

# ANNUAL REPORT 2017 31 DECEMBER 2017

PARTNERS IN VALUE CREATION





HIS HIGHNESS THE FATHER EMIR SHEIKH HAMAD BIN KHALIFA AL THANI



HIS HIGHNESS SHEIKH TAMIM BIN HAMAD AL THANI EMIR OF THE STATE OF QATAR



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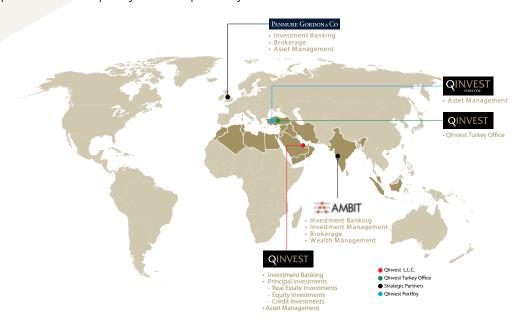


QINVEST is Qatar's leading investment group and, with operations across the Middle East, Africa and Europe, is one of the most prominent Islamic financing institutions in the world. QINVEST has built world class investment and advisory capabilities, with the highest standards of governance and transparency underpinning its client-focused approach. The group's priority is to deliver high-value propositions, considered solutions and tangible results for its clients and shareholders.

QINVEST's three business lines are Investment Banking, Asset Management and Principal Investments which focuses on Real Estate, Credit and Equity investments; all supported by a dedicated Client Coverage & Distribution team. It has unrivalled expertise in structuring Islamic products and provides clients with Sharia'a compliant solutions quickly and competitively.

The group has offices in Doha and Istanbul, as well as affiliates in India and the UK. Its team of investment professionals is the largest in the MENA region and provides a blend of broad international experience, deep regional knowledge and unparalleled relationships in Qatar. This reach and range of skills uniquely positions the group to facilitate the flow of business between Qatar, the region and global markets, making it a key institution in Qatar's international investment plans.

QINVEST was licensed by the Qatar Financial Centre Authority in April 2007 and is authorised by the Qatar Financial Centre Regulatory Authority. QINVEST's shareholders include Qatar Islamic Bank and other institutional investors, as well as high-net-worth individuals. The group has authorized capital of US\$ 1 billion and paid up capital of US\$ 705,357,142.





#### Vision

Our vision is to become the world's leading Sharia'a compliant investment group.

#### Mission

To provide a wide range of high value services covering advisory, financing and investment needs; creating enduring relationships built on trust, which put our shareholders and clients at the heart of everything we do.

To continuously enhance our capabilities while adhering to the highest standards of governance and transparency.

To always act in the best interests of our clients, shareholders, employees and the societies in which we operate.

#### **Values**

Our core values, The Six Cs, were built to shape and define the culture of the bank and were developed over time with an understanding that business success is built upon an appreciation of the needs of all our stakeholders. Underpinning all of these values is a Sharia'a compliant approach to delivering our Investment Banking, Principal Investments and Asset Management services.

- 1. **Commitment** We are committed to understanding the needs of our stakeholders and always strive to exceed their expectations.
- 2. Clarity We are open and honest in everything we do.
- 3. **Confidence** Mutual trust is essential for us to perform at our best in any market conditions. It is our responsibility to earn this trust so we can make the best decisions for our clients.
- 4. **Cohesion** Our people are critical to our success. We strive to create an environment where our people work together and enhance their effectiveness, so we can better serve our clients.
- 5. **Community** We treat all our stakeholders with respect and keep them at the centre of every business decision we make.
- 6. **Creativity** In order to remain at the forefront of the Islamic finance industry, we are constantly seeking to develop more effective solutions and services for our clients.







## HIS EMINENCE SHEIKH DR WALID BIN HADI

CHAIRMAN

HIS EMINENCE SHEIKH DR ABDUL SATTAR ABU GHUDDA

BOARD MEMBER

HIS EMINENCE SHEIKH DR NIZAM YACOUBY

BOARD MEMBER















H.E. SHEIKH JASSIM BIN HAMAD BIN JASSIM BIN JABER AL THANI

CHAIRMAN

H.E. SHEIKH MUBARAK BIN ABDULLAH M. ALKHAFRAH

BOARD MEMBER

MR MOHAMED ABDULLATIF AL MANAA

BOARD MEMBER

BRIGADIER MR KHAMIS MUBARAK AL-KUWARI

BOARD MEMBER

MR SALAH MOHAMMED JAIDAH

BOARD MEMBER

MR BASSEL GAMAL
BOARD MEMBER

MR GOURANG Hemani

BOARD MEMBER





2017 has been a year of growth and development for QINVEST; while it continued to be an eventful year that witnessed several influential macroeconomic developments.

There was a notable return of confidence into global investment markets, following significant volatility in 2016, which demonstrated the value of the group's diversified and global portfolio of investments. In the region, geopolitical uncertainty continued to buffer our investment prospects, although the team again demonstrated its ability to quickly adapt to this unpredictable environment.

During the year, we also continued to advise on a significant number of high-profile transactions around the world, reinforcing the QINVEST brand in the region and further afield. Importantly, our prudent investment approach, stringent provisioning policy and underleveraged balance sheet has enabled us to protect shareholder value. Our clear aim going forward is to adhere to our proven business strategy to enhance our performance, allowing us to deliver long-term value to both clients and shareholders.

QINVEST reported robust performance in 2017. Revenues from all business lines amounted to QAR 368.6 million (US\$ 101.3 million), resulting in operating profit of QAR 177.3 million (US\$ 48.7 million) and net profit of QAR 65.9 million (US\$ 18.1 million). The group's global assets stood at QAR 4,459.8 million (US\$ 1,225.2 million). We maintain a healthy Capital Adequacy Ratio of 26%, as compared to the regulatory requirement of 10.5%. We continue to hold high levels of cash and remain well prepared for market corrections and a persistence of geopolitical tensions. Strengthening our balance sheet means that we are also poised to capture investment opportunities in key global markets at short notice.

While the consensus is for equity and commodity markets to remain fairly stable in 2018, we believe that there is still much uncertainty. We will therefore adopt a cautiously optimistic approach and the group will focus on executing its healthy pipeline of deal flow, taking advantage of our unique market positioning to leverage opportunities and deliver value for all of clients and shareholders.

The success of the group in 2017 reinforces our status as the leading investment bank in Qatar, and one of the world's most prominent Islamic financial institutions. Our efforts have not gone unrecognized and we are pleased to have been awarded a number of prestigious awards this year, a testament to the dedication of the team and the sustainability of our strategy.

On behalf of the Board of Directors, I would like to thank all of our shareholders for their support. I would also like to recognise the efforts of the entire QINVEST team for their professionalism and commitment to the success of the group.

Finally, I would like to express my gratitude to our Sharia'a Supervisory Board for their counsel and guidance on all our global activities during the year.



**Jassim Bin Hamad Bin Jassim Bin Jaber Al Thani** Chairman of the Board of Directors





In the face of adverse regional market conditions, QINVEST delivered profitable performance in 2017, demonstrating the sustainability and resilience of our business strategy, as well as the value of our diversified global investment portfolio. While we have seen a resurgence in commodity prices and robust performance in international markets, heightened geopolitical tensions in the region have tempered our growth.

However, our prudent management of risk, and our commitment to build a strong liquidity position and an underleveraged balance sheet, has allowed us to weather these challenges while ensuring that we remain poised to capture prospective investment opportunities. Throughout the year, we have also launched a series of new innovative products that serve our current clients and investors while allowing us to reach a wider client base. This has enabled us to meet demand across different asset classes, particularly in the international real estate market, in debt and equity instruments, and through funds.

Our revenues in 2017 were QAR 368.6 million (US\$ 101.3 million), resulting in operating profits of QAR 177.3 million (US\$ 48.7 million). The de-risking measures we have implemented, including the setting of higher provision rates, helped the group absorb external challenges to our business. Combined with a rigorous focus on boosting cost efficiencies, net profits attributable to shareholders reached QAR 65.9 million (US\$ 18.1 million) for the year.

Total assets stood at QAR 4,459.8 million (US\$ 1,225.2 million) by the end of 2017 with a capital adequacy ratio of 26% as per QFCRA Basel rules, compared to the regulatory requirement of 10.5%. We are therefore well-placed to manage a continuation of regional uncertainly during 2018 and beyond, if required.

QINVEST has also taken the decision to early adopt IFRS 9 accounting standard, reducing future volatility from its reported results.

Given the divergent performance of local and international markets in 2017, managing our diversified portfolio of investments across real estate, credit, and equities, has been a priority over the last year. During this

period, we have also developed our deal flow pipeline to enhance our relationship with prospective and existing clients. Throughout 2017, QINVEST reported a number of significant updates across our three key business lines - Investment Banking, Asset Management, and Principal Investments which focuses on Real Estate, Credit, and Equity Investments.

The Investment Banking Division had another busy and successful year in 2017. We completed a number of transactions and advisory mandates, including advising a local Qatari client on its investment in a leading Turkish Group, and a consortium of investors on the acquisition of a stake in a leading regional financial institution.

In the Sukuk markets, our Debt Capital Markets business acted as joint lead manager and bookrunner on a number of issuances, including Dar Al Arkan's five-year QAR 1.82 billion (US\$ 500 million) Sukuk, Ezdan Holding Group's five-year QAR 1.82 billion (US\$ 500 million Sukuk), Al Baraka Group's successful debut with a QAR 1.46 billion (US\$ 400 million) perpetual additional tier I Sukuk, and QIB's QAR 2.73 billion (US\$ 750 million) issuance. Our track record has allowed us to develop a healthy pipeline of transactions, advising local and international clients seeking to optimize their capital structure within the current market environment.

The Asset Management Division has had a strong year delivering impressive performance across both local and global markets with results that place QINVEST as a leader amongst its peer group. These achievements have been recognized through several awards and a number of our funds have also received four and five star ratings by Morningstar, distinguishing them as top performers within the relevant universe of funds. Within Istanbul, the team continues to deliver top quartile performance and has won a number of significant institutional mandates. We expect new changes in pension legislation and growing interest from international investors in Turkey to further bolster growth in this market over coming months.



In the first quarter of 2017, the Asset Management team launched the "QINVEST SQN Income Fund" in collaboration with SQN Capital Management, a leader within the global equipment leasing industry. The strategy aims to pay a 7% annual coupon paid on a monthly basis, with an IRR target of 8-9%. The first launch sold out ahead of the offer period with a second tranche of the same size raised in the fourth quarter of 2017 following significant client demand. During 2018, the team expect to launch the third in the series of Ijarah funds targeting a similar raise.

Our Principal Investments division, which focuses on real estate, credit, and equity investments, had another stellar year investing in both equity and high yielding credit.

On the Equity investments front, the team continued to manage a portfolio of third party managed and proprietary investments across MENA, European and Asian markets. The portfolio continues to perform strongly, delivering significant returns for investors on the back of positive macroeconomic tailwinds. During 2017, we completed the take-private of one of the group's strategic investment, one of the UK's most distinguished financial institutions, alongside Atlas Merchant Capital LLC. We are in the process of rolling out the company's new strategy and business plan.

In Credit Investments, QINVEST continued to deliver superior risk-adjusted returns with a focus on portfolio diversification, value maximizing rotation and liquidity optimization. The team successfully exited QAR 273 million (US\$ 75 million) worth of non-real estate credit investments generating average IRRs in the low to midteens. Additionally, the team deployed QAR 335 million (US\$ 92 million) across several investments in different sectors, predominantly in US Credit and emerging markets. The team is currently evaluating a number of new investment opportunities with a focus on risk diversification.

The real estate investment and advisory business has produced a solid year despite a glut of capital targeting a sector which has seen high valuations, therefore making well-priced opportunities hard to source. The team successfully closed six transactions and is in the process of investing around QAR 363 million (US\$ 100 million) of capital across a range of geographies, including southern European real estate, multi-family assets in the US, a mixed-use portfolio in Greater London, as well as financing for the planning phase of a development in Scotland.

The real estate business achieved various exits in the year including the partial divestment of an equity investment in Europe, which is expected to return in excess of a 2x multiple upon full exit, and the sale of a QAR 136 million (US\$ 37.5 million) mezzanine financing backed by a diversified portfolio of real estate assets across the US, which produced an IRR of 14.9%.

We have started 2018 with an active book of funded investments and a healthy pipeline of deals. Looking ahead, we will continue to leverage our strong local presence and international expertise to drive growth. Additionally, the team will look to continue delivering market leading performance, as well as expanding its overall product offering.

We will be addressing the market on the new structuring investment opportunities across different asset classes, in particular in the international real estate market, debt and equity investments, and funds. We expect to continue to face regional headwinds, but we will remain focused on delivering our strategy that has been proving to be working effectively. We will also seek to unlock value through exits or partial realizations of the existing portfolio as well as seeking fresh investment opportunities on an opportunistic basis.

I would like to thank everyone at QINVEST for their tireless efforts and dedication over the past 12 months. We have built a dynamic team of leading international experts with the experience and knowledge to enhance our status as one of the world's leading Islamic financing institutions. I must also thank our supportive shareholders for continuing to endorse our business strategy.

I would also like to express my gratitude to the Sharia'a Supervisory Board and Board of Directors for their counsel and leadership during the year.

Tamim Hamad Al-Kawari Chief Executive Officer

















## MR TAMIM HAMAD AL-KAWARI

CHIEF EXECUTIVE OFFICER

## MR MICHAEL Katounas

DEPUTY CHIEF EXECUTIVE OFFICER & HEAD OF INVESTMENT BANKING

## DR ATAF AHMED

HEAD OF ASSET MANAGEMENT

## MR BERNARD Barbour

HEAD OF LEGAL &
SHARIA'A AFFAIRS BOARD
SECRETARY

## MR CRAIG COWIE

HEAD OF REAL ESTATE INVESTMENTS & ADVISORY

## MR NASSER AL MAHMOUD

HEAD OF CLIENT COVERAGE AND DISTRIBUTION

## MR IBRAHIM Qasim

HEAD OF CREDIT INVESTMENTS & DEBT FINANCE

## MR DUNCAN Walker

CHIEF OPERATING OFFICER



#### Mr Tamim Hamad Al-Kawari Chief Executive Officer

Tamim joined QINVEST in 2012 from Goldman Sachs, where he was a Managing Director and Country Head for Qatar. In addition to his role as CEO, Tamim also heads the Principal Investments team.

Prior to joining Goldman Sachs, Tamim was the Chief Financial Officer for Qatargas' Transport Company, Nakilat, where he successfully implemented an US\$ 8 billion program to finance 27 liquefied natural gas (LNG) vessels that ship LNG from Ras Laffan to customers worldwide.

Prior joining Nakilat, Tamim served as the treasurer for the Qatargas Company. Earlier in his career he also worked as a trader at Qatar National Bank, where he traded a range of financial products.

Tamim has over 20 years of experience in investment banking and executing transactions, having worked at a number of leading Qatari and international institutions.

Tamim holds a BA in International Business with a minor in Political Science from George Washington University and an MBA from the American University - Washington, D.C.



Mr Michael Katounas Deputy Chief Executive Officer & Head of Investment Banking

Michael joined QINVEST in 2014 from Credit Suisse, where he built the MENA investment banking team. At Credit Suisse, he was responsible for leading some of the bank's largest transactions across the MENA and Europe regions.

Michael has over 19 years of experience having worked in leading financial institutions in London, Dubai, Amsterdam and Athens.

Throughout his career, Michael has executed private equity, M&A, corporate finance, debt and equity capital raising and restructuring transactions with a total value of more than US\$ 50 billion.

Michael holds a Master of Science from the London School of Economics and is a CFA charter holder.



Dr Ataf Ahmed Head of Asset Management

Dr Ataf Ahmed is the global head of Asset Management at QINVEST. He is responsible for launching and building the asset management franchise from inception in 2013 to a multi strategy and multi-asset class business, with a team located in four countries managing close to US\$ 1 Billion. The Asset Management group has won multiple awards and created QMAP, QINVEST's managed account fund platform, which is the world's first open architecture Sharia'a compliant managed account platform.

Prior to joining QINVEST, he was a Director in the UBS Wealth Management Hedge Funds group in Zurich where he had a range of responsibilities including oversight of a number of multi-billion fund of hedge funds as well as overseeing the advisory fund of hedge fund platform for the bank on a global basis. Dr. Ahmed started his career in the Barclays Group where he had a number of roles in different countries and parts of the organization and his last role was Head of Strategic Asset Allocation for Barclays Wealth in London. In his various roles, he has built quantitative optimization processes that utilize a range of risk and return metrics and can be optimized against multiple risk variables. Through this period he gained extensive experience in investment management across both traditional and alternative investments

Dr. Ahmed has PhD in Semiconductor Physics from the University of Cambridge and is CFA Charterholder.



Mr Bernard Barbour Head of Legal and Sharia'a Affairs Company Secretary

Bernard joined QINVEST in 2007 from the Central Bank of Lebanon, where he was a Senior Attaché in the Legal department.

At the Central Bank of Lebanon, he was responsible for drafting the Islamic Finance Regulatory and Legal Framework in the Republic of Lebanon, legislative prepositions to payment systems such as credit cards debit cards, settlements, clearing E-checks, E-money and netting among others.

Bernard has more than 20 years of experience in financial legal systems, including teaching financial, fiscal and contract law at leading universities in Lebanon.

Bernard holds an LLM degree in European law from Lausanne University, Switzerland, and an LLM degree in International Economic Law from Geneva University, Switzerland, a B.A. in Law from the Lebanese University, and a Diploma in English Legal Methods from Cambridge University, England.



Mr Craig Cowie Head of Real Estate Investments & Advisory

Craig joined QINVEST in 2010 from Al Rajhi Capital in Saudi Arabia, where he was Managing Director, Real Estate Advisory and Private Equity.

At Al Rajihi Capital, Craig's responsibilities included overseeing private real estate transactions and advising on and arranging capital for projects worth over US\$ 4 billion. Craig led a team in securing the sole financial advisory and arranging mandate to raise US\$ 3 billion for Jabal Omar Development Company, a listed entity on the Tadawul. Craig also led the Al Rajhi Capital negotiations and subsequent implementation of a joint venture with a GCC investment bank (and subsequently was a nominated board member) for a US\$ 500 million GCC focused real estate income yielding private equity fund.

Craig has over 20 years' experience investing in real estate assets, having initially worked for a real estate development company.

Craig holds a Bachelor of Commerce (Honors) degree in investment management from the University of Natal in South Africa.



Mr Nasser Al Mahmoud Head of Client Coverage & Distribution

Nasser joined QINVEST in 2013 from QNB Capital where he was responsible for client coverage in Qatar, as well as managing the bank's debt and project finance deals.

Nasser has 15 years of international experience working within the Middle East and in London, where he focused on M&A in the oil and gas sector and coverage of the MENA bond market. During his career, he had a strong track record of advising clients on raising debt and identifying strategies to enhance client profitability.

Nasser holds a BA in Electrical Engineering from George Washington University and has a Master's in Project Management from University of Houston.





Mr Ibrahim Qasim Head of Credit Investments & Debt Finance

Ibrahim joined QINVEST in 2016 from Deutsche Bank, where he was Global Head of Islamic Finance Structuring and a senior member of the Emerging Markets Structured Credit and Financing Structuring team.

In a career spanning over 15 years, Ibrahim has built extensive experience structuring and executing credit and acquisition finance solutions, capital markets transactions, as well as asset and liability management/restructuring mandates across MENA, Turkey and South East Asia.

Ibrahim is a Chartered Financial Analyst (CFA) and holds a Bachelor of Commerce degree with a Finance Major from McGill University



Mr Duncan Walker Chief Operating Officer

Duncan joined QINVEST in 2014 from Credit Suisse, where he held several managerial positions, most recently as Regional CFO for the Middle East and Africa region.

Over his career, Duncan has demonstrated an ability to improve operations, impact business growth and maximize profits through financial management, cost reductions, improved controls and efficiency improvements.

Duncan has over 20 years of experience in finance and management. He holds a Bachelor of Science (BSc), with honors, degree in Property Valuation and Finance from City University in London (UK). Duncan is a qualified accountant and a member of the Chartered Institute of Management Accountants (ACMA & CGMA).





Investment Banking

QINVEST's Investment Banking team is the largest in the Middle East and consists of seasoned professionals providing expertise in all areas of financing and advisory activities to corporate and institutional clients both regionally and internationally. The team is a trusted advisor to leading Qatari corporates and family offices in their outbound activities and serves as a gateway for companies to access Qatar's international capital flows.

Across the region, QINVEST's mid-market practice is complemented by the group's relationships with family offices and ability to use its own capital.

Areas of expertise include:

- Mergers & Acquisitions
- Corporate Finance Advisory
- Equity Capital Markets
- Syndicated & Sukuk Financings
- Leveraged & Structured Finance
- Real Estate Advisory and Finance
- Asset & Liability Management
- Restructuring



Asset Management

QINVEST Asset Management offers a range of world class Sharia'a compliant investments and funds as well as access to the QINVEST Managed Account Platform (QMAP), the world's first open architecture Sharia'a compliant managed account platform. QMAP is a multi-manager and multi-strategy platform that brings best-in-class capabilities from the conventional fund industry to Sharia'a investors through a range of global partnerships. It provides investors with the opportunity to select from a range of high quality Sukuk and equity funds that are managed by both in-house and top tier third party teams.

QINVEST Asset Management team expanded QMAP's capability into fixed income through the addition of a new in-house managed Sukuk fund. The team also acquired the former Qatar Islamic Bank United Kingdom (QIB UK) Asset Management team, adding the highly successful Luxembourg-domiciled EFH fund series to the QINVEST platform. The QINVEST Asset Management also successfully launched the innovative "Shiraa Funds", which were built for Qatar Islamic Bank (QIB) clients. "Shiraa Funds" are three products that invest in a selection of global Sharia'a compliant funds drawn from QMAP, spanning across international equity and Sukuk markets. Moreover, QINVEST had acquired ERGO Portfoy, one of the largest and fastest growing asset management companies in Turkey, and launched QINVEST Portfoy. Following the completion of this acquisition, QINVEST Asset Management will have assets under management close to US\$ 1 billion.

The QINVEST Asset Management team provides clients with customised investment products and solutions, including:

- High quality equity and Sukuk funds from QMAP and EFH
- Multi-manager and multi-strategy portfolio solutions
- Discretionary and Advisory portfolio management
- Portfolio review, analysis and investment recommendations
- Portfolio restructuring, disposal and risk overlays



Principal Investments

## a- Real Estate Investments & Advisory

Working closely with both local and international clients, QINVEST's Real Estate Division provides comprehensive financial solutions for prime real estate transactions in the GCC, Europe and the USA, noting that these geographies can be amplified based on the opportunity and relationships the group holds. The multidisciplinary approach, together with an investment banking mindset, enables the group, clients, and co-investors to drive value for respective shareholders. QINVEST acts as both principal and arranger in the acquisition of controlling and non-controlling interests in direct real estate with typical equity or mezzanine investments being between US\$ 20 million and US\$ 100 million.

QINVEST is willing to co-invest with prospective partners in residential developments in top-tier markets together with core and value-add yielding opportunities in the office, retail and multifamily real estate sectors. The group was able to invest through numerous structures generally including mezzanine, preferred equity and equity, all of which were represented in transactions closed during the previous years. Average transaction life varies between two and five years, with pricing / return profiles being driven by the particulars of the transaction (including geography and sub-sector).



Principal Investments

## **b- Equity Investments**

QINVEST seeks to expand its network and equity exposure regionally and internationally through participation in private equity funds, both at the platform level and the fund level. Partnership positions are undertaken with renowned fund managers (regional and international) with proven track records of sourcing attractive opportunities and executing profitable exits.

Such approach provides QINVEST with an indirect, risk-mitigated exposure to the various portfolio investments underlying such funds. Incremental benefits of such approach include potential advisory mandates and additional flow of structured credit financing opportunities for portfolio companies.

On the equity co-investment side, and capitalizing on the fund manager's expertise, we seek to co-invest smaller equity tickets directly into the target, with the aim of achieving attractive exit multiples by way of trade sales or IPO's.

The Equity Investments Division also encapsulates the group's direct equity investments in associates which the team monitors closely as well as the under development greenfield industrial ventures.



Principal Investments

## c- Credit Investments

The Credit Investments business focuses on investing QINVEST's capital across global market instruments, high yielding, mid-market, structured and mezzanine transactions. The main objectives include capital preservation, relative liquidity and value enhancing rotation, and management of exits.

Through leveraging a wide network of contacts, industry relations and thoroughly evaluating each investment opportunity's own merits, the team remains flexible and efficient, considering a diverse range of Sharia'a compliant structures which possess a healthy risk-return profile.

The business partners with a range of prestigious institutions with specific sector or market expertise to find compelling investment opportunities in the Middle East & North Africa region, Europe, the US and Asia.

The team has experience working across a range of industries, such as transport, healthcare, energy, consumer goods, financial services, IT and aviation.

Situations the Credit Investments Division invest in include:

- Senior/ subordinated financing
- Bridge financing
- LBO/ acquisition financing
- Special situations including Mezzanine / Holdco Finance, Pre-IPO and Convertibles

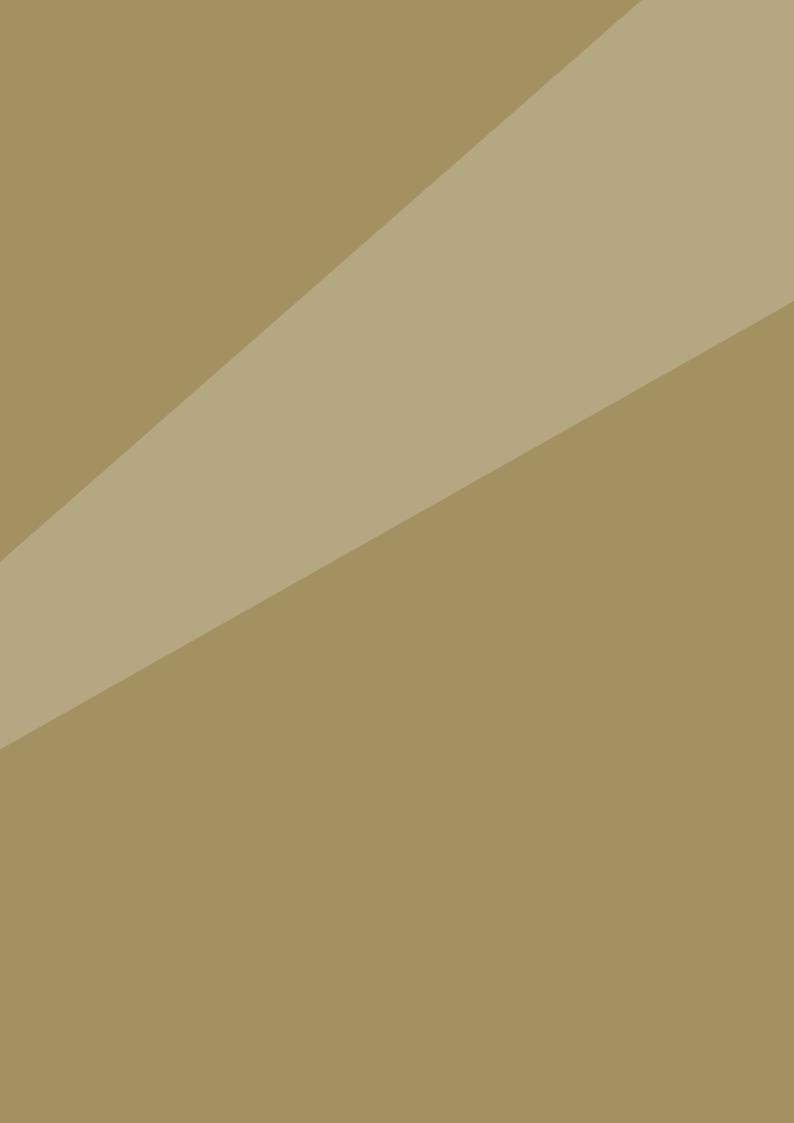


Client Coverage & Distribution

The Client Coverage & Distribution Division line is committed to providing a seamless link for clients with our experienced investment banking team. This allows the group to identify and select specific products from an extensive range to build a bespoke offering depending on a client's investment criteria that covers risk appetite, asset class preference, geographic or sector focus, and long-term strategic goals.

By building deep and collaborative relationships with clients, the team is able to deliver a true value-add service and comprehensive products offering based on expert industry insight, market intelligence, and in depth knowledge of structuring in the region and globally. QINVEST's clients benefiting from this service include:

- Sovereign Wealth Funds
- Insurance Companies
- Pension Funds
- Banks / Corporates
- Asset Managers
- Family Offices
- High Net Worth Individuals





## **Sharia'a Supervisory Board**

QINVEST seeks to uphold Sharia'a principles throughout its activities. The Sharia'a Supervisory Board reviews the group's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Sharia'a. The Sharia'a Supervisory Board was established in accordance with AAOIFI and QFCRA directives, including those regarding membership requirements.

#### Members include:

- His Eminence Sheikh Dr Walid Bin Hadi (Chairman)
- His Eminence Sheikh Dr Abdul Sattar Abu Ghudda
- His Eminence Sheikh Dr Nizam Yacouby

## **Board and Management Committees**

QINVEST is fully committed to effective governance with the objective to protect the interests of all stakeholders.

To help the Board of Directors fulfil its governance responsibilities, committees have been established to undertake much of the detailed review of items brought before the Board for its consideration.

The Board Risk, Audit & Compliance Committee, Board Investment Committee, Nomination and Remuneration Committee, and Steering Committee apprise the Board of the items that fall within their scope and provide advice and make recommendations to the Board about these items

Each committee establishes an annual work plan to guide its activities in the upcoming fiscal year.

The Board and Management Committees include:

- 1. The Board Risk, Audit & Compliance Committee is a sub-committee of the Board of Directors. The primary purpose of the committee is to assist the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management, compliance monitoring, and internal and external audit.
- The Board Investment
   Committee is responsible for the implementation and periodic review of the investment and credit strategies and objectives as approved by the group's Board.
- 3. The Nomination & Remuneration Committee is a sub-committee of the Board of Directors. The primary purpose of the committee is to ensure the adoption of best practice and adherence to regulatory

requirements when conducting an independent review and stewardship of the activities related to compensation and benefits, contractual terms and other staff related matters including Training and Competency, policies, succession and resource planning, dismissal, etc.

4. The Steering Committee shall be responsible for the active and general management of the group and shall review and approve strategic, operational, investment and business decisions.

#### **Social Responsibility**

QINVEST is committed to supporting the communities in which it operates. The group has developed a corporate social responsibility (CSR) programme that includes a variety of activities, such as organising educational, social, cultural and sporting events. QINVEST also sponsors conferences, seminars and other initiatives. These initiatives support the growth of Sharia'a-compliant financial services, locally and across the region, and further enhance the status of the State of Qatar as the leading financial centre in the Middle East.

QINVEST continued to engage with employees under the QNITED initiative, that was launched in April 2015. QNITED, spearheaded by the group's management



team, organized and promoted a broad range of activities and initiatives during the year. The focus was to strengthen QINVEST's six core values, The Six Cs, that were developed to shape and design the internal culture with an understanding that business success is built upon an appreciation of the needs of all our stakeholders.

#### Overview

Financial instruments of the Group represent the Group's financial assets and liabilities. Financial assets include cash and bank balances, placements with financial and other institutions, investment securities portfolios, derivative financial instruments, financing assets, and certain other assets of the Group. Financial liabilities, financing liabilities, derivative financial instruments and certain other liabilities. Accounting policies for financial instruments are set out in Note 2 in these consolidated financial statements.

The Group has exposure to various risks from its use of financial instruments.

These risks can be broadly classified as:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Regulatory and legal 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 management of capital.

# Risk management and governance framework of the Group

The Group's risk management process is an integral part of the organization's culture, and is embedded into the organization's practices as well as in all those involved in the risk management process. The Board of Directors ("Board"), Board Risk, Audit and Compliance Committee ("BRACC"), senior management, risk officers, and line managers contribute to the effective Group-wide risk management.

The risk governance structure is headed by the Board of Directors and the Sharia'a Supervisory Board ("SSB") of the Group. The risk appetite and the risk strategy for the Group are developed at this level.

The next level of the Board committees has delegated powers for monitoring the risk taking activities of the Group. These committees are the Board Risk, Audit and Compliance Committee, the Board Investment Committee ("BIC"), and the Nomination and Remuneration Committee. In turn, the risk appetite and risk tolerance set by the Board are cascaded across the institution and are taken into account in developing business goals and objectives.

As part of an effective system of control, key management decisions are made by more than one individual, in the form of non-board management committee, as follows:

Steering Committee ("STC") is the primary executive committee of the Group that is responsible for the following:

- a) General management issues including performance review against the budget, and oversight on implementation of the strategic business plan.
- b) Evaluates proposals for investments and credits, divestiture of assets and valuation of investments. The committee also ensures compliance with investment criteria as well as investment procedures at each phase of the investment process.
- c) Oversees management of market risks, translates investment strategy directions into asset allocation guidelines, and reviews and manages the capital adequacy, liquidity position and funding alternatives.
- d) Reviews the effectiveness of the operational risk management processes and procedures in respect of IT, Compliance, and Asset Liability Management ("ALM"), with the purpose of mitigating these risks.

Asset and Liability Management Committee ("ALCO") is a sub-committee of the STC responsible for setting and implementing the ALM policy, capital planning and proactive management of liquidity risk and market risk to which the Group is exposed. The authority of ALCO includes:

- a) Active management of the funding profile in line with Group's objectives, with a focus on the entire balance sheet;
- b) Balance sheet and cash flow review and forecasting;
- c) Design and implementation of foreign exchange and profit-rate hedging strategy;
- d) Periodic review Treasury Money Market limits and placement strategy;
- e) Review and approval of derivative exposure limits; and
- f) Design and implementation of the liquidity and capital strategy of the Group.

The risk management functions are carried out by the identified control departments who liaise with the Chief Executive Officer for the day to day management of specific risks. These control departments include Risk Management, Compliance, Legal and Finance, and are manned by dedicated risk specialists in various disciplines

to deal with the pertinent business risk exposures of the Group. In line with suitable governance policies, Risk Management and Compliance departments have independent reporting lines to BRACC that allow them to provide their impartial view on the business activities taken by the Group.

#### **Credit quality**

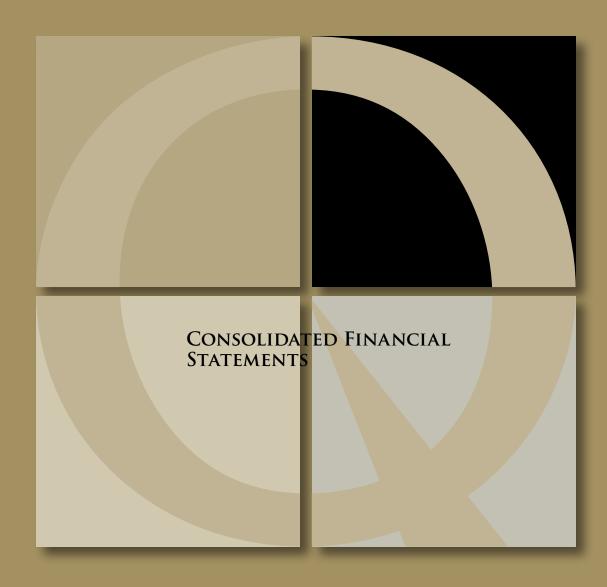
The Group follows an internal rating mechanism for grading relationships under financing assets.

The Group utilises a scale ranging from 1 to 5 for credit relationships, with 1 to 3 denoting performing grades, 4 denoting watch-list assets and 5 representing severely underperforming and in certain cases non-performing financings.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.







#### In the Name of Allah, The Beneficent, the merciful

To the shareholders of QINVEST LLC,

QINVEST Sharia'a Supervisory Board (the "Board") has reviewed the contracts submitted to it, answered the questions of the administration and contributed in finding solutions for practical difficulties that appeared during the implementation.

The Board views that the business conducted is in accordance with the Board's guidance.

The Board has reviewed the Balance sheet and the income statements for the financial year ending 31st of December 2017 and found them to be in compliance with the Islamic Sharia'a rules.

The Board insists that while the Bank is responsible for applying Sharia'a governance, its responsibility is limited to issuing fatwas and reviewing the transactions introduced to it from a Sharia'a perspective and to the extent practicable.

The Board thanks the Bank's staff and prays Allah to grant them all the success to serve the Islamic economy, and bless the shareholders' funds and all those who deals with the bank, and sustain everyone with faithfulness in action and word.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

His Eminence Sheikh Dr Walid Bin Hadi

Chairman of the Sharia'a Supervisory Board

His Eminence Sheikh Dr Abdul Sattar Abu Ghudda

Sharia'a Supervisory Board Member

His Eminence Sheikh Dr Nizam Yacouby

Sharia'a Supervisory Board Member

Doha, January 17, 2018

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF QINVEST LLC

31 December 2017



We have audited the accompanying consolidated financial statements of QInvest LLC ("QInvest" or the "Bank") and its subsidiaries (together referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, changes in equity, cash flows and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Respective responsibilities of the Board of Directors' and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

#### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, the results of its operations, its cash flows, changes in equity and changes in restricted investment accounts for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

#### **Ziad Nader**

of Ernst & Young Auditor's Registration No. 258

Date: 17 January 2018 Doha State of Qatar



	2017 <sup>(1)</sup> QAR'000	2016 QAR'000
ASSETS		
Cash and bank balances	84,944	93,162
Placements with banks	350,761	651,327
Financing assets	876,050	1,607,308
Investment securities	2,122,015	1,386,600
Investment in real estate	408,565	344,293
Investment in property lease	193,484	172,081
Investment in associates	275,706	238,074
Other assets	148,294	196,330
TOTAL ASSETS	4,459,819	4,689,175
LIABILITIES		
Financing liabilities	1,696,867	1,906,861
Other liabilities	149,993	106,943
TOTAL LIABILITIES	1,846,860	2,013,804
EQUITY		
Share capital	2,567,500	2,730,000
Share premium	7,800	27,300
Treasury shares		(182,000)
Other reserves	45,207	32,316
Accumulated losses	(131,138)	(42,522)
Total equity attributable to shareholders of the Bank	2,489,369	2,565,094
Non-controlling interests	123,590	110,277
Total equity	2,612,959	2,675,371
TOTAL LIABILITIES AND EQUITY	4,459,819	4,689,175
Off-balance sheet items		
Restricted investment accounts	882,173	891,436

<sup>(1) 31</sup> December 2017 results reflect the early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI. Prior year balances have not been restated. Refer to Note 2.3 for further information.

Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani

Chairman

**Tamim Hamad Al-Kawari**Chief Executive Officer

	2017 <sup>(1)</sup> QAR'000	2016 QAR'000
Fee and commission income, net	40,634	77,619
Income from financing assets	138,597	174,265
Net gain from investments	167,894	138,669
Income from placements with banks	6,838	4,062
Share of results of associates	9,849	15,805
Profit from a subsidiary held for sale	-	5,267
Other income	4,753	910
Total operating revenue	368,565	416,597
Staff costs	(136,141)	(137,941)
General and administrative expenses	(51,251)	(53,810)
Depreciation and amortization	(3,869)	(3,866)
Total operating expenses	(191,261)	(195,617)
Operating profit	177,304	220,980
Finance expenses	(77,934)	(67,551)
Impairments and credit losses, net	(11,479)	(126,253)
Fair value changes in financing assets and other debt instrument, net	(4,441)	_
Other (provisions) / reversals	(1,881)	3,640
Profit before tax	81,569	30,816
Tax expense	(7,576)	(2,204)
NET PROFIT FOR THE YEAR	73,993	28,612
Attributable to:		
Shareholders of the Bank	65,861	22,451
Non-controlling interests	8,132	6,161
	73,993	28,612

<sup>(1) 31</sup> December 2017 results reflect the early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI. Prior year balances have not been restated. Refer to Note 2.3 for further information.

	Notes	2017 <sup>(1)</sup> US\$'000	2016 US\$'000
ASSETS			
Cash and bank balances	4	23,336	25,594
Placements with banks		96,363	178,936
Financing assets	6	240,673	441,568
Investment securities	7	582,971	380,934
Investment in real estate	8	112,243	94,586
Investment in property lease	9	53,155	47,275
Investment in associates	10	75,743	65,405
Other assets	11	40,740	53,937
TOTAL ASSETS		1,225,224	1,288,235
LIABILITIES			
Financing liabilities	12	466,172	523,863
Other liabilities	13	41,207	29,380
TOTAL LIABILITIES		507,379	553,243
EQUITY			
Share capital	14	705,357	750,000
Share premium	14	2,143	7,500
Treasury shares	15	-	(50,000)
Other reserves	16	12,419	8,878
Accumulated losses		(36,027)	(11,682)
Total equity attributable to shareholders of the Bank		683,892	704,696
Non-controlling interests		33,953	30,296
Total equity		717,845	734,992
TOTAL LIABILITIES AND EQUITY		1,225,224	1,288,235
Off-balance sheet items			
Restricted investment accounts		242,355	244,900

<sup>(1) 31</sup> December 2017 results reflect the early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI. Prior year balances have not been restated. Refer to Note 2.3 for further information.

Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani

Chairman

**Tamim Hamad Al-Kawari** Chief Executive Officer

Notes	2017 <sup>(1)</sup> US\$'000	2016 US\$'000
Fee and commission income, net 17	11,163	21,324
Income from financing assets 18	38,076	47,875
Net gain from investments 19	46,125	38,096
Income from placements with banks	1,878	1,116
Share of results of associates	2,706	4,342
Profit from a subsidiary held for sale	-	1,447
Other income	1,306	250
Total operating revenue	101,254	114,450
Staff costs 20	(37,401)	(37,896)
General and administrative expenses 21	(14,080)	(14,783)
Depreciation and amortization	(1,063)	(1,062)
Total operating expenses	(52,544)	(53,741)
Operating profit	48,710	60,709
Finance expenses	(21,410)	(18,558)
Impairments and credit losses, net 6, 7 and 11	(3,153)	(34,685)
Fair value changes in financing assets and other debt instrument, net	(1,220)	_
Other (provisions) / reversals	(517)	1,000
Profit before tax	22,410	8,466
Tax expense 22	(2,082)	(605)
NET PROFIT FOR THE YEAR	20,328	7,861
Attributable to:		
Shareholders of the Bank	18,094	6,168
Non-controlling interests	2,234	1,693
	20,328	7,861

<sup>(1) 31</sup> December 2017 results reflect the early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI. Prior year balances have not been restated. Refer to Note 2.3 for further information.

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY For the year ended 31 December 2017



	Attributable to shareholders of the bank							
	Share capital US\$ '000	Share premium US\$ '000	Treasury shares US\$ '000	Other reserves (Note 16) US\$ '000	Accumulated losses <sup>(1)</sup> US\$ '000	Total equity attributable to shareholders of the Bank US\$ '000	Non- controlling interest US\$ '000	Total equity US\$ '000
As at 31 December 2016								
(Previously reported)	750,000	7,500	(50,000)	8,878	(11,682)	704,696	30,296	734,992
Transition adjustment on early								
adoption of FAS 30 and guidance								
of IFRS 9 at 1 January 2017								
(Note 2.3)					(42,439)	(42,439)		(42,439)
Restated balance as at								
1 January 2017	750,000	7,500	(50,000)	8,878	(54,121)	662,257	30,296	692,553
Profit for the year					18,094	18,094	2,234	20,328
Extinguishment of treasury								
shares (Note 15)	(44,643)	(5,357)	50,000	-	-	-	-	-
Foreign currency translation								
differences of foreign operations	-	-	-	28,687	-	28,687	3,757	32,444
Effective portion of changes in								
fair value of net investment								
hedges	-	-	-	(22,230)	-	(22,230)	-	(22,230)
Effective portion of changes in								
fair value of cash flow hedges	-	-	-	(3,645)	-	(3,645)	-	(3,645)
Net change in fair value of								
investment designated as equity	-	-	-	227	-	227	-	227
Share of reserves of equity								
accounted associates (Note 10)	-	-	-	(25)	-	(25)	-	(25)
Share-based payments								
(Notes 16 and 32)	_	-	_	527		527		527
Net movement in								
non-controlling interests							(2,334)	(2,334)
As at 31 December 2017 <sup>(1)</sup>	705,357	2,143		12,419	(36,027)	683,892	33,953	717,845

<sup>(1) 31</sup> December 2017 results reflect the early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOFI. Prior year balances have not been restated. Refer to Note 2.3 for further information.

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED) For the year ended 31 December 2017

	Attributable to shareholders of the bank							
	Share capital US\$ '000	Share premium US\$ '000	Treasury shares US\$ '000	Other reserves (Note 16) US\$ '000	Retained earnings / (Accumulated losses) US\$ '000	Total equity attributable to shareholders of the Bank US\$ '000	Non- controlling interest US\$ '000	Total equity US\$ '000
As at 1 January 2016	750,000	7,500	(50,000)	30,446	10,363	748,309	5,100	753,409
Profit for the year					6,168	6,168	1,693	7,861
Foreign currency translation differences of foreign operations				(23,536)		(23,536)	(1,477)	(25,013)
Effective portion of changes in fair value of net investment								
hedges				19,852		19,852		19,852
Effective portion of changes in fair value of cash flow hedges	_	_	_	(1,657)	_	(1,657)	-	(1,657)
Net change in fair value of				(0.544)		(0.544)		(0.544)
investment designated as equity Fair value reserve transferred to				(9,511)		(9,511)		(9,511)
the consolidated income statemen	nt -			(8,281)		(8,281)		(8,281)
Share of reserves of equity accounted associates (Note 10)				(630)		(630)		(630)
Share-based payments (Notes 16 and 32)				2,195		2,195		2,195
Dividends (Note 33)					(28,213)	(28,213)		(28,213)
Net movement in non-controlling interests	_	_	_	_	_	_	24,980	24,980
Balance as at 31 December 2016	750,000	7,500	(50,000)	8,878	(11,682)	704,696	30,296	734,992

	Notes	2017 <sup>(1)</sup> US\$'000	2016 US\$'000
OPERATING ACTIVITIES			
Profit before tax		22,410	8,466
Adjustments to reconcile profit before tax to net cash flows:			
Share of results of associates	10	(2,706)	(4,342)
Net unrealised foreign exchange gains		(186)	(98)
Depreciation and amortization		1,063	1,062
Fair value changes on fair value through income statement investments		(17,905)	(14,838)
Net gain from fair value adjustment of investment in real estate		968	803
Impairments and credit losses, net		3,153	34,685
Fair value changes in financing assets and other debt instrument, net		1,220	-
Employees' end of service benefits, net	13	666	312
Other provisions / (reversals)		517	(1,000)
Share-based payments		527	2,195
Net operating profit before changes in operating assets and liabilities		9,727	27,245
Change in placement with banks		(5,000)	-
Change in financing assets		89,752	26,209
Change in other assets		470	(8,640)
Change in other liabilities		(5,476)	(4,104)
Net cash from operating activities		89,473	40,710
INVESTING ACTIVITIES			
Purchase of investment securities		(143,184)	(94,477)
Proceeds from disposal of investment securities		28,699	51,050
Acquisition of a subsidiary		-	(3,937)
Investment in an associate		(4,783)	-
Net proceeds from subsidiaries held for sale		-	1,188
Purchase of equipment and intangible assets		(430)	(1,085)
Dividends received from associate	10	549	_
Net cash used in investing activities		(119,149)	(47,261)
FINANCING ACTIVITIES			
Net movement in financing liabilities	12	(57,691)	80,668
Dividends payment		(130)	(26,090)
Movements in non-controlling interests		(2,334)	24,980
Net cash (used in) / from financing activities		(60,155)	79,558
Net (decrease) / increase in cash and cash equivalents		(89,831)	73,007
Cash and cash equivalents at 1 January		204,530	131,523
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5.1	114,699	204,530

<sup>(1) 31</sup> December 2017 results reflect the early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI. Prior year balances have not been restated. Refer to Note 2.3 for further information.

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2017



		Movements during the year								
	Balance at 1 January 2017 US\$'000	Investment US\$'000	Revaluation US\$'000	Realized income US\$'000	Dividend paid US\$'000	Administration expenses US\$'000	Agency fees US\$'000			
Restricted Wakala	244,900	172	(6,848)	4,954	,954 (110)		(713)	242,355		
			Mo	ovements during	g the year					
	Balance at 1 January 2016 US\$'000	Repayment US\$'000	Revaluation US\$'000	Realized income US\$'000	Dividend paid US\$'000	Administration expenses US\$'000	Agency fees US\$'000			
Restricted Wakala	158,451	84,519	(234)	2,792	(120)	(12)	(496)	244,900		

#### 1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

QInvest LLC ("QInvest" or "the Bank") is an Islamic investment bank, which has been established as a limited liability company in the Qatar Financial Centre. The Bank was authorised by the Qatar Financial Centre Regulatory Authority ("QFCRA") on 30 April 2007 as a category 1 firm, under approval number 00048. Its registered office is at 39th Floor, Tornado Tower, Street No.213, Majlis Al Tawoon Street, Zone 60, West Bay, Doha, State of Qatar.

The Bank is authorised by the Qatar Financial Centre Regulatory Authority (the "QFCRA") to conduct the following regulated activities:

- Deposit taking;
- Dealing in investments;
- Arranging deals in investments;
- Providing credit facilities;
- Arranging credit facilities;
- Providing custody services;
- Arranging the provision of custody services;
- Managing investments;
- Advising on investments; and
- Operating a collective investment fund

in or from the Qatar Financial Center, subject to certain restriction and conditions relating to retail customers and in relation to specified products.

The Bank's activities are regulated by the QFCRA and are supervised by a Sharia'a Supervisory Board.

The consolidated financial statements of the Group and for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 17 January 2018.

#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries (together known as the Group) for the year ended 31 December 2017 have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Board of the Group and the applicable provisions of the QFCRA rules. In accordance with the requirement of AAOIFI, for matters where AAOIFI does not have an accounting standard or guidance, the Group seeks guidance from the International Financial Reporting Standards (the IFRSs).

As explained in Note 2.3, the Group has early adopted FAS 30 Impairment credit losses and onerous commitments and guidance of IFRS 9 Financial Instruments (for the areas where AAOIFI have no guidance) with a date of initial application of 1 January 2017.

The consolidated financial statements provide comparative information in respect of the previous period.

The management of the Group has decided to present the consolidated statement of financial position and consolidated statement of income in Qatari Riyals as well. Those two statements are disclosed at the beginning of the consolidated financial statements as a supplementary information which do not form part of the audited consolidated financial statements.

#### 2.2 Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except for financial investments classified as investments at fair value through equity, investments at fair value through income statement, financing assets and other debt instruments measured at fair value through income statement, derivative financial instruments, and certain investment in real estate that have been measured at fair value.



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Changes in accounting policies and disclosures

#### New standards, interpretations and amendments

The Group applied for the first time following standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. These new standards and amendments do not have any material impact on the Group.

Торіс	Effective date
Amendments to IAS 12 – Recognition of deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7 – Disclosure Initiative	1 January 2017
Annual Improvements Cycle - 2014-2016	1 January 2017

#### Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Торіс	Effective date
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2	1 January 2018

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

The accounting policies adopted are consistent with those of the previous financial year except for the following:

### Early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI ("guidance of IFRS 9")

The Group has early adopted the FAS 30 "Impairment, credit losses and onerous commitments" issued on 22 November 2017 and guidance of IFRS 9 "Financial Instruments" issued in July 2014 (for the areas where AAOIFI have no guidance) with a date of initial application of 1 January 2017.

The early adoption of FAS 30 and guidance of IFRS 9 has resulted in more timely recognition of expected credit losses on amortized cost financing assets and fair value of hybrid contracts.

The adoption of guidance of IFRS 9 represent a significant change from the guidance that was previously adopted, as per IAS 39. As explained below FAS 30 supersedes FAS 11 that dealt with the provisioning requirements for assets accounted for at amortized cost.

#### Guidance of IFRS 9

#### A) Hybrid Contracts

Previously, the Group accounted for hybrid contracts (financing assets and other debt instruments with conversion features) using the guidance of IAS 39, as there were no available guidance in AAOIFI. Under the guidance of IAS 39, the Group had opted to separate the debt host contract and the embedded derivatives, whereby, the debt host contract continues to be measured at amortized cost and the embedded derivatives are measured for separately at fair value.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Changes in accounting policies and disclosures (continued)

### Early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI ("guidance of IFRS 9")

#### Guidance of IFRS 9 (continued)

#### A) Hybrid Contracts (continued)

In adopting the guidance of IFRS 9, the Group have reassessed these hybrid contracts taking into consideration the following factors:

- The contractual cash flow characteristics of the financial asset, and
- Entities' business model for managing the financial assets

Because of these reassessments, these contracts failed the requirements to qualify for measurement at amortized cost. The assessment of the contractual terms introduced a more than de minimis exposure to risks on volatility in the contracted cash flows that are embedded to a basic lending agreement and do not give rise to contractual cash flows that are solely payments of the principal and profit on the amount outstanding. As a result, the Group have measured these financing assets and other debt type instruments at "Fair value through income statement".

#### B) Hedge accounting

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

#### FAS 30 Impairment of financial assets

FAS 30 replaces FAS 11. The standard aims at setting out accounting rules and principles for impairment and credit losses, coverage amount and expected losses to be in line with the global best practices. The idea of the new standard is to apply the forward looking approach for the assets and investments that are financial investments from Shariah perspective and to define other globally acceptable impairments and write down and provisioning approaches for other assets and exposures without compromising on Shariah. Accordingly, the new impairment model also applies to certain financing commitments and financial guarantee contracts.

Key changes in the Group's accounting policy for impairment of financial assets are listed below:

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

#### Stage 1: 12 months expected credit losses ("ECL")

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognized for financial assets not meeting the criteria of 30 days delay in contractual payments through collective allowance.

#### Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired and having equal to or more than 30 days delay but less than 90 days delay in contractual payments or meeting other qualitative indicators like significant deterioration of credit rating or breach of material covenants, a lifetime ECL is recognized through collective allowance.

#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.3 Changes in accounting policies and disclosures** (continued)

### Early adoption of FAS 30 and the guidance of IFRS 9 for the matters not covered by AAOIFI ("guidance of IFRS 9")

FAS 30 Impairment of financial assets (continued)

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

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred and having equal to or more than 90 days delay in contractual payments or meeting the other qualitative indicators like significant deterioration of credit rating or breach of material covenants or bankruptcy situations are subject to lifetime expected losses through customer / asset specific allowance. As this uses the same criteria as under FAS 11, the Group's methodology for specific provisions remains largely unchanged.

#### **Transition**

Changes in accounting policies resulting from the early adoption of FAS 30 and guidance of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption are recognised in accumulated losses as at 1 January 2017. Accordingly, the information presented for 2016 does not reflect the requirements of the early adopted standard and therefore is not comparable to the information presented for 2017 under FAS 30 and guidance IFRS 9.

#### Impact of early adopting FAS 30 and guidance of IFRS 9

The impact of this change in accounting policy as at 1 January 2017 increased accumulated losses by US\$ 42,439 thousand as follows:

Торіс	Accumulated losses USD'000
Closing balance 31 December 2016 (Previously reported )	(11,682)
Impact on reclassification and re-measurements of hybrid instruments: Financing assets and other debt type instruments reclassified from amortized cost to FVTIS	(39,763)
Impact on re-measurements of Expected Credit Losses Expected credit losses under FAS 30	(2,676)
Total adjustments to accumulated losses as of 31 December 2016	(42,439)
Opening balance as of 1 January 2017 – (Restated)	(54,121)

Additional disclosures, reflecting the revised classification and measurement and impairment allowances of financial assets of the Group as a result of adopting FAS 30 and the guidance of IFRS 9, are given below and in Notes 6 and 7.

Since FAS 30 and guidance of IFRS 9 was adopted in the third quarter of 2017, the interim condensed financial statements for the first and second quarters for 2017 were issued as per the previously applicable accounting standards FAS 11/ IAS 39 guidance. Below are the revised results for the first and second quarters of 2017 under FAS 30 and guidance of IFRS 9 highlighting the changes in the line items of the previously issued financial statements

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Changes in accounting policies and disclosures (continued)

Impact of early adopting FAS 30 and guidance of IFRS 9 (continued)

Торіс	Profit for the three month period ended 31 March 2017 US'000	Profit for the six month period ended 30 June 2017 US'000
Net profit attributable to shareholders of the Bank		
As previously reported	3,655	9,497
Adjustments	428	6,780
As restated	4,083	16,277

The early adoption of FAS 30 and guidance of IFRS 9 has no impact on net profit and equity attributable to non-controlling interest.

Changes in the consolidated income statement line items were as follows:

Торіс	As previously reported US'000	Adjustments US'000	As restated US'000
Profit for three months ended 31 March 2017			
Fair value loss on financing assets classified as FVTIS	-	(3,973)	(3,973)
Recoveries from expected credit losses on financial assets	-	(99)	(99)
Impairment loss on financial assets	(4,500)	4,500	_
Net adjustment		428	
Profit for six months ended 30 June 2017			
Fair value loss on financing assets classified as FVTIS	-	(3,914)	(3,914)
Recoveries from expected credit losses on financial assets	-	1,671	1,671
Impairment loss on financial assets	(9,023)	9,023	_
Net adjustment		6,780	

#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.3 Changes in accounting policies and disclosures** (continued)

#### Impact of early adopting FAS 30 and guidance of IFRS 9 (continued)

Changes in the consolidated statement of financial position were as follows:

Торіс	As previously reported US'000	Adjustments US'000	As restated US'000
As at 31 March 2017			
Financing assets	439,533	(41,439)	398,094
Investment securities	449,357	(570)	448,787
Accumulated losses	(8,027)	(42,009)	(50,036)
As at 30 June 2017			
Financing assets	301,480	(22,536)	278,944
Investment securities	524,628	(13,122)	511,506
Accumulated losses	(2,185)	(35,658)	(37,843)

Quarterly results for the year 2017 due to the early adoption of FAS 30 and guidance of IFRS 9 from 01 January 2017 are as follows:

	•	For the three month period ended 30 June 2017 US'000	For the three month period ended 31 December 2017 US'000	For the year ended 31 December 2017 US'000
Net profit attributable to shareholders of the Bank	4,083	12,194	 1,595	18,094

### Classification of financial assets and financial liabilities on the date of initial application of FAS 30 and quidance of IFRS 9

The following table reflects the reconciliation of original measurement categories and the carrying values with the new measurement categories and the carrying values for the Group's financial assets and financial liabilities as at 1 January 2017 due to the early adoption of FAS 30 and the guidance of IFRS 9 guidance.

Торіс	Original classification US'000	New classification US'000	Re- classification US'000	Re- measurement US'000	Original carrying amount US'000	New carrying amount US'000
Financing assets	Amortized cost	Amortized cost	(276,604)	(2,078)	441,568	162,886
Financing assets	Amortized cost	FVTIS	276,604	(39,763)	-	236,841
Investment securities – debt	Amortized cost	FVTIS	(10,000)	(598)	65,373	54,775
Investment securities  – debt	FVTIS	FVTIS	10,000		12,777	22,777
				(42,439)	519,718	477,279

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Changes in accounting policies and disclosures (continued)

### Classification of financial assets and financial liabilities on the date of initial application of FAS 30 and quidance of IFRS 9 (continued)

With respect to credit risk arising from the other financial assets such as bank balances, placements with banks and other financial assets, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these assets in the statement of financial position. Exposures are considered of good credit standing and management believes there is a minimal risk of default thus, expected credit loss is insignificant but being monitored for significant changes in credit risk.

The Group's accounting policies on the classification and measurement of financial instruments using FAS 30 and the guidance of IFRS 9 are set out below. The application of these policies resulted in the reclassifications and remeasurements set out in the previous table and explained below:

On the adoption of FAS 30 and guidance of IFRS 9, certain financing assets and debt type instruments were reclassified from amortized cost to fair value through income statement. The carrying amounts of those assets were adjusted so that their fair value under guidance of IFRS 9 were as if those financing assets and other debt instruments were accounted for at fair value through income statement from their inception.

#### Impairment allowances

The following table reconciles the closing impairment allowance for financing assets and provisions for financial guarantee contracts in accordance with FAS 11 as at 31 December 2016 to the opening ECL allowance determined in accordance with FAS 30 as at 1 January 2017.

Торіс	31 December 2016 As previously reported US'000	Adjustment <sup>(1)</sup> US'000	Re- Measurement <sup>(2)</sup> US'000	1 January 2017 Restated US'000
Allowance of impairment losses on				
- Financing assets	38,780	(37,213)	2,078	3,645
- Other debt type instruments	2,836	-	598	3,434
	41,616	(37,213)	2,676	7,079

<sup>(1)</sup> The adjustments made relates to the reversal of the allowance of certain financing assets who have failed the classification of amortized cost and have been reclassified as FVTIS.

<sup>(2)</sup> The re-measurement relates to adjustments on certain financing asserts at amortized cost due to adoption of ECL method.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as of the Bank, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, or rights in an entity are accorded through instruments other shares, the group will consider if there is a "Control" as per accounting standards and hence a consolidation is required. The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

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

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

#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.4 Basis of consolidation** (continued)

The Group's principal subsidiaries at 31 December 2017 are set out below.

Name	Principal Business Activity	Country of	% Effective shareholding	
		Incorporation	2017	2016
QInvest Portfoy Yonetimi A.S.	Asset Management	Turkey	100%	100%
Verdi Luxembourg SARL	Investment in real estate	Luxembourg	100%	100%
Q Business Services	Investment holding company	Cayman Islands	100%	100%
Q Liquidity Limited	Placements	Cayman Islands	100%	100%
QInvest Holding Mauritius	Investment holding company	Mauritius	100%	100%
QInvest Luxembourg S.a.r.l.	Investment holding company	Luxembourg	100%	100%
QI St Edmund's Terrace 2 Limited	Investment holding company	Cayman Islands	100%	100%
QInvest IBFin LLC	To provide financing facility	State of Qatar (QFC)	100%	100%
QI One Wall Street Invest Co.	Investment holding company	Cayman Islands	100%	100%
QEthika 1 LLC	Investment holding company	Cayman Islands	100%	100%
QNGPV1 LLC	Investment holding company	Cayman Islands	100%	100%
QInvest Euro PE QFC LLC	Investment holding company	State of Qatar (QFC)	100%	100%
QInvest Rio LLC	Investment holding company	State of Qatar (QFC)	63%	63%
Rio income s.a.r.l.	Investment in lease assets	Luxembourg	90%	90%
Q Tomahawk LLC	Investment holding company	Cayman Islands	100%	100%
QInvest Refin LLC	To provide financing facility	State of Qatar (QFC)	100%	100%
Q Alloy S.a.r.l	To provide financing facility	Luxemburg	100%	100%
QSeven 1 LP	Investment in real estate	Cayman Island	91%	91%
Q Magnolia LLC	Investment in real estate	Cayman Island	100%	100%
BOH LLC	Investment holding company	State of Qatar (QFC)	100%	-

#### 2.5 Summary of significant accounting policies

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in consolidated income statement or as a change in the equity. If the contingent consideration is classified as equity, it will not be remeasured.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Business combinations and goodwill** (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Intangible assets identified upon acquisition of associates are included at fair value and amortised over the useful life of the intangible assets.

The consolidated income statement reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the consolidated income statement and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of income.

Upon loss of significant influence over the associate over the joint venture, the Group measures and recognises any retained 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 retained investment and proceeds from disposal is recognised in income statement.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Functional and presentational currency**

The consolidated financial statements are presented in Unites States Dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The management of the Group has decided to present the consolidated financial position and consolidated income statement in Qatari Riyals as well. Those two statements are disclosed at the beginning of the consolidated financial statements as a supplementary information which do not form part of the audited consolidated financed statements.

The official currency of the State of Qatar, the Group's country of domicile, is the Qatar Riyal. Certain domestic transactions are conducted in Qatari Riyals, which is pegged to the United States Dollar. The Bank maintains its financial records and prepares its financial statements in United States Dollars as majority of its operations are in United States Dollars.

#### Transactions and balances

Transactions in foreign currencies are translated into Unites States Dollars at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Translation differences on the Bank's net investment in foreign subsidiaries and associates are included in the foreign currency translation reserve within equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and any differences are taken to consolidated statement of changes in shareholders' equity under "Investments fair value reserve".

#### Group companies

The results and financial position of all the Group's subsidiaries (none of which has the currency of a hyper-inflationary economy) are translated into the presentational currency of the Group as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component in the consolidated statement of changes in shareholders' equity under "Foreign currency translation reserve"

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to consolidated statement of changes in shareholders' equity within the "Investments translation reserve". When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Revenue recognition**

#### Income from financing assets

Profit from financing 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 income statement.

#### Income from short-term placements and sukuk investments

Income from short-term placements and sukuk investments is recognized on a time-apportioned basis over the period of the contract.

#### Fee and commission income

Fees and commission are generally recognised on an accrual basis when the service has been provided. Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses are recognized on completion of the underlying transaction. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

#### Placement fees

Placement fees for arranging a financing are recognized as income when the financing has been arranged (being the performance of the significant act in relation to this category of revenue).

#### Dividends

Dividends are recognized when the right to receive payments is established.

#### Rental income

Rental income from Investment in property lease assets is recognised on the basis of contractual amounts receivable on a time apportioned basis.

#### **Financial investments**

Financial investments comprise of investments at fair value through income statement, investments carried at amortised cost and investments at fair value through equity. 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.

### Investments carried at amortised cost

Investments which have fixed or determinable payments that the Group manages on a contractual yields bases are classified as "investments carried at amortised cost". Such investments are initially recognised and subsequently carried at cost, less impairment in value. Any gain or loss on such investment is recognised in the consolidated income statement, when the investment is derecognised or impaired.

#### Investments at fair value through income statement

Investment securities carried as fair value through income statement includes investments held for trading purposes and investments designated as fair value through income statement. These are initially recognised at cost, being the fair value of the consideration given and are subsequently re-measured at fair value. All related realised and unrealised gains or losses are reported in the consolidated income statement.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Summary of significant accounting policies (continued)

#### Financial investments (continued)

#### Investment at fair value through equity

These are initially recognised at cost, being the fair value of the consideration given and transaction costs. After initial recognition, investments that are classified as "investment at fair value through equity" are re-measured at fair value on individual basis. Unrealised gains or losses arising from a change in the fair value are recognised in the fair value reserve, until it is sol d, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement.

#### Derivatives held for risk management purposes and hedge accounting

The Group enters into certain Islamic derivative financial instruments to manage the exposure to foreign exchange rate risks including unilateral promise to buy/sell currencies, profit rate risk and equity price risk.

At inception of the hedging relationship, the management undertake a formal designation and documentation. This includes the Group's risk management objective underlying, the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group performs a hedge effectiveness assessment as at the inception of the hedging relationship and subsequently on every reporting period.

The Group documents at its inception of the transaction, the relationship between hedging instrument and hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### Net investment hedge

The Group uses Sharia'a compliant forward foreign exchange contracts as a hedge of its exposure to foreign exchange risk on its net investments in foreign subsidiaries, associates and jointly controlled entities.

On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the consolidated income statement.

#### Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect income statement, the effective portion of changes in the fair value of the derivative is recognised in equity in the cash flow hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in income statement. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### Financial investments (continued)

#### Fair Value Hedges

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

#### Fair value measurement

The Group measures financial instruments, such as, financial investments, derivatives, and non-financial assets such as investment in real estate, at fair value at each balance sheet date.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions
 Quantitative disclosures of fair value measurement hierarchy
 Investment in real estate
 Financial instruments (including those carried at amortised cost)
 Note 31
 Note 31

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value is determined for each investment individually in accordance with the 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. Alternately, fair value is determined by reference to the current market value of similar investments, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation method including sum of parts methods.
- (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 as per FAS 25 requirements.

#### Date of recognition of financial transactions

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in shareholders' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated income statement. If there are unrealised losses that have been recognised in the consolidated income statement in previous financial periods, the current period unrealised gain shall be recognised in the consolidated income statement to the extent of crediting back such previous losses in the consolidated income statement. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated income statement.

#### Investments in property lease

Investment in property lease are stated at cost less accumulated impairment. Investment in property lease are derecognised on disposal or when no future economic benefits are expected from their use.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Financing assets**

#### Murabaha

On initial recognition Murabaha receivables are classified and measured at

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

#### Assessment whether contractual cash flows are solely payments of principal and yield

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

In assessing whether the contractual cash flows are solely payments of principal and yield, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money e.g. periodical reset of profit rates.

#### Financing liabilities

The Group's financing liabilities includes Murabaha payables or other sharia compliant financing instruments. Financing liabilities are recognised initially at fair value net of directly attributable transaction costs and are subsequently measured at amortised cost. The amortization of transactions cost is included as finance costs in consolidated income statement.

#### **Equipment**

Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives as follows:

Furniture and fittings 10
Computer equipment 3-5
Office equipment 5
Vehicles 5

#### **Intangible assets**

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

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Summary of significant accounting policies (continued)

#### **Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in such case, it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years as per tax laws prevalent in the country of incorporation of subsidiaries of the Group.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The applicable tax law for the Bank is the QFC tax law applicable from 1 January 2010. Tax is levied at the rate of 10% on local source taxable income.

#### **Impairment**

#### Impairment of financial assets

#### Identification and measurement of impairment

The Group recognizes loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTIS:

- Financing assets;
- Investment in debt type instruments;
- Other financial assets Placements with Banks and financial institutions; and
- Other financial assets other receivables that are not due on demand and with insignificant financing component

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

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

#### Measurement of ECL

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

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

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Impairment** (continued)

The determination of the FAS 30 provision results is based on the following methods:

#### 1. Cash shortfall method

A cash shortfall is the difference between:

- the cash flows due to the entity in accordance with the contract; and
- the cash flows that the entity expects to receive.

Because the estimation of credit losses considers the amount and timing of payments, a cash shortfall arises even if the entity expects to be paid in full but later than the date on which payment is contractually due. This delay gives rise to an ECL, except to the extent that the entity expects to receive additional yield in respect of the late payment that compensates it for the delay at a rate at least equal to the effective profit rate.

Cash shortfalls are identified as follows:

- For 12-month ECLs: Cash shortfalls resulting from default events that are possible in the next 12 months (or a shorter period if the expected life is less than 12 months) i.e. not just the cash shortfalls that are expected over the next 12 months.
- For lifetime ECLs: Cash shortfalls resulting from default events that are possible over the expected life of the financial instrument.

The term 'cash shortfalls' refers to overall shortfalls against contractual terms, and not just shortfalls on particular dates when cash is received or due. Therefore, cash shortfalls consider later recoveries of missed payments.

The Group has not defined a relative or absolute threshold for staging assessment to differentiate a 12 month and life-time ECL as the calculation of cash shortfall is based on a probability weighted estimate of expected cash flows that would be recovered from a facility. The Group currently has a rating method that assigns 5 rating grades on assessment of credit quality after origination. '1' being of higher credit quality 'exceeds base line' and '5' being in default/ watch list.

For a higher quality of financing (say rating grade 1), the probability weighted estimate that expected recoveries could lead to a cash shortfall is the lowest whereas it would increase exponentially as it slides down the rating scale to default (Grade 5).

The cash shortfall calculations incorporate the following steps:

- Expected collection of cash flows over the contractual term;
- Cash flows from recovery of collateral if foreclosure is required to collect cash flows;
- As the portfolio is mainly quasi-PE and Mezzanine financing, the base case cash flows from the business are considered to be the most optimistic work out scenario for the bank and the 2 additional recovery scenarios are built from a risk averse perspective that the timing and extent of cash flows could differ from contractual terms:
- Expected cash flows are discounted using the original effective rate of the facility
- The risk rating plays a role in the severity of changes to the expected cash flows in the 2 scenarios
- A probability-weighted outcome is calculated to assess the final recoverable amount

As each facility of the Group has specified sources of cash collection and expectation of market events, the assessment is specific to each individual asset and requires judgement.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

**Impairment** (continued)

#### 2. Externally rated exposures

The Bank generally invests its treasury and liquidity portfolio only in rated exposures. Under this approach, probability of default ("PD") and loss given default ("LGD") are based on external measures and exposure at default ("EAD") is based on contractual terms of each asset. This method is widely used and considered reasonable given the Bank would not have adequate internal experience to model an ECL outcome.

However, if in any investment is made in an unrated exposure, the following treatments will be considered:

- Issuer rating as an proxy of the issue rating; or
- Where issue and issuer are not rated, a proxy rating of BBB- (S&P) or the country rating of the exposure (whichever is lower) will be considered

Following approach has been adopted:

- The 12 month through the cycle (TTC) probability of default (PD) corresponding to external ratings of instrument will be obtained from the published reports of the rating agencies (S&P, Moody's or Fitch). The TTC PDs will be required to be updated every year against each external rating grade. In case, certain investments are rated other than the above mentioned rating agencies, then they will be mapped to equivalent rating grades of S&P, Moody's or Fitch.
- The PIT PDs will be estimated through the application of Merton-Vasicek Single factor model using TTC PD linked to the External Rating of the issue/issuer and Gross domestic products (GDP) growth rate of the country of risk (i.e. country of investment).
- GDP growth rate will be considered as a composite index of the economic activity across the country of risk. It has been assumed that GDP growth rate is a robust reflection of the state of economy which results into systematic risk (a common risk to all the issuer in the economy).
- GDP growth rate forecasts for the successive 5 years will be available from international monitory fund (IMF) published World economic outlook (WEO) data. GDP growth rate growth rates beyond 5 years are forecasted using mean reversion technique.

#### 3. Simplified approach

The Bank has applied the simplified approach to measure the loss allowance for other financial assets including fee income receivables, deposit and margin, receivable from third parties and others and accrued profit.

The expected credit losses on other financial assets are estimated on a case to case basis by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

**Impairment** (continued)

#### Credit-impaired financial assets

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

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

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

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign (i.e. Qatar), is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the Sukuk yields.
- The rating agencies' assessments of creditworthiness.

The exposure to the home country sovereign i.e. Qatar is considered to be low risk and fully recoverable and hence no ECL is measured.

#### Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Financing commitments and financial guarantee contracts: generally, as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group has identified
  the ECL on the financing asset commitment / off balance sheet component separately from those on the drawn
  component: the Group presents a loss allowance for drawn components. The amount is presented as a deduction
  from the gross carrying amount of the drawn component. Loss allowance for drawn components is presented as
  a provision in other liabilities.

#### Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financing assets impairment allowance account accordingly. The write-back is recognised in the consolidated income statement.

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, 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 it becomes probable that that the investee will enter bankruptcy or other financial reorganization.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Impairment** (continued)

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### Non-current assets held for sale

Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets on prorata basis. Impairment losses on an asset's initial classification as 'held for sale' and subsequent gains or losses on re-measurement are recognized in the consolidated income statement. Gains are not recognized in excess of any cumulative impairment loss.

#### Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- i) the rights to receive cash flows from the asset have expired;
- ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### **Derecognition of financial assets and financial liabilities** (continued)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

#### Employees' end of service benefits and pension fund

The Bank provides end of service benefits determined in accordance with its regulations and the QFC Employment Regulations, based on employees' salaries and the number of years of service at the reporting date. The Bank also contributes to the GCC national employees' pension accounts with the different GCC Pension Authorities. Pension funds are held and managed by the appropriate Pension Authority. The scheme is mandatory by the state pension law for employees who are GCC nationals. The percentage of employee and employer contribution varies as per the relevant GCC pension laws and the employees receive this money after retirement. This process is governed by the GCC pension laws and administrated by the General Retirement and Social Insurance Authority in Qatar. This is a defined contribution plan as the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

#### **Share-based payments**

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

#### **Equity-settled transactions**

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

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

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

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

#### Other provisions

Provisions for legal claims are recognised when the Group has legal claims or obligations as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The Group accounts for provisions to be charged to the consolidated income statement for any potential claim or for any expected impairment of assets, taking into consideration the value of the potential claim or expected impairment and its likelihood.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Summary of significant accounting policies (continued)

#### **Investment fund portfolios**

Investment fund portfolios represent funds belonging to the Group's customers for which the Group has assumed investment management responsibility in accordance with the terms or conditions of the fund. Such funds are invested on behalf of the customers by the Group who acts as an agent or a trustee and accordingly such funds and the attributable investment income or loss are not included in these consolidated financial statements and are directly paid to the customers after deduction of the Group's stated share of profit or commission.

#### **Equity of restricted investment account holders**

Equity of restricted investment accountholder balances are those where the depositors instruct the Group to invest the funds in specific investments or at predetermined terms. These funds are invested by the Group in its own name under the terms of a specific Wakala/Mudaraba contract entered into with the customer. The assets funded by these funds are managed in a fiduciary capacity by the Group for which the Group earns Wakail/Mudarib fee are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these assets except within the conditions laid down in the Wakala/Mudaraba contract.

#### Assets held for sale

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

Assets (or disposal groups) classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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

#### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and bank balances and placements with banks, which have original maturity of less than three months. Restricted deposits and placements are excluded from cash and cash equivalents.

#### 7akah

The responsibility of payment of Zakah is on individual shareholders of the Bank. QInvest Saudi Arabia (100% owned subsidiary of the Bank), has the obligation to calculate and pay Zakah based on the local rules applicable in the Kingdom of Saudi Arabia on annual basis.

#### Shari'a Supervisory Board

The Group's activities are subject to the supervision of a Shari'a Supervisory Board consisting of three members appointed by the general assembly of shareholders.

#### **Treasury shares**

These are own equity instruments of the Group which are reacquired through its tender offer to the Bank's shareholders (the Tender Offer). Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

#### Earnings prohibited by Shari'a

The Group is committed to avoid recognizing any income generated from non-Islamic source. Consequently, all non-Islamic income is credited to a charity account and the Group uses these funds for various social welfare activities as advices by sharia supervising board.

#### Offsetting

Financial assets and financial liabilities should not be offset unless there is an enforceable or legal right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is party to a number of arrangements, including master netting agreements, which give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts on net basis, the respective assets and liabilities are presented on a gross basis.

#### Placements with banks and other financial institutions

Placements with banks and other financial institutions are stated at amortised cost net of any amounts written off and provision for impairment.

#### Policy applicable up to 31 December 2016

#### Impairment of financial assets

Losses for impaired financing assets are recognised promptly when there is objective evidence that impairment of a financing asset or portfolio of financing assets has occurred. Impairment allowances are calculated on individual financing assets and on groups of financing assets assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired financing assets on the balance sheet is reduced through the use of impairment allowance accounts.

For all financing assets that are considered individually significant, the Bank assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the obligor;
- past due contractual payments of either principal or profit;
- breach of financing assets covenants or conditions;
- decline in the realisable value of the security;
- the probability that the obligor will enter bankruptcy or other financial realisation; and
- significant downgrading in credit rating by an external credit rating agency.

For those financing assets where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the company and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;

At 31 December 2017



#### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **2.5 Summary of significant accounting policies** (continued)

Policy applicable up to 31 December 2016 (continued)

### Impairment of financial assets (continued)

- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the obligor to obtain, and make payments in, the currency of the financing asset if not denominated in local currency; and
- when available, the secondary market price of the debt.

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financing or investments assets. The amount reflects the events that have already occurred at the date of the financial statements.

#### Murabaha

Murabaha receivables are stated net of unearned profit, any amounts written off and provision for doubtful debts, if any.

Murabaha receivables are sales on deferred terms. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

### 3 BUSINESS COMBINATION

#### 3.1 QInvest Portfoy Yonetimi A.S.

On 19 January 2016, the Group acquired 100% of the issued capital of Ergo Portfoy Yonetimi A.S., a company incorporated in Turkey for a total consideration of US\$ 2.3 million. The fair value of the net assets at the time at date of acquisition amounted to US\$ 2.1 million and the excess from the consideration were accounted for as goodwill. During the year, the Group changed the legal name to QInvest Portfoy Yonetimi A.S.

### 3.2 Damaan Islamic Insurance Company (Q.S.C.C)

On 1 April 2016, as a part of annual assessment of the investment portfolio of the Group, the Group have accounted their investment in Damaan Islamic Insurance Company (Q.S.C.C) as an associate (previously accounted as investment at fair value through equity). The Group currently holds 10% ownership, have a seat in the board of the entity and have agreed with another shareholder (a related party holding 25% shares in Damman Islamic Insurance Company (Q.S.C.C) to align their decisions in the Board of Director and Annual General Meetings. The purchase consideration was based on the estimated fair value of the entity at the date of reclassification.

Damaan Islamic Insurance Company "BEEMA" (Q.S.C.C) ("the Company") was incorporated in the State of Qatar on 18 October 2009 as a closed Qatari shareholder company under Qatar Commercial Companies Law No. 5 of 2002 and primarily engaged in the business of underwriting general, Takaful (Life) and health non-profit takaful in accordance with the provisions of Islamic Shari'a. It also invests its capital and other Islamic investments resources.

Equity interest of the Group total identifiable net assets at fair value amounted to US \$ 7.6 million and the goodwill arising from acquisition amounted to US \$ 4.4 million.

## Notes to the Consolidated FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2017

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5.1

6



(1,940)

86,645

240,673

(38,780)

441,568

441,568

CASH AND BANK BALANCES		
	2017 US\$'000	2016 US\$'000
Cash in hand	1	1
Balances with banks	23,335	25,593
	23,336	25,594
Balances with banks are not profit bearing and no lien or restrictions are placed on the	m.	
PLACEMENTS WITH BANKS		
	2017 US\$'000	2016 US\$'000
Placements with banks	96,363	178,936
Cash and cash equivalents	2017 US\$'000	2016 US\$'000
Cash and bank balances	23,336	25,594
Placements with banks maturing within 90 days	96,363	178,936
Restricted placements with banks	(5,000)	_
	114,699	204,530
FINANCING ASSETS	31 December 2017 US\$'000	31 December 2016 US\$'000
Fair value through income statement		
Murabaha	154,028	-
Amortized cost		
Murabaha	88,585	480,348

Less: Expected credit losses / allowance for impairment for financing assets

Financing assets at amortized cost

Total financing assets

## Notes to the Consolidated FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2017

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### 6

FINANCING ASSETS (continued)				
The movements in expected credit losses /allowance for i	mpairment for fi	<del>-</del>		21 December
			31 December 2017	31 December 2016
			US\$'000	US\$'000
Balance at beginning of the year			38,780	7,131
Adjustments as a result of early adopting FAS 30 and IFR	S 9 guidance			
Adjustment related to financing assets carried at FVTIS			(37,213)	
Additional expected credit losses			2,078	-
Adjusted balance at beginning year			3,645	7,131
(Reversals)/impairment during the year, net			(1,705)	31,649
Balance at end of year			1,940	38,780
	Lifetime ECL not credit- impaired US\$'000	2017 Lifetime ECL credit- impaired US\$'000	Total ECL US\$'000	2016 Total US\$'000
ECL balance at the beginning of the year – on				
early adoption of new standards(Note 2.3) / Impairment	3,645		3,645	7,131
Changes due to financial assets recognized in opening balance that have:				
Transfer to 12 month ECL				
Transfer to lifetime ECL not credit- impaired				
Transfer to lifetime ECL credit- impaired				
Total transfers during the year	-			
Net re-measurement of loss allowance	1,310		1,310	
(Reversals) / Impairment during the year	(3,015)		(3,015)	31,649
Net (reversal) / impairment during the year	(1,705)	-	(1,705)	31,649
Balance at the end of the year	1,940		1,940	38,780
INVESTMENT SECURITIES		Notes	2017	2016
		Notes	US\$'000	US\$'000
Equity				
Fair value through income statement		7.1	420,742	267,257
Fair value through equity		7.2	85,250	35,527
Sukuk and other debt instruments			505,992	302,784
Fair value through income statement		7.3	30,177	12,777
Amortised cost			50,239	68,209
Less: Expected credit loss/ allowance for impairment		7.3	(3,437)	(2,836)

46,802

582,971

7.3

65,373

380,934

At 31 December 2017



12,777 65,373

78,150

#### 7 INVESTMENT SECURITIES (continued)

### 7.1 Fair value through income statement, net

Fair value through income statement

Amortized cost (net)

					ţ	2017 JS\$'000	2016 US\$'000
	Fund type investments				21	11,249	140,036
	Others				20	9,493	127,221
					42	20,742	267,257
7.2	Fair value through equity, net						
					ι	2017 JS\$'000	2016 US\$'000
	Fund type investments					52,210	25,627
	Others, net				3	3,040	9,900
						35,250	35,527
7.3	Sukuk and other debt instruments						
			2017			2016	
		Fixed profit rate US\$'000	Floating profit rate US\$'000	Total US\$'000	Fixed profit rate US\$'000	Floating profit rate US\$'000	Total US\$'000

9,991

9,991

30,177

46,802

76,979

12,777

65,373

78,150

Expected credit loss/ allowance for impairment against amortized cost investments:

20,186

46,802

66,988

	Stage 1: 12-month ECL US\$'000	Stage 2: Lifetime ECL not credit- impaired US\$'000	Stage 3: Lifetime ECL credit- impaired US\$'000	Total ECL US\$'000	Total US\$'000
ECL balance at the beginning of the year on early					
adoption of new standards(Note 2) / Impairment	5 <b>98</b>		2,836	3,434	
Transfer to 12 month ECL					
Transfer to lifetime ECL not credit- impaired	(5)	5	_	_	-
Transfer to lifetime ECL credit- impaired					
Total transfers during the year	(5)	5			
Net re-measurement of loss allowance	20			20	
(Recoveries) / Impairment during the year	(73)	56		(17)	2,836
Net (reversal) / impairment during the year	(53)	56	_	3	2,836
Balance at the end of the year	540	61	2,836	3,437	2,836

At 31 December 2017



#### 7 **INVESTMENT SECURITIES** (continued)

#### Notes:

- (i) The ratings of Sukuks at amortized cost are given in Note 30 to the consolidated financial statements. The fair value of Sukuks at amortized cost as at 31 December 2017 is US\$ 61 million (31 December 2016: US\$ 59.6 million).
- (ii) The fair value hierarchy of investment securities is disclosed in Note 31 to the consolidated financial statements.

#### **8 INVESTMENT IN REAL ESTATE**

2017 US\$'000	2016 US\$'000
At 1 January 94,586	58,406
Net loss from fair value adjustment (Note 19) (968)	(803)
Foreign exchange translation adjustments 10,829	(2,657)
Additions during the year (Note i) 7,796	39,640
At 31 December 112,243	94,586

#### Notes:

- (i) Additions during the year consist of investments in real estate under development located in the United Kingdom (UK). The investment in real estate under development includes capitalized finance costs amounting to US\$ 1.4m (31 December 2016: US\$ 113 thousand).
- (ii) Investment in real estate also includes two leased commercial properties in France and real estate under development as mentioned above. The fair values of the two leased commercial properties are based on valuations performed by an independent valuer.
- (iii) The Group has pledged these investment properties as collateral for certain profit bearing financing liabilities as disclosed in Note 12 to the consolidated financial statements.

### 9 INVESTMENT IN PROPERTY LEASE

This represents amount paid to acquire lease rights of certain real estate properties through subsidiaries of the Bank.

### 10 INVESTMENT IN ASSOCIATES

	2017 US\$'000	2016 US\$'000
As at 1 January	65,405	77,519
Additions / transfers during the year	4,783	(11,368)
Share of results of associates	2,706	4,342
Share on fair value reserves movement (Note 16)	(25)	(630)
Dividends received	(549)	-
Foreign currency translation reserve	3,423	(4,458)
As at 31 December 2017	75,743	65,405

At 31 December 2017



#### 10 INVESTMENT IN ASSOCIATES (continued)

The tables below provide summarised financial information for associates to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Name of entity	Ellsworthy Limited / Panmure Gordon & Co. Plc. (i)	Ambit Private Limited (ii)	Daman Islamic Insurance Company	Total
Country of incorporation	UK	India	Qatar	
% of ownership interest	43.43%	30.53%	10%	
Summarized financial information	US\$'000	US\$'000	US\$'000	US\$'000
Total assets	110,620	131,112	277,863	519,595
Total liabilities	(85,261)	(26,692)	(192,445)	(304,398)
Equity	25,359	104,420	85,418	215,197
Group's carrying amount of the investments	23,658	38,247	13,838	75,743
Summarized income statement				
Revenue	35,257	13,798	14,182	63,237
Net (loss) / profit	(98)	909	8,495	9,306
Other comprehensive income	-	(82)	_	(82)
Group's share of profit for the year	(53)	1,627	1,132	2,706
Group's share of reserves	<u> </u>	(25)		(25)

#### 10 INVESTMENT IN ASSOCIATES (continued)

The associates of the Group as of 31 December 2016:

	Panmure Gordon &	Ambit Private	Daman Islamic Insurance	
Name of entity	Co. Plc. (i)	Limited (ii)	Company	Tota <b>l</b>
Country of incorporation	UK	India	Qatar	
% of ownership interest	43.43%	30.77%	10%	
Summarized financial information	US\$'000	US\$'000	US\$'000	US\$'000
Summarized financial position				
Total assets	61,773	118,041	270,288	450,102
Total liabilities	(39,639)	(27,019)	(179,962)	(246,620)
Equity	22,134	91,022	90,326	203,482
Group's carrying amount of the investments	17,299	34,851	13,255	65,405
Summarized income statement				
Revenue	32,844	21,158	14,510	68,512
Net profit	393	10,668	8,892	19,953
Other comprehensive income	-	(2,911)	2,662	(249)
Group's share of profit for the year	171	3,282	889	4,342
Group's share of reserves		(896)	266	(630)

### Notes:

- (i) During the year 2017 Panmure Gordon & Co. PLC was delisted from Alternative Investment Market (AIM) and its entire share capital was transferred to Ellsworthy Limited, a Company incorporated in UK. The Bank has same ownership stake in Ellsworthy Limited as it had in Panmure Gordon before delisting.
- (ii) There are no contingent liabilities relating to the Group's interest in the associates.

#### 11 OTHER ASSETS

	2017 US\$'000	2016 US\$'000
Prepayments	12,960	9,229
Security deposit and margin call receivables (i)	9,083	8,027
Fee and commission receivables and other receivable – net (ii)	8,759	9,570
Accrued income on financing assets and placements	3,174	8,170
Equipment – net	1,906	2,636
Accrued income on sukuk and debt instruments	1,645	1,878
Positive fair value of derivative instruments (iii)	1,186	12,225
Intangible assets – net	1,020	925
Others	1,007	1,277
	40,740	53,937



#### **11 OTHER ASSETS** (continued)

#### Notes:

- (i) Security deposit amounting to US\$ 8.7 million (2016: US\$ 7.8 million) includes cash collateral against a financing liability as disclosed in Note 23 (a) in these consolidated financial statements.
- (ii) During the year, the Bank has recorded an impairment loss of US\$ 867 thousand (2016: US\$ 200 thousand) on certain fee and commission income receivable from third parties.

#### (iii) Derivative financial instruments

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

		2017			2016		
		Positive fair value US\$'000	Negative fair value US\$'000	Notional amount US\$'000	Positive fair value US\$'000	Negative fair value US\$'000	Notional amount US\$'000
a)	Held as fair value hedges						
	Forward foreign exchange contracts	9	280	13,890	125	48	11,827
		9	280	13,890	125	48	11,827
b)	Held as hedge of net investment in foreign operations						
	Forward foreign exchange contracts	672	2,087	248,441	10,989	53	198,825
	Cross currency swaps	_	5,746	45,352	-	_	_
		672	7,833	293,793	10,989	53	198,825
c)	Derivatives used as cash flow hedges						
	Cross currency swaps		-	-	739	_	45,278
	Forward foreign exchange contracts	505	75	60,866	345	_	9,284
		505	75	60,866	1,084	-	54,562
d)	Derivatives not designated as hedging instruments						
	Forward foreign exchange contracts	-	17	579	27	6	2,598
		1,186	8,205	369,128	12,225	107	267,812

#### **12 FINANCING LIABILITIES**

Financing liabilities consist of:

- (i) Financing liabilities are presented in the consolidated financial statements at amortized cost using effective profit rate. Please refer to Note 29 for maturity analysis.
- (ii) Financing arrangement for an amount of US\$ 44 million (2016: US\$34 million) availed by Group's subsidiaries against which investment in real estate held by such subsidiaries disclosed in Note 8 were pledged as collateral.

At 31 December 2017



### 13 OTHER LIABILITIES

13	OTHER LIABILITIES		
		2017 US\$'000	2016 US\$'000
	Negative fair value of derivative instruments (Note 11)	8,205	107
	Accrued expenses	3,261	3,587
	Staff related accruals	8,500	6,017
	Employees' end of service benefits (i)	5,110	4,444
	Accrued profit on financing liabilities	3,043	4,223
	Dividend payable	3,805	3,935
	Legal provisions	1,851	1,205
	Others	7,432	5,862
		41,207	29,380
	Note: (i) Employees' end of service benefits  Movement in employees' end of service benefits is as follows:		
		2017 US\$'000	2016 US\$'000
	Balance at 1 January	4,444	4,132
	Charge for the year (Note 20)	1,153	1,128
	Payments during the year	(487)	(816)
		5,110	4,444
14	SHARE CAPITAL AND SHARE PREMIUM		
14.	I Share capital		
		2017 US\$'000	2016 US\$'000
	Authorized capital		
	1,000 million shares of US\$ 1 each	1,000,000	1,000,000
	Issued and fully paid-up capital		
	705 million shares of US\$ 1 each (2016: 750 million shares of US\$ 1 each)	705,357	750,000

All shares issued are of the same class and carry equal rights.

The shareholding structure of the Bank is as follows:

	31 Decem	31 December 2017		per 2016	
	% holding	Number of shares	% holding	Number of shares	
Qatar Islamic Bank Q.P.S.C	50.13%	353,625,000	47.15%	353,625,000	
QInvest held in treasury (Note: 15)	0.00%	-	5.95%	44,642,858	
Khaleeji Commercial Bank	4.75%	33,482,657	4.46%	33,482,657	
Qatar Armed Forces	2.13%	15,000,000	2.00%	15,000,000	
Others	42.99%	303,249,485	40.44%	303,249,485	
	100.00%	705,357,142	100.00%	750,000,000	

At 31 December 2017



#### 14 SHARE CAPITAL AND SHARE PREMIUM (continued)

#### **14.1 Share capital** (continued)

On 27th December 2017, the Group held a Extraordinary General assembly meeting to approve reduction of nominal issued share capital to be 651,236,349. The reduction of the capital is subject to approval from the Group's regulator and it will be affected only once the approval of the regulators is received. During the year paid-up capital was reduced due cancellation of treasury shares as explained in Note 15.

#### 14.2 Share premium

On 30 April 2017, the share premium was partially settled due to cancellation of treasury shares as mentioned in Note 15.

#### 15 TREASURY SHARES

On 30 April 2017, the Bank have cancelled 44,642,858 of the issued shares, each of which was fully paid up and held by the Bank as treasury shares (acquired in 2014 at a price of US\$ 1.12 per share). The cancellation of the shares was approved in the extraordinary General Assembly meeting dated 21 February 2017.

Share capital was accordingly reduced by US\$ 44,642,858 representing 44,642,858 shares of US\$ 1 per share, the excess amount of US\$ 5,357,142 was reduced from share premium.

#### 16 OTHER RESERVES

The movement in the other reserves for the year ended 31 December 2017:

	Foreign currency translation reserve US\$'000	Net foreign investments hedging reserve US\$'000	Cash flow hedge reserve US\$'000	Cumulative changes in fair value US\$'000	Share based payment reserve US\$ '000	Total US\$'000
As at 1 January 2017	(59,393)	51,029	(281)	11,921	5,602	8,878
Foreign operations – foreign currency						
translation differences	28,687	-	-	-	-	28,687
Effective portion of changes in net						
investment in foreign operation hedges	-	(22,230)	-	-	-	(22,230)
Net unrealised gains on cash flow hedges		-	(3,645)	-	-	(3,645)
Net movement in fair value reserve		-	-	227	-	227
Share of reserves of equity						
accounted associates	-	-	-	(25)	-	(25)
Share-based payments	-	-	-	-	527	527
At 31 December 2017	(30,706)	28,799	(3,926)	12,123	6,129	12,419

At 31 December 2017



#### **16 OTHER RESERVES** (continued)

The movement in the other reserves for the year ended 31 December 2016:

	Foreign currency translation reserve US\$'000	Net foreign investments hedging reserve US\$'000	Cash flow hedge reserve US\$'000	Cumulative changes in fair value US\$'000	Share based payment reserve US\$ '000	Total US\$′000
As at 1 January 2016	(35,857)	31,177	1,376	30,343	3,407	30,446
Foreign operations – foreign currency						
translation differences	(23,536)	-	-	-	-	(23,536)
Effective portion of changes in net						
investment in foreign operation hedges	-	19,852	-	-	-	19,852
Net unrealised gains on cash flow hedges		-	(293)	-	-	(293)
Net gains on cash flow hedges						
reclassified to the income statement	-	-	(1,364)	-	-	(1,364)
Net movement in fair value reserve		-	-	(9,511)	-	(9,511)
Share of reserves of equity						
accounted associates	-	-	-	(630)	-	(630)
Fair value reserve transferred to						
income statement	-	-	-	(8,281)	-	(8,281)
Share-based payments	-	_	-	_	2,195	2,195
At 31 December 2016	(59,393)	51,029	(281)	11,921	5,602	8,878

#### 16.1 Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

#### 16.2 Fair value reserve

The investments fair value reserve includes the cumulative net change in the fair value of fair value through equity investments. This also includes the Bank's share of the fair value changes on fair value through equity investments of associate.

#### 16.3 Hedging reserves

The hedging reserves are used to record gains or losses on derivatives that are designated and qualify as net investment in foreign operations hedges and cash flow hedges that are recognized in the reserves. Amounts are reclassified to income statement when the associated hedged transaction affects income statement.

#### 16.4 Share based payment reserve

The share based payment reserve is used to recognize the value of equity-settled share-based payments charge provided to for the employees entitled to the scheme, including key management personnel, as part of their remuneration. Refer to Note 32 for further details of these plans.

### 17 FEE AND COMMISSION INCOME, NET

201: US\$'000	
Advisory and other fee income – Net 7,955	18,298
Asset management fees 3,208	3,026
11,163	21,324

At 31 December 2017



### 18 INCOME FROM FINANCING ASSETS

		2017 US\$'000	2016 US\$'000
Income from Murabaha classified at amortized cost		15,429	47,875
Income from Murabaha classified as FVTIS		22,647	_
		38,076	47,875
NET GAIN FROM INVESTMENTS			
	Notes	2017 US\$'000	2016 US\$'000
Net income from financial investments	19.1	36,106	28,455
Net income from investments in real estate	19.2	7,171	6,065
Net income from investment in property lease		2,848	3,576
		46,125	38,096
Net income from financial investments			
		2017 US\$'000	2016 US\$'000
Income from 'fair value through equity' investments			
Fair value gain transferred to income statement		-	8,281
Dividend income		-	549
			8,830
Income from 'held for trading' investments, net			
Gain on sale		53	253
Profit from Sukuk		2,494	414
Fair value changes		(14)	(979)
		2,533	(312)
Income from financial assets designated at fair value throu income statement	ugh		
Fair value changes		17,905	6,886
Realized gain and dividend income		11,008	4,500
		28,913	11,386
Income from investments at amortized cost			
Profit from Sukuk and other debt instrument		4,639	6,049
Income from derivative financial instrument			
Income from derivatives		21	2,502
		36,106	28,455

At 31 December 2017



### 19 NET GAIN FROM INVESTMENTS (continued)

19 2 N	et income	from	investment	in real	estate

Rental and other income derived from investments in real estate  Net loss from fair value adjustment (Note 8)  (968)  7,171	6,868 (803) 6,065 2016 US\$'000
7,171	2016 US\$'000
7,171	2016 US\$'000
20 STAFF COSTS	US\$'000 16,658
2017	16,658
US\$'000	
Salaries 16,777	
Other staff costs 19,471	20,110
End of service benefits (Note13) 1,153	1,128
37,401	37,896
21 GENERAL AND ADMINISTRATIVE EXPENSES	
2017 US\$'000	2016 US\$'000
Legal, professional and Sharia expenses 5,718	5,871
Premises cost 3,278	3,473
IT and communication expenses 1,914	1,908
Travel related expenses 1,508	1,671
Advertisement and marketing expenses 332	366
Other expenses 1,330	1,494
14,080	14,783
22 INCOME TAX	
22.1 Income tax expense	
The major components of the tax expense are:	2016
US\$'000	US\$'000
Current income tax:	
Current income tax expense 2,290	682
Deferred income tax:	
Relating to origination and reversal of temporary differences (208)	(77)
Income tax expense 2,082	605
22.2 Provision for taxation	
2017 US\$'000	2016 US\$'000
Closing balance as at 31 December 2,044	1,032

At 31 December 2017



2017

2016

#### **22 INCOME TAX** (continued)

#### 22.3 Deferred tax

Deferred tax relates to the following:

US	2017 \$'000	2016 US\$'000
Deferred tax liabilities 1	,118	1,190
Reconciliation of deferred tax:		
	2017	2016
us	\$'000	US\$'000
As of 1 January 1	,190	1,267
Tax credits and other movements during the year	(72)	(77)
As of 31 December 1	,118	1,190

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same tax authority.

#### 23 CONTINGENT LIABILITIES, COMMITMENTS AND PROVISIONS

	US\$'000	US\$'000
Investment commitments	82,934	69,896
Forward foreign exchange contracts	323,776	222,534
Cross currency/Profit rate swaps	45,352	45,278
Other contingent liabilities (a)	30,173	12,541
Operating lease commitments (b)	1,995	5,231
Unutilised financing commitment	10,997	18,192

#### Notes:

(a) During 2014, a 100% owned subsidiary of the Group, entered into a financing arrangement with a bank for an amount of US\$ 42 million. As part of the security package under the Financing Agreement, the Group has provided a cash collateral of US\$ 8.7 million against its pending litigation with its tenants, and the Parent company has made a drawdown facility in maximum amount of US\$ 5 million to cover certain contingencies arising from any disputes with the tenants.

#### (b) Future minimum lease payments:

	2017 US\$'000	2016 US\$'000
Not later than one year	1,995	3,236
Later than one year and not later than five years	-	1,995
	1,995	5,231

At 31 December 2017



#### 23 CONTINGENT LIABILITIES, COMMITMENTS AND PROVISIONS (continued)

#### (c) Provision for legal claims

The provision charge is recognized in consolidated income statement within "other provisions". Provision for legal claim represents pending legal claims against one of the subsidiary.

In management opinion, after taking appropriate legal advice, the outcome of the legal claims that was brought against the subsidiary will not give rise to any significant loss beyond the amounts provided for at 31 December 2017.

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

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, controlling and directing the activities of the Group.

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

	2017 US\$'000	2016 US\$'000
Polonica de california		
Balance sheet items:		
Assets:		
Placements and bank balances	36,755	104,397
Financing assets	<del>-</del>	3,701
Other assets		
Income statement items:		
Financing income	61	96
Fee and commission income	168	212
Placement income	239	207
Off balance sheet items:		
Forward foreign exchange contracts outstanding	121,248	76,736
Restricted investment accounts	19,170	83,361
Transactions with key management personnel:		
	2017	2016
	US\$'000	US\$'000
Salaries and other benefits	3,380	3,531
Incentives	3,597	4,807
Employee Share Option Plan	527	1,958
End of service benefits	217	236

At 31 December 2017



#### 25 ZAKAH

Pursuant to the decision of the shareholders' in the first General Assembly of the Bank on 28 May 2008, the Bank is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable per share. These calculations are approved by Qatar Zakat fund.

Zakah is directly borne by the shareholders. The Bank does not deduct or pay Zakah on behalf of its shareholders. The Zakah payable for 2017 would be US\$ 0.02 (2016: US\$ 0.02) for every share held.

#### 26 SHARIA'A SUPERVISORY BOARD

The Group's Sharia'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Sharia'a principles and specific fatwa, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Sharia'a principles.

#### 27 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future years.

#### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to Note 2.5 impairment of financial assets for more information.

#### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

#### Consolidation of a structured entity

The Group has incorporated number of entities in different jurisdictions to facilitate the acquisition of targeted investments. Such entities are owned by third party administrator to manage the day to day administrative activities of these entities. The Group control these entities through various rights and legal agreements. Therefore, in preparation of consolidated financial statements these entities have been consolidated by the Group.

#### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### Useful lives of equipment and intangible assets

The Group estimates the useful life of equipment and intangible assets with finite lives by taking account of the expected pattern of economic benefit that the Group expects to derive from the asset. This is based on the judgment of the Group entities after taking consideration of useful lives of similar assets of comparable entities.

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#### 27 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### Financial investment classification

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

- In classifying the financial investments at fair value through income statement, the Group has determined that the investment in either held for trading purposes or is designated as fair value through income statement on initial recognition:
- Equity investments that are not designated as fair value through income statement are classified as fair value through equity; and
- In classifying financial investments at amortized cost, the Group has determined that the investment is managed on contractual yield basis.

#### Techniques used for estimating impairment

#### **Expected cashflows**

The amount of cash flows that are expected from foreclosure are cash flows that the entity actually expects to receive in the future. Because expected cash flows are a probability-weighted estimate, they include possible scenarios in which the cash flows recoverable from collateral decrease (or, where relevant, increase).

#### Cash shortfall

A cash shortfall is the difference between:

- the cash flows due to the entity in accordance with the contract; and
- the cash flows that the entity expects to receive.

#### Incorporation of forward-looking information

The above cash shortfall method derives a net loss value (shortfall) for each account and hence separate components such as PD and LGD are not modelled. The future recoveries of cash flows are expected to reflect the macro-economic forecasts in the period. Eg. If liquidation of collateral or sale of underlying business drives the collection, the values should be reflective of likely recoverable amounts in the respective forecast periods for each scenario. Such adjustments can be made in the form of haircuts or multipliers to expected cash flows.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- credit risk gradings;
- Product type; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

At 31 December 2017



#### 27 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

#### 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 that the investee will enter bankruptcy or other financial reorganization.

#### Valuation of investments

The fair value of unquoted investments designated at fair value through income statement for which market value is not readily available is either determined by management or independent valuation specialists 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 use of 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.

The Group engages independent valuation specialist to assess fair value for investments in real estate.

#### Valuation of financing assets

Financing assets measured at fair value are valued using income approach, following variables are considered:

- Cash flow projections: Cash flows reflecting market participants view on the asset (e.g. Collateral's highest and best use as per current market conditions);
- Expected term of exit: Based on highest IRR value to investor (could be shorter or longer);
- Risk adjustments / perception: Market perception, typically higher and short turnaround view of an incoming investor, factors current illiquidity and economic risk perceptions; and
- Expected return: High, based on risk perception of an incoming investor (a market rate).

#### 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.

#### **28 SEGMENT INFORMATION**

The Group assets and liabilities are monitored by management on basis of industry segment and geographic location.

For management purposes, the Group is divided into below mention industry segments which are as follows:

- Banks and other financial institutions
- Real estate and construction
- Transport and logistics
- Services
- Oil and gas
- Others

Unallocated assets, liabilities and revenues are related to certain central functions and non-core business operations, e.g common property & equipment, cash functions and development projects and related payables, net of intra-group transactions.

Management monitors the operating results of the industry segments separately to make decisions about resource allocation and performance assessment.

The following tables summarize the industry and geographical concentration of Group assets, liabilities and related performance:

#### (a) By industry segment

31 December 2017	Banks and other financial institutions US\$'000	Real estate and construction US\$'000	Transport and logistics US\$'000	Services US\$'000	Oil and gas US\$'000	Other US\$'000	Total carrying value US\$'000
ASSETS							
Cash and bank balances	23,336	-	_	_	-	_	23,336
Placements with banks	96,363	-	_	_	-	_	96,363
Financing assets	8,007	166,239	14,567	29,705	22,155	_	240,673
Investment securities	239,117	196,236	74,499	42,066	_	31,053	582,971
Investment in real estate	_	112,243	_	_	_		112,243
Investment in property lease	_	53,155	_	_			53,155
Investment in associates	75,743	_	_	_			75,743
Other assets	15,395	18,580	47	1,266		5,452	40,740
TOTAL ASSETS	457,961	546,453	89,113	73,037	22,155	36,505	1,225,224
LIABILITIES							
Financing liabilities	466,172	_	_	_			466,172
Other liabilities	11,802	6,147	_	_		23,258	41,207
TOTAL LIABILITIES	477,974	6,147				23,258	507,379
Consolidated income							
statement items							
Revenue	34,669	48,062	10,837	2,461		5,225	101,254
Expenses, impairment and tax	(19,870)	5,290	(9,262)	1,033	(2,992)	(55,125)	(80,926)
PROFIT/(LOSS)	14,799	53,352	1,575	3,494	(2,992)	(49,900)	20,328

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## 28 SEGMENT INFORMATION (continued)

## (a) By industry segment (continued)

31 December 2016	Banks and other financial institutions US\$'000	Real estate and construction US\$'000	Transport and logistics US\$'000	Services US\$'000	Oil and gas US\$'000	Other US\$'000	Total carrying value US\$'000
ASSETS							
Cash and bank balances	25,594		_	_	_		25,594
Placements with banks	178,936		_	_	_		178,936
Financing assets	15,678	200,802	136,809	49,152	39,127	_	441,568
Investment securities	151,889	148,330	6,010	43,988	-	30,717	380,934
Investment in real estate	_	94,586	_	_	_	-	94,586
Investment in property lease	_	47,275	-	_	-	-	47,275
Investment in associates	65,405	_	_	-	-	-	65,405
Other assets	26,537	8,866	3,558	1,476	_	13,500	53,937
TOTAL ASSETS	464,039	499,859	146,377	94,616	39,127	44,217	1,288,235
LIABILITIES							
Financing liabilities	523,863	_	-	_	_	_	523,863
Other liabilities	4,782	5,450		-	_	19,148	29,380
TOTAL LIABILITIES	528,645	5,450				19,148	553,243
Consolidated income							
statement items							
Revenue	34,761	45,635	13,155	11,588	2,624	6,687	114,450
Expenses, impairment and tax	(20,832)	258	(23,025)	(1,080)	(8,120)	(53,790)	(106,589)
PROFIT/(LOSS)	13,929	45,893	(9,870)	10,508	(5,496)	(47,103)	7,861

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### 28 SEGMENT INFORMATION (continued)

### (b) By geography

The geographical concentration of the Group's assets, liabilities and income statement items as at and for the year ended 31 December 2017 is as follows:

	GCC countries US\$'000	Europe US\$'000	North America US\$'000	South Asia US\$'000	Other regions US\$'000	Total carrying value US\$'000
ASSETS						
Cash and bank balances	4,419	11,323	7,021	_	573	23,336
Placements with banks	76,010	15,353	-	_	5,000	96,363
Financing assets	7,573	98,129	83,111	_	51,860	240,673
Investment securities	65,246	148,516	268,438	_	100,771	582,971
Investment in real estate	-	112,243	-	_	_	112,243
Investment in property lease	-	53,155	-	_	_	53,155
Investment in associates	13,838	23,658	-	38,247	-	75,743
Other assets	8,396	26,425	2,660	-	3,259	40,740
TOTAL ASSETS	175,482	488,802	361,230	38,247	161,463	1,225,224
LIABILITIES						
Financing liabilities	416,966	49,206	-	-	-	466,172
Other liabilities	34,398	6,338	_	_	471	41,207
TOTAL LIABILITIES	451,364	55,544			471	507,379
Consolidated income statement items						
Revenue	8,162	34,506	39,472	1,626	17,488	101,254
Expenses, impairment and tax	(73,613)	(9,125)	4,651		(2,839)	(80,926)
PROFIT/(LOSS)	(65,451)	25,381	44,123	1,626	14,649	20,328

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#### **28 SEGMENT INFORMATION** (continued)

### **(b) By geography** (continued)

The geographical concentration of the Group's assets, liabilities and income statements items as at and for the year ended 31 December 2016 is as follows:

	GCC		North		Other	Total carrying
	countries	Europe	America	South Asia	regions	value
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS						
Cash and bank balances	7,234	8,685	5,194	-	4,481	25,594
Placements with banks	177,473	_	_	_	1,463	178,936
Financing assets	13,132	131,628	208,529	_	88,279	441,568
Investment securities	66,306	45,043	110,945	_	158,640	380,934
Investment in real estate	_	94,586	_	_	-	94,586
Investment in property lease	_	47,275	_	_	-	47,275
Investment in associates	13,255	17,299	_	34,851	-	65,405
Other assets	20,601	23,801	4,168	_	5,367	53,937
TOTAL ASSETS	298,001	368,317	328,836	34,851	258,230	1,288,235
LIABILITIES						
Financing liabilities	422,461	33,675	_	_	67,727	523,863
Other liabilities	22,024	5,553	17	_	1,786	29,380
TOTAL LIABILITIES	444,485	39,228	17		69,513	553,243
Consolidated income statement items						
Revenue	17,950	39,479	30,006	3,282	23,733	114,450
Expenses, impairment and tax	(68,141)	(20,003)	(5,663)		(12,782)	(106,589)
PROFIT/(LOSS)	(50,191)	19,476	24,343	3,282	10,951	7,861

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#### 29 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the maturity profile of the Group's assets, liabilities and forward foreign exchange contracts. The contractual maturities of assets, liabilities and forward foreign exchange contracts have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. Management monitors the maturity profile to ensure that adequate liquidity is maintained. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The maturity profile of the Group's assets, liabilities and forward foreign exchange contracts as at 31 December 2017 is as follows:

	Up to 3 months US\$'000	3 to 6 months US\$'000	6 months to 1 year US\$'000	1 to 3 years US\$'000	Over 3 years US\$'000	Total US\$'000
ASSETS						
Cash and bank balances	23,336	_	_	_		23,336
Placements with banks	96,363	-	-	-	-	96,363
Financing assets	8,007	-	48,354	63,222	121,090	240,673
Investment securities	-	-	438	_	582,533	582,971
Investment in real estate	-	_	-	-	112,243	112,243
Investment in property lease	-	_	-	-	53,155	53,155
Investment in associates	-	_	-	-	75,743	75,743
Other assets	3,203	10,918	1,015	8,648	16,956	40,740
Total Assets	130,909	10,918	49,807	71,870	961,720	1,225,224
LIABILITIES						
Financing liabilities	4,877	_	121,641	329,467	10,187	466,172
Other liabilities	20,830	2,054	7,466	5,746	5,111	41,207
Total Liabilities	25,707	2,054	129,107	335,213	15,298	507,379
MATURITY GAP	105,202	8,864	(79,300)	(263,343)	946,422	717,845
Forward Foreign Exchange Contracts and						
Cross currency swaps	264,656	47,350	11,770	45,352		369,128

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#### 29 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The maturity profile of the Group's assets, liabilities and forward foreign exchange contracts as at 31 December 2016 is as follows:

	Up to 3 months US\$'000	3 to 6 months US\$'000	6 months to 1 year US\$'000	1 to 3 years US\$'000	Over 3 years US\$'000	Total US\$'000
ASSETS						
Cash and bank balances	25,594	-	-	-	-	25,594
Placements with banks	178,936	-	_	-	_	178,936
Financing assets	-	54,532	95,657	153,160	138,219	441,568
Investment securities		_		5,049	375,885	380,934
Investment in real estate					94,586	94,586
Investment in property lease	-	-	-	_	47,275	47,275
Investment in associates	-	-	-	-	65,405	65,405
Other assets	7,006	21,188	10,365	1,722	13,656	53,937
Total Assets	211,536	75,720	106,022	159,931	735,026	1,288,235
LIABILITIES						
Financing liabilities	36,131	2,122	36,596	249,422	199,592	523,863
Other liabilities	11,393	8,180	5,363	_	4,444	29,380
Total Liabilities	47,524	10,302	41,959	249,422	204,036	553,243
MATURITY GAP	164,012	65,418	64,063	(89,491)	530,990	734,992
Forward Foreign Exchange Contracts and						
Cross currency profit rate swaps	157,621		41,498	23,414	45,279	267,812

The undiscounted cash flows on the Group's financing liabilities on the basis of their earliest possible contractual maturity up to 12 months is US\$ 52 million (2016: US\$ 95 million) and over 12 months is US\$ 448 million (2016: US\$ 482 million).

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#### 30 FINANCIAL RISK MANAGEMENT

#### Overview

Financial instruments of the Group represent the Group's financial assets and liabilities. Financial assets include cash and bank balances, placements with financial and other institutions, investment securities portfolios, derivative financial instruments, financing assets, and certain other assets of the Group. Financial liabilities, financing liabilities, derivative financial instruments and certain other liabilities. Accounting policies for financial instruments are set out in Note 2 in these consolidated financial statements.

The Group has exposure to various risks from its use of financial instruments. These risks can be broadly classified as:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Regulatory and legal 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 management of capital.

#### Risk management and governance framework of the Group

The Group's risk management process is an integral part of the organization's culture, and is embedded into the organization's practices as well as in all those involved in the risk management process. The Board of Directors ("Board"), Board Risk, Audit and Compliance Committee ("BRACC"), senior management, risk officers, and line managers contribute to the effective Group-wide risk management.

The risk governance structure is headed by the Board of Directors and the Sharia'a Supervisory Board ("SSB") of the Group. The risk appetite and the risk strategy for the Group are developed at this level.

The next level of the Board committees has delegated powers for monitoring the risk taking activities of the Group. These committees are the Board Risk, Audit and Compliance Committee, the Board Investment Committee ("BIC"), and the Nomination and Remuneration Committee. In turn, the risk appetite and risk tolerance set by the Board are cascaded across the institution and are taken into account in developing business goals and objectives.

As part of an effective system of control, key management decisions are made by more than one individual, in the form of non-board management committee, as follows:

Steering Committee ("STC") is the primary executive committee of the Group that is responsible for the following:

- a) General management issues including performance review against the budget, and oversight on implementation of the strategic business plan.
- b) Evaluates proposals for investments and credits, divestiture of assets and valuation of investments. The committee also ensures compliance with investment criteria as well as investment procedures at each phase of the investment process.
- c) Oversees management of market risks, translates investment strategy directions into asset allocation guidelines, and reviews and manages the capital adequacy, liquidity position and funding alternatives.
- d) Reviews the effectiveness of the operational risk management processes and procedures in respect of IT, Compliance, and Asset Liability Management ("ALM"), with the purpose of mitigating these risks.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### Risk management and governance framework of the Group (continued)

Asset and Liability Management Committee ("ALCO") is a sub-committee of the STC responsible for setting and implementing the ALM policy, capital planning and proactive management of liquidity risk and market risk to which the Firm is exposed. The authority of ALCO includes:

- a) Active management of the funding profile in line with firms objectives, with a focus on the entire balance sheet:
- b) Balance sheet and cash flow review and forecasting;
- c) Design and implementation of foreign exchange and profit-rate hedging strategy;
- d) Periodic review Treasury Money Market limits and placement strategy;
- e) Review and approval of derivative exposure limits.
- f) Design and implementation of the liquidity and capital strategy of the firm.

The risk management functions are carried out by the identified control departments who liaise with the Chief Executive Officer for the day to day management of specific risks. These control departments include Risk Management, Compliance, Legal and Finance, and are manned by dedicated risk specialists in various disciplines to deal with the pertinent business risk exposures of the Group. In line with suitable governance policies, Risk Management and Compliance department have independent reporting lines to BRACC that allow them to provide their impartial view on the business activities taken by the Group.

#### **Credit quality**

The Group follows an internal rating mechanism for grading relationships under financing assets.

The Group utilises a scale ranging from 1 to 5 for credit relationships, with 1 to 3 denoting performing grades, 4 denoting watch-list assets and 5 representing severely underperforming and in certain cases non-performing financings.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

#### **Credit risk**

Credit risk is the risk that an obligor or counterparty will fail to meet its contractual obligations in accordance with the agreed terms. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor exposure, business line exposure, country and economic sector risk etc.).

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		Exposure US\$'000
Debt type investments		50,239

With respected to credit risk arising from balances with banks, placements and other receivables, the Group's exposure to credit risk arises from the default of the counter party, with a maximum exposure equal to the carrying amount of these assets in the statement of financial position. Exposures are considered of good credit standing and management believe that it is minimal risk of default, thus, expected credit loss is insignificant but being monitored for significant changes in credit risk.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### Credit risk (continued)

#### Definition of credit default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events may include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- A material decrease in the underlying collateral value where the recovery of the financing assets is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy
- Debtor's listed debt or equity suspended at the primary exchange

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present and shows significant improvement. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

### Management of credit risk

The Board has granted approval to the Group to engage in credit and investment related activities for approved products and is ultimately responsible for approving and periodically reviewing the credit and investment strategies and policies of the Group along with the SSB. The Board defines and sets the Group's overall levels of risk appetite, risk diversification and asset allocation strategies applicable to each Islamic financing instrument, economic activity, geographical spread, currency and tenor. The Bank is responsible for applying Sharia governance SSB responsibility is to issue Fatwas and review the transactions introduced to it from a Sharia perspective and to the extent practical.

The Board has delegated its responsibility of overall risk management to various Board and senior management committees. The BIC of the Board of Directors is responsible for evaluating and granting credit facilities and approving the Bank's investment activities within authorized limits as set by the Board and within the scope of activities approved by the QFCRA. The STC evaluates credit and investment proposals and also exercises oversight on compliance with investment criteria, limits and investment procedures. The Risk Management Department is responsible for reviewing and scrutinizing the Bank's risk management policies and procedures. The STC also reviews proposed guidelines on all risk and governance issues.

The Risk Management Department ("RMD") is responsible for the oversight and monitoring of the Group's credit risk, including:

- a) Formulating credit and investment policies in consultation with business units, covering credit and investment assessment, and risk reporting. RMD also facilitates establishment of the authorization structure for the approval and renewal of credit facilities. Approval / authorization limits are also allocated to Executive Management. Larger facilities require approval by BIC and/or the Board of Directors based on the authority limits structure of the Group.
- b) Reviewing and assessing credit and investment exposures prior to investments or facilities being committed. Exercising oversight for limiting concentrations of exposure to counterparties, countries and economic sectors.
- c) Exercising oversight on ongoing monitoring of credit and investment exposures, market risk exposures and operational risk management.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### **Credit risk** (continued)

### Management of credit risk (continued)

- d) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment and credit risk.
- e) The RMD works alongside the investment banking department at all stages of a deal cycle from pre-investment, due diligence, exit and provides an independent review of every transaction. A fair evaluation of investments takes place every two months with input from the investment banking department. Bi-monthly updates of investments are reviewed by RMD. The STC conducts quarterly reviews. Regular audits of business units and group credit process are undertaken by Internal Audit.

#### **Exposure to credit risk**

The gross maximum exposure of financial assets to credit risk as at 31 December 2017 was as follows:

	Bank	Placements	Financing	Sukuk and other debt	Other financial	Total carrying
	balances US\$'000	with banks US\$'000	assets* US\$'000	instrument* US\$'000	assets US\$'000	value US\$'000
Neither past due nor impaired	23,336	96,363	234,606	60,622	23,379	438,306
Past due but not impaired	-	-	8,007	-	-	8,007
Individually impaired	-	-	-	19,795	1,638	21,433
Gross carrying amount	23,336	96,363	242,613	80,417	25,017	467,746
Expected credit loss						
Lifetime	-	-	(1,940)	-	-	(1,940)
Stage 1	-	-	-	(540)	-	(540)
Stage 2	-	-	-	(61)	-	(61)
Stage 3	-	-	-	(2,836)	(1,217)	(4,053)
Total allowance for impairment	-	-	(1,940)	(3,437)	(1,217)	(6,594)
Net carrying amount	23,336	96,363	240,673	76,980	23,800	461,152

<sup>\*</sup>Represents gross carrying amount of financial assets carried at amortized and fair value of financial assets carried at fair value.

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#### 30 FINANCIAL RISK MANAGEMENT (continued)

#### Credit risk (continued)

#### **Exposure to credit risk** (continued)

The gross maximum exposure of financial assets to credit risk as at 31 December 2016 was as follows:

	Bank balances US\$'000	Placements with banks US\$'000	Financing assets US\$'000	Amortized cost sukuk and other debt instrument US\$'000	Other financial assets US\$'000	Total carrying value US\$'000
Neither past due nor impaired	25,594	178,936	379,023	48,444	52,647	684,644
Individually impaired		_	101,325	19,765	350	121,440
Gross carrying amount	25,594	178,936	480,348	68,209	52,997	806,084
Allowance for impairment						
Specific		_	(25,535)	(2,836)	(350)	(28,721)
Collective		_	(13,245)	_	_	(13,245)
Total allowance for impairment	-	_	(38,780)	(2,836)	(350)	(41,966)
Net carrying amount	25,594	178,936	441,568	65,373	52,647	764,118

There were no "past due but not impaired" financial assets as at 31 December 2016.

#### Credit risk coverage for investments

Investment securities comprise sukuks and debt type instruments issued by institutions that the bank consider having acceptable credit risk and liquidity profile. The sukuk and debt type instruments investments are subject to a comprehensive risk limit framework which includes limits on exposures to countries, economic sectors and issuers and also transaction limits. Given these criteria, management expects to minimize the credit risk relating to investments.

#### Credit risk coverage for financings

Financings comprise financing assets extended to corporate clients, either on bilateral or syndicated basis, where the obligors exhibit an acceptable level of credit risk. Financing facilities are usually secured by tangible collateral and/or security packages (e.g. physical assets, company shares, etc.) and are subject to financial covenants.

Financing facilities are subject to a comprehensive risk limit framework which includes limits on exposures to product types, countries and industry sectors. Given these criteria, management expects to mitigate the credit risks relating to financings.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### Credit risk (continued)

#### **Credit risk coverage for financings** (continued)

The table below presents an analysis of net exposure of financial assets to credit risk by rating agency designation.

Rating	Carrying value as at 31 December 2017 US\$'000	Carrying value as at 31 December 2016 US\$'000
A	74,917	130,736
A-	43,018	108,070
A+	20,759	8,529
ВВ	19,820	20,173
BB-	-	-
BBB	8,143	14,272
BBB+	1,416	-
BBB-	<u>-</u>	-
CCC+	-	-
Not rated	293,079	482,338
Total	461,152	764,118

#### Write-off policy

The Group writes off receivables and investment balances (and any related allowances for impairment losses) when the Group determines that the receivables or investments are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the payee or issuer's financial position such that the payee or issuer can no longer meet the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

#### **Concentration risk**

Concentration risk is any single exposure or group of exposures with the potential to produce losses material enough to threaten the Group's health or ability to maintain its core operations. Such concentrations include:

- Significant exposures to an individual counterparty or group of related counterparties;
- Credit exposures to counterparties in the same economic sector or geographical region;
- Credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and
- Indirect credit exposures arising from the Group's credit risk mitigation activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

Exposure to significant counterparties:

	% of capital resources	Carrying value US\$'000
As at 31 December 2017		
As at 31 December 2016	14%	100,696

Significant exposure is identified as aggregate exposure to a counterparty equal or exceeding 10% of capital resources.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances.

#### Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its funding requirements and liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board of Directors ("Board") is responsible for approving the ALM policy of the Group. In turn, the Board may delegate part of its responsibilities to sub-committees and senior management. The Board has delegated the responsibilities of ALM to the STC and ALCO.

The STC and ALCO are responsible for the overall asset and liability management function of the Group. The STC and ALCO set guidelines for the overall management of the liquidity and rate of return risk by recommending policies, setting limits and guidelines and monitoring the risk and liquidity profile of the Group on a regular basis. The STC and ALCO also determine the financing liability and funding strategy of the Group in order to maximize profit and minimize risk. The ALCO is responsible for overseeing the adherence to regulatory liquidity ratios and preparation of a short-term liquidity reports.

#### **Exposure to liquidity risk**

The Group's liquid assets include cash and cash equivalents, sovereign and high quality sukuks and marketable securities. Appropriate haircuts are applied to the valuation of these assets to ensure that a sufficient buffer is maintained for any market price fluctuation. The table below lists the liquidity indicators that the Group monitors on a regular basis.

Indicators	2017	2016
Liquid assets/ total equity	20%	29%
Illiquid + long term investments / total assets	88%	83%

The maturity profile of the Group's assets and liabilities is shown in Note 29.

#### Market risk

### Management of market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. As a matter of general policy, all trading positions on its assets and liabilities are being monitored on a daily basis by both business and control areas. Any material movements on the trading portfolios are addressed appropriately. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Overall authority for market risk is vested in the STC. ALCO is responsible for the design and implementation of FX and profit rate hedging strategies. RMD is responsible for the development of detailed risk management policies (subject to review and approval by the STC) and for the regular review of their implementation.

Market risk has the following main components:

- Profit rate risk;
- Foreign exchange risk; and
- price risk:

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### Market risk (continued)

#### Profit rate risk

Profit rate risk arises when there is a mismatch between positions which are subject to profit rate adjustment within a period. In the Group's funding and investment activities, fluctuations in profit rates are reflected in profit margins and earnings.

#### Exposure to profit rate risk

Profit rate risk is the risk that the relative value of a profit bearing asset and liabilities, whether fixed or floating, will worsen due to movements in market based benchmark profit rates. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. The Group holds a mixture of both floating and fixed profit rate assets, comprising financing facilities, placements with other financial institutions and investments in sukuks and debt type instruments. ALCO is responsible for reviewing the profit rare risk profile and to decide if a hedge of residual profit rate risk is required.

#### Profit rate risk sensitivity analysis

The Group monitors the sensitivity of the Group's financial instruments by way of subjecting them to standard scenarios that include a 100 basis point (bp) parallel fall or rise in all pertinent yield curves. An analysis of the Group's income statement sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	100 bps parallel increase / (decrease) US\$'000
At 31 December 2017	(520)
	100 bps parallel increase / (decrease) US\$'000
At 31 December 2016	1,748

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

### Market risk (continued)

### Profit rate risk profile

The following table sets out the profit rate risk profile of the Group's assets and liabilities as at 31 December 2017:

	Carrying amount US\$'000	Less than 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Not profit sensitive US\$'000
ASSETS						
Cash and bank balances	23,336	-	_	_	_	23,336
Placements with banks	96,363	96,363	_	_	_	
Financing assets	240,673	48,354	55,503	67,872	37,121	31,823
Investment securities	582,971	-	9,992	438	66,549	505,992
Investment in real estate	112,243	-			_	112,243
Investment in property lease	53,155	-			_	53,155
Investment in associates	75,743	_			_	75,743
Other assets	40,740	-			_	40,740
Total	1,225,224	144,717	65,495	68,310	103,670	843,032
LIABILITIES						
Financing liabilities	466,172	421,843	_	44,329	_	
Other liabilities	41,207					41,207
Total	507,379	421,843		44,329		41,207
Profit rate sensitivity gap		(277,126)	65,495	23,981	103,670	
Cumulative profit rate sensitivity gap		(277,126)	(211,631)	(187,650)	(83,980)	

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

### Market risk (continued)

### Profit rate risk profile (continued)

The following table sets out the profit rate risk profile of the Group's financial assets and liabilities as at 31 December 2016:

	Carrying amount US\$'000	Less than 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Not profit sensitive US\$'000
ASSETS						
Cash and bank balances	25,594	-	-	-	-	25,594
Placements with banks	178,936	178,936	-	-	-	-
Financing assets	441,568	201,962	99,258	51,613	13,133	75,602
Investment securities	380,934	_	-	16,346	61,804	302,784
Investment in real estate	94,586	_	-	-	_	94,586
Investment in property lease	47,275	_	-	-	_	47,275
Investment in associates	65,405		-	-	_	65,405
Other assets	53,937		-	-	_	53,937
Total	1,288,235	380,898	99,258	67,959	74,937	665,183
LIABILITIES						
Financing liabilities	523,863	451,469	38,718	33,676	_	_
Other liabilities	29,380		_	-	_	29,380
Total	553,243	451,469	38,718	33,676	-	29,380
Profit rate sensitivity gap		(70,571)	60,540	34,283	74,937	
Cumulative profit rate sensitivity gap		(70,571)	(10,031)	24,252	99,189	

## Foreign exchange risk

The Group is exposed to foreign exchange risk on financial assets and liabilities that are denominated in a currency other than the functional currency of the Bank.

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## **30 FINANCIAL RISK MANAGEMENT** (continued)

### Market risk (continued)

## Exposure to foreign currency exchange risk

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. The Group had the following significant net exposures denominated in foreign currencies that are not pegged to US\$:

	2017 US\$'000	2016 US\$'000
Euro	(4,895)	3,300
Pound Sterling	1,081	(1,812)
Indian Rupee	38,247	34,851
Others	9,848	10,349

The exposures to Euro, Pound Sterling and Indian Rupee are primarily from the Group's net investment exposure to the foreign currency denominated assets and liabilities of, investment in associate, financial assets designated at fair value through income statement and fair value through equity investments. The Group generally uses forward foreign exchange contracts to hedge the foreign currency risk on its net investment in foreign operations.

## Foreign exchange risk sensitivity analysis:

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

	2017 US\$'000	2016 US\$'000	
5% change in currency exchange rate			
Euro	(245)	165	
Pound Sterling	54	(91)	
Indian Rupee	1,912	1,743	
Others	492	517	

# Price risk

The Group is exposed to price risk on its equities securities, financing assets and other debt instruments measured at fair value. This arises from investments held by the Group for which prices in the future are uncertain. The Group currently does not hold any listed securities; however, it has invested in certain Sharia funds that have investments in listed securities. Accordingly, a direct impact of change in capital market position on Group may not be quantified. Any change in variables of market rate (i.e. risk-free interest rate, country risk rate, counterparty specific risk and discount on lack of marketability) may have a direct impact on the fair value of the financing assets.

## **Operational risk**

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial loss, reputational damage, legal penalty or regulatory censure. The Bank manages Operational Risk through appropriate controls (such as segregation of duties, checks and balances, and the work of audit and compliance) and an Operational Risk Management framework (ORM).

This framework adopts a three pronged approach – (a) self-analysis by each bank department through the Operational Risk Self-Assessment (ORSA) process, (b) loss event/data reporting, and (c) issue tracking. Oversight of the ORM is exercised by RMD and STC.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### Operational risk (continued)

QInvest has also developed a Business Continuity Plan (BCP) to facilitate the resumption and continuation of business in the event of a disaster impacting the bank's Head Office. In particular, the Bank transfers data outside Qatar on a daily basis into a cloud-based system managed by a reputable international service provider. This enables the Bank to re-build data and resume operations from outside Qatar in the event of an "in-country" disaster.

#### Other risks

Legal risk is addressed through the effective use of internal and external legal advisers. Reputational risk is addressed by effective procedures being drafted and implemented around all areas concerning press and publicity releases, document production and website design.

## Regulatory and legal risks

The Compliance department is responsible for helping management identify and manage compliance and regulatory risks. It reports directly to the Board Risk, Audit and Compliance Committee ("BRACC"). It is focused on the implementation of a control framework which helps ensure the appropriate regulatory response in relation to legislation and requirements arising in Qatar and in other locations.

## Capital management

Capital represents the shareholders' investment and is a key strategic resource which supports the Group's risk taking business activities. In line with Group's financial objective, management strives to deploy this resource in an efficient and disciplined manner to earn competitive returns. Capital also reflects financial strength and security to the Group's creditors and depositors. Capital management is fundamental to the Group's risk management philosophy, and takes into account economic and regulatory requirements.

The Group's regulator, the QFCRA, sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the QFCRA requires the Group to maintain a positive prescribed ratio of total capital to total risk-weighted assets. The minimum ratio prescribed by the QFCRA is 10.5%.

For calculating regulatory capital, the Group is following the QFCRA approaches for credit, market and operational risk management.

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, retained earnings. translation reserve, investment fair value reserve relating to unrealized gains on equity instruments classified as fair value through equity, associates and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes instruments issued by the entity that meet the criteria for inclusion in Tier 2 capital, share premium, certain financing assets provisions and other regulatory adjustments applied in calculation of Tier 2 capital.

The Group's policy is at all times to exceed the minimum capital requirements of the QFCRA. The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Group's management of capital during the year. Furthermore, ALCO actively reviews changes in the firm's capital position and monitors changes to capital adequacy profile following review of periodic stress tests.

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#### **30 FINANCIAL RISK MANAGEMENT** (continued)

#### **Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the internal capital requirements may be adjusted to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently from those responsible for the operation, and is subject to review by the Senior Management.

# Capital position as per QFCRA Basel III rules is as below:

201: US\$'000	
Risk weighted exposure 2,521,14	1,954,183
Total qualifying tier 1 capital and reserve funds 662,545	694,113
Qualifying Tier 2 capital and reserve funds 2,33	2,093
Total qualifying capital and reserve funds 664,876	696,206
Capital adequacy ratio 26%	36%

#### 31 FAIR VALUE MEASUREMENT

### 31.1 Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

Fair value and classification of financial instruments at 31 December 2017

	Designated as at fair value through income statement US\$'000	Mandatorily measured at fair value through income statement US\$'000	Fair value through equity US\$'000	Amortized cost investment securities US\$'000	Financing assets and liabilities at amortized cost US\$'000	Total carrying value US\$'000	Fair value US\$'000
Financial assets							
Cash and bank balances	_	-	-	-	23,336	23,336	23,336
Placements with banks	-	-	-	-	96,363	96,363	96,363
Financing assets	-	154,028	-	-	86,645	240,673	240,673
Investment securities	430,927	19,992	85,251	46,801	-	582,971	576,663
Other financial assets	<u>-</u>				23,800	23,800	23,800
Total	430,927	174,020	85,251	46,801	230,144	967,143	960,835
Financial liabilities							
Financing liabilities	_	_	-	-	466,172	466,172	466,172
Other financial liabilities		_			36,367	36,367	36,367
Total					502,539	502,539	502,539

At 31 December 2017



#### **31 FAIR VALUE MEASUREMENT** (continued)

## **31.1 Fair values** (continued)

Fair value and classification of financial instruments at 31 December 2016

	Fair value through income statement US\$'000	Fair value through equity US\$'000	Amortized cost investment securities US\$'000	Financing assets and liabilities at amortized cost US\$'000	Total carrying value US\$'000	Fair value US\$'000
Financial assets						
Cash and bank balances	-	_	_	25,594	25,594	25,594
Placements with banks	-	_	_	178,936	178,936	178,936
Financing assets	-	-	-	441,568	441,568	441,568
Investment securities	280,034	35,527	65,373	-	380,934	375,216
Other assets	-	_	_	39,870	39,870	39,870
Total	280,034	35,527	65,373	685,968	1,066,902	1,061,184
Financing liabilities	<u>-</u>			523,863	523,863	523,863
Other liabilities		-	_	22,014	22,014	22,014
Total	-	-	-	545,877	545,877	545,877

The management assessed that cash and short-term deposits, other receivables, other payables, due to bank and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate financing receivables and other debt type instruments are evaluated by the Group based on parameters such as profit rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2017, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values. Depending on the nature and level of adjustments needed to the value, the Group considers these financial assets as Level 3.
- Fair value of the quoted sukuk is based on price quotations at the reporting date.
- Fair value of the unquoted shares has been estimated using appropriate valuation methodologies. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.
- Fair value of quoted financial assets is derived from quoted market prices in active markets.
- Certain unquoted fair value through equity investments may be recorded at cost if their fair values cannot be reliably estimated. However, such investments are tested for impairment. There are no active markets for these investments and the Group intends to hold them for the long term.

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#### **31 FAIR VALUE MEASUREMENT** (continued)

#### **31.1 Fair values** (continued)

- The Group enters into derivative financial instruments with various counterparties for hedging purpose, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly, foreign exchange forward contracts. The Group use observable inputs or the counterparty banks valuations to measure the fair value of the derivative financial instruments. Such financial assets and liabilities are classified as level 2.
- The Group invests in limited partnerships which are not quoted in an active market and the NAV of these funds may be used as an input into measuring their fair value. Depending on the nature and level of adjustments needed to the NAV and the level of trading, the Group classifies these funds as Level 3.

# Description of significant unobservable inputs to valuation:

Valuation techniques and models used on level 3 investments were mainly DCF and Market comparable approach models and have used various inputs 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.

Sensitivity to changes in inputs may vary depending on the nature of the identified inputs. Assumptions and inputs used in valuation techniques include risk-free rate and benchmark profit rates or WACC, credit spreads and other factors used in estimating the discount rates, equity prices, foreign currency exchange rates and expected price volatilities and correlations.

# 31.2 Determination of fair value and fair value hierarchy

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2017:

	Fair value measurement using				
	Fair Value US\$'000	Quoted prices in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	
ASSETS					
Fair value through income statement investments	450,919	8,143	127,417	315,359	
Fair value through income statement financing assets	154,028	-		154,028	
Fair value through equity financial investments	85,250	-	27,607	57,643	
Derivative instruments	1,186	-	1,186	_	
Investment in real estate	61,415	-		61,415	
Total	752,798	8,143	156,210	588,445	
LIABILITIES					
Derivative instruments	8,205	-	8,205	-	

At 31 December 2017



#### **31 FAIR VALUE MEASUREMENT** (continued)

## **31.2 Determination of fair value and fair value hierarchy** (continued)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2016:

	Fair value measurement using				
		Significant observable			
		active markets	inputs	inputs	
	Fair Value US\$'000	(Level 1) US\$'000	(Level 2) US\$'000	(Level 3) US\$'000	
ASSETS					
Fair value through income statement investments	280,034	10,735	61,188	208,111	
Fair value through equity financial investments	35,527	_	-	35,527	
Derivative instruments	12,225	_	12,225		
Investment in real estate	54,946	_	-	54,946	
Total	382,732	10,735	73,413	298,584	
LIABILITIES					
Derivative instruments	107	-	107	-	

# Notes:

(i) During 2016, following the publishing of audited results of unquoted sharia'a funds, the Group's investments in those funds totaling US\$ 44.2 were reclassified from Level 1 to Level 2. During 2016, the Group invested additional US\$ 15.5 million in unquoted sharia'a funds. Transfers between levels of the fair value hierarchy, are deemed to have occurred at the beginning of the reporting period. There were no transfers into and out of Level 3 fair value measurements.

## (ii) Unquoted sharia'a funds

The investments classified within Level 2 are unlisted sharia'a funds. Shares in unlisted sharia'a funds are valued by reference to the latest confirmed net asset value (NAV) per Share of the relevant investment funds or, if unavailable, the estimated net asset value of the relevant underlying scheme.

These confirmations are received from the administrator of each of these investment funds. If these are unavailable, the value is estimated by the Directors or their delegate with a view to establishing the probable realisation value of such investment.

## (iii) Unlisted managed funds

The Group invests in managed funds, including private equity funds, real estate funds which are not quoted in an active market and which may be subject to restrictions on redemptions, Depending on the nature and level of adjustments needed to the NAV and the level of trading in the fund, the Group classifies these funds as Level 3.

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## **31 FAIR VALUE MEASUREMENT** (continued)

# **31.2 Determination of fair value and fair value hierarchy** (continued)

# Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of assets categorized within Level 3 between the beginning and the end of the reporting period:

	Fair value through income statements investments US\$'000	Financing assets measured at fair value US\$'000	Fair value through equity investments US\$'000	Investment in real estate US\$'000	Total US\$'000
Balance as at 31 December 2016	208,111		35,527	54,946	298,584
Reclassification from financing					
assets carried at amortized cost*	-	236,841	-	-	236,841
Total gains and losses in					
income statement	13,411	(1,211)	-	(968)	11,232
Total loss recognized in equity	-	_	227	_	227
Purchases / Transfers	104,097	_	21,889	_	125,986
Disposals / Transfers	(16,318)	(81,242)	_	_	(97,560)
Foreign currency losses	6,058	(360)	_	7,437	13,135
Balance at 31 December 2017	315,359	154,028	57,643	61,415	588,445

<sup>\*</sup> The reclassification of early adoption of guidance IFRS 9

	Fair value through income statements investments US\$'000	Fair value through equity investments US\$'000	Investment in real estate US\$'000	Total US\$'000
Balance as at 31 December 2015	144,798	56,369	58,406	259,573
Total gains and losses in income statement	7,182	_	(803)	6,379
Total gains recognized in equity		(3,463)	_	(3,463)
Purchases	44,279	1,201	_	45,480
Disposals	(9,124)		-	(9,124)
Transfers	25,531	(18,184)	_	7,347
Foreign currency losses	(4,555)	(396)	(2,657)	(7,608)
Balance at 31 December 2016	208,111	35,527	54,946	298,584

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#### 32 SHARE-BASED PAYMENTS

In 2015, "Employee Share Option Plan" (ESOP) was approved by the QInvest Board of Directors for key employees with material impact on QInvest listing. Under the plan, share options were approved with ratio of 1 option: 1 share. The exercise price of the option will be US\$ 1 per share. The options vest as per following schedule:

- 50% of options immediately prior to listing date
- 25% of options12 months after listing date
- 25% of options 24 months after listing date

Options must be exercise within 24 months of vesting date (or they will lapse). Options will expire 5 years after the grant date if no listing has happened (or if not extended by QInvest Board). This is an Equity Settled scheme but it gives employees flexibility to notionally sell a portion of shares in order to avoid the requirement to pay cash to QInvest.

The fair value is estimated using Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The fair value charge for the year ended 31 December 2017 was estimated using assumptions related to IPO probability, IPO Date, Dividend yield (%), Standard Deviation (%), Risk-free interest rate (%) and Spot price per share (US\$).

For the year ended 31 December 2017, the Group has recognized US\$ 0.5 million of share-based payment expense in the income statement (31 December 2016: US\$ 2.2 million).

## 33 CASH DIVIDENDS TO THE EQUITY HOLDERS OF THE BANK

The Board of Directors have not proposed a cash dividend for the year ended 31 December 2017 (2016: Nil).

#### 34 ASSETS UNDER MANAGEMENT

The Group's investment activities include "Asset Management" including "Discretionary Portfolio Management" (DPM) and Funds under Management. At the reporting date, the Group had total Assets under Management of US\$ 727 million (31 December 2016: US\$ 749 million). These included DPM and restricted investment accounts of US\$ 242 million (2016: US\$ 245 million) and Funds under Management of US\$ 485 million (2016: US\$ 504 million). DPM and restricted investment accounts are reported as part of Consolidated Statement of Changes in Restricted Investment Accounts. The financial statements of these funds are not consolidated with the financial statements of the Group. However, the Group's share of equity in these funds is included in the financial investments of the Group.

## 35 COMPARATIVES

- Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income.
- Quarterly results for the year 2017 as a result of early adoption of FAS-30 and guidance of IFRS-9 are provided in Note 2.3.



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