**633,309**	**3,251,710**	7,458	662,231	3,097,261	15,289	688,587	3,014,530
Equity of investment account holders	**10,327**	**7,398**	**108,001**	14,453	84,133	149,024	18,467	72,556	128,665
Off balance sheet items:									
Contingent liabilities, guarantees and other commitments	**3,046**	**-**	**24,724**	3,046	200	24,382	3,246	200	58,157

16 RELATED PARTY TRANSACTIONS (CONTINUED)

	Six months ended 30 June 2017 (Unaudited)			*Six months ended 30 June 2016 (Unaudited)*		
	Associate companies QR'000	***Board of Directors QR'000***	***Others QR'000***	*Associate companies QR'000*	*Board of Directors QR'000*	*Others QR'000*
Consolidated statement of income items:						
Net income from financing activities	**397**	**17,416**	**89,422**	420	18,936	82,900
Share of equity of investment account holders in profit	**77**	**55**	**810**	139	544	965

Key management personnel compensation for the period comprised:

	Six months ended	
	30 June 2017 (Unaudited) QR'000	*30 June 2016 (Unaudited) QR'000*
Short term benefits	**6,967**	6,507
Long term benefits	**409**	377
	7,376	6,884