

# ANNUAL REPORT 2016 31 DECEMBER 2016

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



# **CONTENTS**

Profile	5
Vision, Mission & Values	7
FINANCIAL HIGHLIGHTS	9
Sharia'a supervisory board	10
BOARD OF DIRECTORS	12
Chairman's Statement	15
CEO'S STATEMENT	17
Management Team	20
BUSINESS LINES	
-Investment Banking	27
-Asset management	28
-Principal Investments	
-Real Estate	29
-Equity Investments	30
-Credit Investments	31
-Client Coverage & Distribution	32
GOVERNANCE	
-Sharia'a Supervisory Board	35
-Board and Management Committees	35
-Social Responsibility	35
-Risk Management	36
Sharia'a Supervisory Board' Report	41
Independent Auditors' Report	42
Consolidated Financial statements & Notes	43
CONTACTS	106

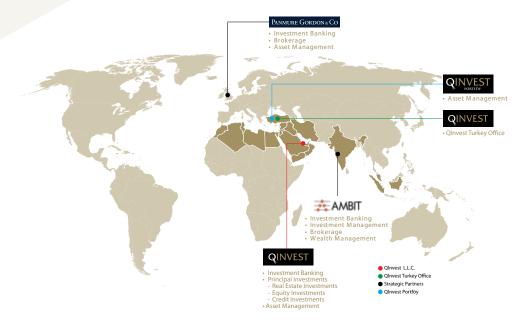


QINVEST is Qatar's leading investment group and, with operations across the Middle East, Africa and Europe, is one of the most prominent Islamic financing institutions in the world. QINVEST has built world class investment and advisory capabilities, with the highest standards of governance and transparency 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.



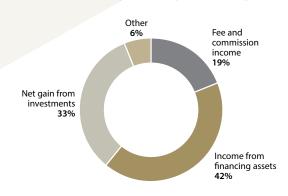
# The Year's Financial Highlights as of December 31st 2016

(USD '000)	Full year 31-Dec-12 (Audited)	Full year 31-Dec-13 (Audited)	Full year 31-Dec-14 (Audited)	Full year 31-Dec-15 (Audited)	Full year 31-Dec-16 (Audited)
Revenue	26,629	35,147	82,096	108,098	114,450
Operating Profit/(Loss)	-20,622	1,597	44,751	58,891	60,709
Net Profit/(Loss) Attributable to					
Shareholders of the Bank	-57,208	3,136	24,156	42,336	6,168

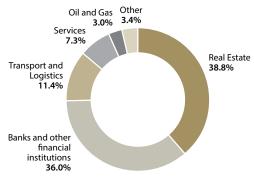




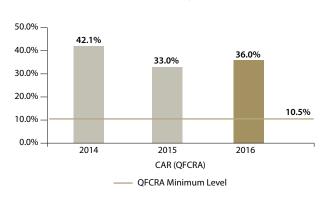
#### 2016 Revenue by Statutory Accounting Line



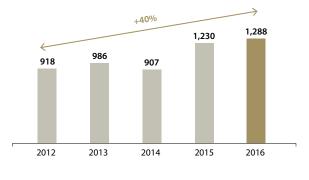
# Asset Class by Sector (31 December 2016)







#### Asset Trend (US\$ m)









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







2016 was an eventful year that witnessed a number of influential macroeconomic developments. A challenging and volatile market environment coupled with surprise political events impacted QINVEST's investments despite measures to de-risk and re-balance our portfolio. We also took into consideration the future impact this environment will continue to have on our business going forward and revised out budget and forecasts for 2017. Our objectives to sustain and grow shareholder value remains our priority and continues to guide our path going forward.

In terms of results for 2016, we reported record revenues, operating profit, and assets. Our revenues increased 6% to QAR 416 million (US\$ 114 million), our operating profits increased 3% to QAR 220 million (US\$ 60 million), and assets increased by 5% to QAR 4,688 million (US\$ 1,288 million).

QINVEST reported QAR 22.5 million (US\$ 6.2 million) in net profits attributed to shareholders following a provisioning policy that will enable the Firm to absorb unpredictable market shocks without interruption to its business.

Following a review of our investment portfolio and the risks associated with each market and transaction, higher provisions were set aside throughout the year totaling at QAR 127.4 million (US\$ 35 million) due to the long-term nature of our investments. On the other hand, the overall health of the Firm remains robust with a capital adequacy ratio of 36% and cash and cash equivalents remaining at higher levels than 2015, exceeding QAR 687 million (US\$ 189 million).

We expect the markets to continue to be challenging in 2017 as market volatility and geopolitical tensions persist. We will continue with our plan to develop our business further and increase shareholder value thorough building

a diversified portfolio of investments in real estate, credit, and equities, growing our AUM, in addition to providing best-in-class products and advice to our clients. Accordingly, we will continue to employ our capital effectively to achieve efficient levels of risk-adjusted returns for our shareholders and investors.

We remain committed to providing shareholders with a liquidity opportunity in addition to an exit plan through a public listing. The timing for the latter has not been determined yet. We remain vigilant regarding the market situation in order to ensure we determine a listing timeframe that optimizes shareholders' investments and protects our overall valuation.

Last but not least, on behalf of the Board of Directors, I would like to extend my gratitude to all of our shareholders for their continued support and belief in QINVEST and its investment story. I would also like to recognize the QINVEST executive team for their constant professionalism, commitment and dedication to the success of the group.

My final words of thanks and appreciation go to the Sharia'a Supervisory Board for their wise advice and guidance, which has allowed us to ensure that our products and investment processes are fully compliant with the principles and provisions of Islamic Sharia'a.



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





QINVEST was able to navigate a challenging macroeconomic environment in 2016 and deliver robust performance across all business lines. Unexpected global challenging events, including the drop in oil prices, the depreciation of major currencies, and the many country specific macroeconomic factors, provoked market volatility which required careful navigation and prudent management of our investments.

Growth in the GCC was moderated by lower oil prices, although this also helped to accelerate regional governments' diversification efforts with a shift in focus to non-oil industries. During the year, we took the opportunity to de-risk our portfolio to adapt to these structural changes, while also re-balancing our portfolio to create a platform for future growth.

Despite these headwinds, I am proud to report that we delivered growth in 2016, ending the year with revenues up 6% to QAR 416 million (US\$ 114 million) while operating profits reached QAR 220 million (US\$ 60 million), up 3% on 2015. Revenues were generated across different sectors and geographies, showing a healthy balance between returns and exposure to different sectors and market risk profiles. Meanwhile, the establishment of a provisioning policy, helping to ensure QINVEST will be able to absorb unpredictable market shocks without interruption to its business, resulted in net profits attributable to shareholders of QAR 22.5 million (US\$ 6.2 million).

Total assets under management grew by 5% to QAR 4,688 million (US\$ 1,288 million) by the end of year, with a capital adequacy ratio of 36%, and cash and cash equivalents of QAR 687 million (US\$ 189 million), higher than 2015's ratio of 33%. This placed QINVEST on stable foundations to manage further market volatility and geopolitical tensions throughout 2017 and beyond.

Creating a diversified portfolio of investments in real estate, credit and equities, was central to QINVEST's strategy in 2016. This was complemented by strengthening our deal flow pipeline while further enhancing relationships with prospective and existing clients.

During the course of the year, we successfully launched a number of strategic initiatives that can act as pillars for the business over the coming years. With our world class team and international reach, we are confident that QINVEST's fusion of capital strength with a proven track record of execution will continue to be recognised and appreciated by all stakeholders.

Looking more closely at QINVEST's business lines, our Investment Banking and Real Estate Advisory offerings continued to demonstrate growth, having been engaged on a variety of new mandates across equity, debt and Mergers & Acquisitions (M&A) transactions.

In the Investment Banking Division, our structured finance and advisory business enjoyed another busy year. In structured finance, we closed 12 corporate transactions deploying approximately US\$ 275 million. The team is currently focused on delivering on our existing pipeline while seeking additional opportunities across key geographies. The advisory business includes our Debt Capital Markets (DCM), M&A and Equity Capital Markets (ECM) franchises. The DCM franchise continued to show its value in 2016 and we helped clients navigate volatile conditions with a number of mandates completed during the year. Notably, we acted as joint lead manager and book runner on a US\$ 500 million Sukuk and a US\$ 350 million Tier II Sukuk for Kuveyt Turk, as well as supporting Ezdan Holding Group's debut US\$ 500 million Sukuk. The two Turkish transactions are a testament to our burgeoning presence in this high-growth market.

The M&A team was also active in 2016. Two of their most significant transactions included acting as a financial advisor for Qatar Investment Authority on its acquisition of a 9.9% interest in Empire State Realty Trust, the owner and Colony Capital and Qatari Investment Authority on their disposal of Miramax, which was acquired by the belN Media Group. The team remains heavily involved on a range of engagements across multiple industries and geographies.



Although ECM activity remained quiet in 2016, as companies postponed plans for IPOs given unpredictable equity markets, preparatory work for potential flotations continued and the team is ready to capitalize once the IPO market returns.

Our Principal Investments division, which focuses on real estate, credit, and equity investments, had another solid year deploying and reinvesting in both equity and high yielding credit. The Real Estate Principal Investments Unit has continued to focus on defensive yielding equity opportunities in addition to conservative financing capital deployment. The geographic focus remains the US, Western Europe, and the UK on an opportunistic basis. The business is looking to invest into co-sponsored general partnership platform that will seek to raise capital from limited partners. This investment structure will focus on multifamily transactions in the US.

Last year was a very strong year for our Asset Management business, with the team capitalizing on the processes, infrastructure and resources, which have been put in place over the last few years. The Asset Management Division completed the integration of Ergo Portfoy into its business and rebranded it as "QINVEST Portfoy" while expanding the use of its unique Sharia'a compliant managed account platform, QMAP, to its Turkish subsidiary. There has also been a number of positive developments in terms of developing new distribution channels with the team adding one of Turkey's fastest growing brokerage houses to distribute QINVEST's onshore Turkish funds, and the addition of a new banc-assurance channel in the GCC to distribute the QMAP fund range.

It also retained its position as the leading, independent Sharia'a compliant asset management firm in Turkey, generating top quartile performances across the majority of its products. Performance across the division's funds and portfolios remained strong despite highly volatile markets and events further demonstrating the value of active management in challenging markets.

At the end of the year, assets under management (AUM) reached QAR 2.7 billion (US\$ 749 million) and we have received a 3 star Morningstar rating for the "QINVEST GAM Sharia'a Fund" and a 4 star Morningstar rating for the "EFH Global Sukuk Plus Fund".

We are very proud of our performance in 2016, which confirms our position as the leading investment group in Qatar, and one of the world's most prominent Islamic financial institutions. We are delighted that the business continues to be recognized in the region and internationally, and we have received a number of prestigious awards in 2016 based on our achievements and consistent track record of robust performance.

Looking ahead, we expect the global and regional markets to remain volatile. We will continue with our plan to develop our business further and increase shareholder value thorough further diversifying our portfolio of investments in real estate, credit and equities, growing our AUM, in addition to providing best-in-class products and advice to our clients. We are cautiously optimistic that we have laid the foundations from which to elevate our business despite prevailing uncertainties in the markets in which we operate.

We remain focused on delivering on our exciting pipeline of deals, taking advantage of strength in our core markets to source and assess opportunities which can maximize returns from our different investments to create value for clients and shareholders.

In closing, I would like to take this opportunity to thank the entire QINVEST team for their commitment and contribution to the success of the business in 2016. Additionally, I thank our shareholders for their loyalty and continued support of our strategic vision.

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

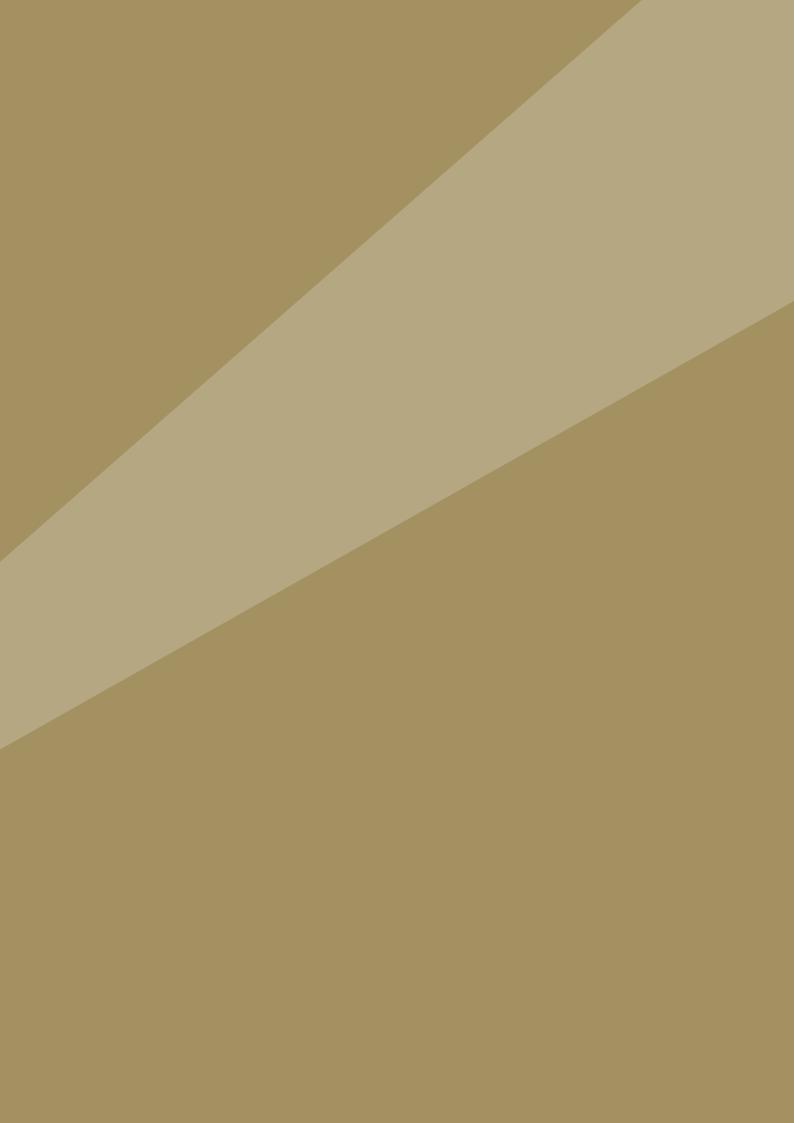


Client Coverage & Distribution

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, certain assets of a subsidiary held for sale and certain other assets of the group. Financial liabilities include certain liabilities of a subsidiary held for sale, due to banks, 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 & 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 AML, 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 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:
- 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 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 department have independent reporting lines to the BRACC that allow to provide its impartial view on the business activities taken by 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.).

#### 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 SSB has the responsibility to ensure that the business is conducted according to Islamic principles. The SSB reviews and approves the credit/investment products developed by the group and used by the group in its business along with the credit risk and investment policies.

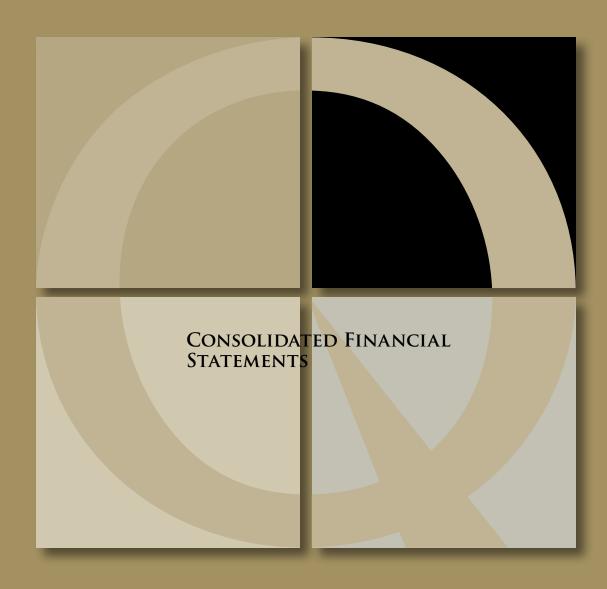
The Board has delegated its responsibility of overall risk management to various Board and senior management committees. The BIC of the Board of Directors is responsible for evaluating and granting credit facilities and approving the group's investment activities within authorized limits as set by the 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

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.
- Exercising oversight on ongoing monitoring of credit and investment exposures, market risk exposures and operational risk management.
- 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.







#### 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 2016 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 19, 2017

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

31 December 2016



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 2016, and the consolidated statements of income, changes in shareholders' 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 2016, the results of its operations, its cash flows, changes in shareholders' equity and changes in restricted investment accounts for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

**Ernst & Young** 

Date: 18 January 2017 Doha State of Qatar



	2016 QAR′000	2015 QAR'000
ASSETS		
Cash and bank balances	93,162	251,342
Placements with banks	651,327	227,402
Financing assets	1,607,308	1,817,911
Investment securities	1,386,600	1,293,521
Investment in real estate	344,293	212,598
Investment in property lease	172,081	183,081
Investment in associates	238,074	282,169
Assets of a subsidiary held for sale	<u> </u>	4,459
Other assets	196,330	204,794
TOTAL ASSETS	4,689,175	4,477,277
LIABILITIES		
Financing liabilities	1,906,861	1,613,230
Liabilities of a subsidiary held for sale	- 1,500,001	3,400
Other liabilities	106,943	118,239
TOTAL LIABILITIES	2,013,804	1,734,869
EQUITY		
Share capital	2,730,000	2,730,000
Share premium	27,300	27,300
Treasury shares	(182,000)	(182,000)
Other reserves	32,316	110,823
(Accumulated losses) / Retained earnings	(42,522)	37,721
Total equity attributable to shareholders of the Bank	2,565,094	2,723,844
Non-controlling interest	110,277	18,564
Total equity	2,675,371	2,742,408
TOTAL LIABILITIES AND EQUITY	4,689,175	4,477,277
Off-balance sheet items		
Restricted investment accounts	891,436	576,762

Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani

Chairman

Tamim Hamad Al-Kawari Chief Executive Officer

	2016 QAR'000	2015 QAR'000
Fee and commission income	77,619	51,153
Income from financing assets	174,265	138,986
Net gain from investments	138,669	183,627
Income from placements with banks	4,062	4,372
Share of results of associates	15,805	(5,376)
Profit from a subsidiary held for sale	5,267	21,207
Other income / (loss)	910	(491)
Total operating revenue	416,597	393,478
Staff costs	(137,941)	(130,410)
General and administrative expenses	(53,810)	(45,242)
Depreciation and amortisation	(3,866)	(3,462)
Total operating expenses	(195,617)	(179,114)
Operating profit	220,980	214,364
Finance expenses	(67,551)	(25,520)
Reversal/(Provision) for legal claims	3,640	(4,859)
Impairment loss on financial assets	(126,253)	(26,503)
Profit before tax	30,816	157,482
Tax expense	(2,204)	(3,130)
NET PROFIT FOR THE YEAR	28,612	154,352
Attributable to:		
Shareholders of the Bank	22,452	154,104
Non-controlling interest	6,161	248
	28,613	154,352

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016 (US\$)



	Notes	2016 US\$′000	2015 US\$'000
ASSETS			
Cash and bank balances	4	25,594	69,050
Placements with banks	5	178,936	62,473
Financing assets	6	441,568	499,426
Investment securities	7	380,934	355,363
Investment in real estate	8	94,586	58,406
Investment in property lease	9	47,275	50,297
Investment in associates	10	65,405	77,519
Assets of a subsidiary held for sale	11	-	1,225
Other assets	12	53,937	56,262
TOTAL ASSETS		1,288,235	1,230,021
LIABILITIES			
Financing liabilities	13	523,863	443,195
Liabilities of a subsidiary held for sale	11		934
Other liabilities	14	29,380	32,483
TOTAL LIABILITIES		553,243	476,612
EQUITY			
Share capital	15	750,000	750,000
Share premium	15	7,500	7,500
Treasury shares	16	(50,000)	(50,000)
Other reserves	17	8,878	30,446
(Accumulated losses) / Retained earnings		(11,682)	10,363
Total equity attributable to shareholders of the Bank		704,696	748,309
Non-controlling interest		30,296	5,100
Total equity		734,992	753,409
TOTAL LIABILITIES AND EQUITY		1,288,235	1,230,021
Off-balance sheet items			
Restricted investment accounts		244,900	158,451

Sheikh Jassim Bin Hamad Bin Jassim Bin Jabor Al Thani

Chairman

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

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

	Notes	2016 US\$'000	2015 US\$'000
Fee and commission income		21,324	14,053
Income from financing assets	19	47,875	38,183
Net gain from investments	20	38,096	50,447
Income from placements with banks		1,116	1,201
Share of results of associates	10	4,342	(1,477)
Profit from a subsidiary held for sale		1,447	5,826
Other income / (loss)		250	(135)
Total operating revenue		114,450	108,098
Staff costs		(37,896)	(35,827)
General and administrative expenses	22	(14,783)	(12,429)
Depreciation and amortisation		(1,062)	(951)
Total operating expenses		(53,741)	(49,207)
Operating profit		60,709	58,891
Finance expenses		(18,558)	(7,011)
Reversal/(Provision) for legal claims		1,000	(1,335)
Impairment loss on financial assets	6, 7 and 12	(34,685)	(7,281)
Profit before tax		8,466	43,264
Tax expense	23	(605)	(860)
NET PROFIT FOR THE YEAR		7,861	42,404
Attributable to:			
Shareholders of the Bank		6,168	42,336
Non-controlling interest		1,693	68
		7,861	42,404

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY For the year ended 31 December 2016



	Attributable to shareholders of the bank							
	Share capital US\$ '000	Share premium US\$ '000	Treasury shares US\$ '000	Other reserves (Note 17) US\$ '000	(Accumulated losses) / Retained earnings 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 Effective portion of changes				(23,536)		(23,536)	(1,477)	(25,013)
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 investment designated as equity		_		(9,511)		(9,511)		(9,511)
Fair value reserve transferred to the consolidated income								
statement	_	_	-	(8,281)	_	(8,281)	_	(8,281)
Share of reserves of equity								
accounted associates (Note 10)	-	-	-	(630)	-	(630)	_	(630)
Share-based payments (Note 33)	-	_	_	2,195	_	2,195		2,195
Dividends (Note 34)	-	_		_	(28,213)	(28,213)		(28,213)
Net movement in								
non-controlling interests	-	-	-	-	-	-	24,980	24,980
As at 31 December 2016	750,000	7,500	(50,000)	8,878	(11,682)	704,696	30,296	734,992

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED) For the year ended 31 December 2016



		А	ttributable to sh	nareholders of	the bank			
	Share capital US\$ '000	Share premium US\$ '000	Treasury shares US\$ '000	Other reserves (Note 17) 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 2015	750,000	7,500	(50,000)	11,081	(17,866)	700,715		700,715
Profit for the year					42,336	42,336	68	42,404
Foreign currency translation differences of foreign operations				(1,025)		(1,025)	(166)	(1,191)
Effective portion of changes in fair value of								
net investment hedges				360		360		360
Effective portion of changes in fair value of cash flow hedges				(197)		(197)		(197)
Net change in fair value of investment designated as equity	-	-	_	8,836	-	8,836	-	8,836
Share of reserves of equity accounted associates (Note 10)				7,984		7,984		7,984
Share-based payments (Note 33)				3,407		3,407		3,407
Dividends (Note 34)				-	(14,107)	(14,107)		(14,107)
Net movement in non-controlling interest	_	_	_	_	_	_	5,198	5,198
As at 31 December 2015	750,000	7,500	(50,000)	30,446	10,363	748,309	5,100	753,409

	Notes	2016 US\$'000	2015 US\$'000
OPERATING ACTIVITIES			
Profit before tax		8,466	43,264
Adjustments to reconcile profit before tax to net cash flows:			
Share of results of associates	10	(4,342)	1,477
Net unrealised foreign exchange (gains) / losses		(98)	255
Depreciation and amortization		1,062	951
Net fair value movements on investments		(14,838)	(37,615)
Impairment loss on financial assets		34,685	7,281
Employees' end of service benefits – net		312	1,201
Income tax paid		-	(1,574)
Share-based payments		2,195	3,407
Net operating profit before changes in			
operating assets and liabilities		27,442	18,647
Change in financing assets		26,209	(231,225)
Change in other assets		(8,837)	8,607
Change in other liabilities		(4,104)	18,742
Net cash from (used in) operating activities		40,710	(185,229)
INVESTING ACTIVITIES			
Purchase of investment securities		(94,477)	(169,478)
Proceeds from disposal of investment securities		51,050	77,498
Investment in property lease		-	(50,297)
Acquisition of a subsidiary		(3,937)	(16,254)
Purchase of equipment and intangible assets		(1,085)	(784)
Net proceeds from subsidiaries held for sale	- <del> </del>	1,188	5,806
Net cash used in investing activities		(47,261)	(153,509)
FINANCING ACTIVITIES			
Net movement in financing liabilities	13	80,668	263,850
Dividends payment		(26,090)	(12,633)
Movements in non-controlling interests		24,980	5,198
Net cash from financing activities		79,558	256,415
Net increase / (decrease) in cash and cash equivalents		73,007	(82,323)
Cash and cash equivalents at 1 January		131,523	213,846
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4 and 5	204,530	131,523

# CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2016



		Movements during the year						
	Balance at 1 January 2016 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	158,451	84,519	(234)	2,792	(120)	(12)	(496)	244,900
			Mo	ovements durin	g the year			
	Balance at 1 January 2015 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	34,967	125,275	(2,540)	2,380	(43)	(13)	(1,575)	158,451

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016



#### 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 whose role is defined by the Bank.

The consolidated financial statements of the Group and for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 18 January 2017.

#### 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 2016 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).

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

#### 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, derivative financial instruments, and 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

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

#### 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 2016. The new standards and amendments do not have any material impact on the Group.

Торіс	Effective date
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Applying the Consolidation Exception	1 January 2016
Annual Improvements 2012 - 2014 Cycle	1 January 2016
FAS 27 Investment Accounts	1 January 2016

#### 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
Amendments to IAS 12 – Recognition of deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7 – Disclosure Initiative	1 January 2017
Amendments to IFRS – IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019

The Group did not early adopt any new or amended standards during the year. The Group is considering the implications of the above standards, the impact on the Group and the timing of its adoption by the Group, in case there is no relevant standard issued by AAOIFI.

#### 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

At 31 December 2016



0/ Fff- -4:---

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

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

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 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 on consolidation.

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

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

The Group's principal subsidiaries at 31 December 2016 are set out below.

Name	Principal Business Activity	Country of	% Effective shareholding	
		Incorporation	2016	2015
QINVEST Portfoy Yonetimi A.S.	Asset Management	Turkey	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%
Q Exhibit	To provide financing facility	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 (Previously known as QINVEST Comms Holding 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	Investment holding company	Cayman Islands	100%	100%
QNGPV1	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%	100%

At 31 December 2016



0/ 566---

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

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

Name	Principal Business Activity	Country of		% Effective hareholding	
		Incorporation	2016	2015	
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%	-	
Q Magnolia LLC	Investment in real estate	Cayman Island	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.

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.

At 31 December 2016



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

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

#### **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.

#### **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 the Bank's share capital and majority of its investments are denominated in United States Dollars.

At 31 December 2016



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

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

#### Functional and presentational currency (continued)

#### 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:

- 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.

#### **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.

At 31 December 2016



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

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

#### Revenue recognition (continued)

#### 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.

#### 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 sold, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement.

At 31 December 2016



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

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

#### 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.

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.

Gains or losses on the hedging instruments relating to the effective portion of the net investment hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. 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. In a discontinued hedge of a forecast transaction the cumulative amount recognised in equity from the period when the hedge was effective is reclassified from equity to income statement as a reclassification adjustment when the forecast transaction occurs and affects income statement. If the forecast transaction is no longer expected to occur, then the balance in cash flow hedging reserve is reclassified immediately to the consolidated income statement as a reclassification adjustment.

#### Fair Value Hedges

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

#### 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 32
 Note 32

At 31 December 2016



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

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

#### Fair value measurement (continued)

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

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

At 31 December 2016



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

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

#### 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.

#### **Financing assets**

#### 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.

#### **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

At 31 December 2016



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

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

#### **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.

#### 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

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.

At 31 December 2016



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

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

#### **Intangible assets** (continued)

#### Impairment of financial assets (continued)

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;
- 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.

#### 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.

#### 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.

At 31 December 2016



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

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

#### **Intangible assets** (continued)

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

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
- iii) 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.

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.

At 31 December 2016



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

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

#### **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.

#### **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.

At 31 December 2016



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

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

#### 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 equivalent

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and due from banks, financial and other institutions which have original maturity of less than three months.

#### Zakah

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.

#### 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.

At 31 December 2016



#### 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.

The fair values of the identified assets and liabilities of Damaan Islamic Insurance Company (Q.S.C.C.). as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	USD'000
ASSETS	
Cash and bank balances	35,233
Investment securities	152,775
Other assets	59,450
Total assets	247,458
Liabilities	
Financing liabilities	108,143
Other liabilities	62,656
Total liabilities	170,799
Total identifiable net assets at fair value	76,659
Equity interest of QINVEST on the total identifiable net assets at fair value	7,666
Goodwill arising on acquisition	4,434
Cost of an associate acquired	12,100
Cash considerations	
Fair value of the Group's equity interest held before acquisition	12,100
	12,100

The goodwill of US\$ 4.4 million comprises the value of expected synergies arising from the acquisition which is included as part of net carrying amount of the investment.

At 31 December 2016



#### 4 CASH AND BANK BALANCES

	2016 US\$'000	
Cash in hand	1	3
Balances with banks	25,593	69,047
	25,594	69,050

Balances with banks are not profit bearing and no lien or restrictions placed on them.

#### **5 PLACEMENTS WITH BANKS**

	2016	2015
	US\$'000	US\$'000
Placements with banks	178,936	62.473
Placements with Danks	1/6,930	62,473

Placements with banks are made for short term period as part of treasury management function.

#### **6 FINANCING ASSETS**

#### By type:

	2016 US\$'000	2015 US\$'000
Murabaha	480,348	500,557
Wakala	-	6,000
Total financing assets	480,348	506,557
Less: Allowance for impairment	(38,780)	(7,131)
	441,568	499,426

As of 31 December 2016, the Group has two non-performing financing assets amounted to US\$ 101.3 million (31 December 2015: Nil). Profit in suspense amounted to US\$ 5.6 million (31 December 2015: Nil). The movements in allowance for impairment for financing assets are as follow:

201 US\$'00		2015 US\$'000
Balance at beginning of year 7,13	1	_
Provided during the year 31,64	9	7,131
Balance at end of year 38,78	0	7,131

At 31 December 2016



#### **7 INVESTMENT SECURITIES**

	Notes	2016 US\$'000	2015 US\$'000
			03\$ 000
Equity			
Fair value through income statement	7.1	267,257	211,835
Fair value through equity	7.2	35,527	56,369
		302,784	268,204
Sukuk and other debt instrument			
Fair value through income statement	7.3	12,777	30,134
Amortised cost	7.3	68,209	57,025
Less: allowance for impairment		(2,836)	_
		65,373	57,025
		380,934	355,363

#### Notes:

- (i) The ratings of Sukuk at amortised cost are given in Note 31 to the consolidated financial statements. The fair value of Sukuk at amortised cost as at 31 December 2016 is US\$ 59.6 million (31 December 2015: US\$ 50.4 million).
- (ii) The fair value hierarchy of investment securities is disclosed in Note 31 to the consolidated financial statements.

#### 7.1 Fair value through income statement

	2016 US\$'000	2015 US\$'000
Private equity	127,221	73,163
Funds	140,036	138,672
	267,257	211,835
7.2 Fair value through equity	2016 US\$'000	2015 US\$'000
Private equity	9,900	22,300
Funds	25,627	34,069
	35,527	56,369

#### 7.3 Sukuk and other debt instrument

	Fixed profit rate US\$'000	2016 Floating profit rate US\$'000	Total US\$'000	Fixed profit rate US\$'000	2015 Floating profit rate US\$'000	Total US\$'000
Fair value through income statement	12,777		12,777	30,134		30,134
Amortised cost (net)	65,373	-	65,373	53,582	3,443	57,025
	78,150	_	78,150	83,716	3,443	87,159

At 31 December 2016



2016

2015

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

ι	2016 JS\$'000	2015 US\$'000
At 1 January 5	58,406	64,493
Net loss from fair value adjustment	(803)	-
Foreign exchange translation adjustments (2	2,657)	(6,087)
Additions during the year (Note i) 3	9,640	_
At 31 December 9	4,586	58,406

#### 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 eligible finance costs amounting to US\$ 113 thousand (31 December 2015: Nil).
- (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 13 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**

	2010	2013
	US\$'000	US\$'000
As at 1 January	77,519	57,549
Additions / transfers during the year	(11,368)	16,254
Share of results of associates	4,342	(1,477)
Share on fair value reserves movement (Note 17)	(630)	7,984
Foreign currency translation reserve	(4,458)	(2,791)
As at 31 December 2016	65,405	77,519

At 31 December 2016



#### 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	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%	30.77%	10%	
Summarized financial information	US\$'000	US\$'000	US\$'000	US\$'000
Summarized financial position				
Current assets	43,353	26,935	55,439	125,727
Non-current assets	36,117	113,346	257,078	406,541
Current liabilities	(39,264)	(18,611)	(113,175)	(171,050)
Non-current liabilities	(375)	(8,408)	(66,787)	(75,570)
Equity	39,831	113,262	132,555	285,648
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)



### 10 INVESTMENT IN ASSOCIATES (continued)

The associates of the Group as of 31 December 2015:

Name of entity	Panmure Gordon &	Ambit Private Limited (ii)	QIT DF Holdco Corporate U.A. (iii)	Total
Name of entity	Co. Plc. (i)	Limited (II)	(III)	IOlai
Country of incorporation	UK	India	Netherland	
% of ownership interest	43.43%	29.49%	27.9%	
Summarized financial information	US\$'000	US\$'000	US\$'000	US\$'000
Summarized financial position				
Current assets	51,604	35,981	1,300	88,885
Non-current assets	23,326	94,731	83,664	201,721
Current liabilities	(26,923)	(11,527)	(878)	(39,328)
Non-current liabilities	(276)	(6,116)		(6,392)
Equity	47,731	113,069	84,086	244,886
Group's carrying amount of the investments	20,715	33,344	23,460	77,519
Summarized income statement				
Revenue	35,082	17,736	233	53,051
Net profit	(5,089)	3,409	211	(1,469)
Other comprehensive income	-	2,808	25,649	28,457
Group's share of profit for the year	(2,362)	835	50	(1,477)
Group's share of reserves		828	7,156	7,984

#### Notes:

- (i) Shares of Panmure Gordon & Co. PLC are listed on the Alternative Investment Market (AIM) in the UK,. The market value of the Group's holding is US\$ 4.7 million as at 31 December 2016 (2015: US\$ 6.6 million).
- (ii) During 2016, the scheme of amalgamation and arrangement between Ambit Holding Private Limited and Ambit Corporate Finance Private Limited was sanctioned by the court effective from 1st April 2015. that resulted in an increase in the effective shareholding of the Group from 29.49% to 30.77%. The name of the merged entity was later changed to Ambit Private Limited.
- (iii) On 1 April 2016, the Group have evaluated its investment with QIT DF Holdco Corporate U.A. and have concluded that it no longer exercise significant influence over the investee, thus, the investment has been classified as fair value through income statement in these consolidated financial statements.
- (iv) There are no contingent liabilities relating to the Group's interest in the associates.

At 31 December 2016



#### 11 SUBSIDIARY HELD FOR SALE

### Q West S.A.S. Disposal

In 2014, the Group had classified all the assets and liabilities of its 100% owned subsidiary "Q West S.A.S.", a limited liability company incorporated under the laws of France, as held for sale. During the year 2015, most of the assets owned by Q West S.A.S. were disposed. In 2016, the Group applied for dissolution of the entity that was completed on 28 June 2016.

	2016 US\$'000	2015 US\$'000
Total assets		1,225
Total liabilities	-	934
Total income	1,447	2,103
Total expenses	-	3,723
Net profit for the year	1,447	5,826
OTHER ASSETS		
	2016 US\$'000	2015 US\$'000
Security deposit and margin call receivables (i)	8,027	8,377
Fee and commission receivables and other receivable – net (ii)	9,570	6,768
Positive fair value of derivative instruments (iii)	12,225	16,878
Equipment – net	2,636	3,080
Intangible assets – net	925	510
Accrued income on financing assets and placements	8,170	13,742
Accrued income on sukuk and debt instruments	1,878	1,281
Prepayments	9,229	5,200
Others	1,277	426
	53,937	56,262

### Notes:

- (i) Security deposit amounting to US\$ 7.8 million (2015: US\$ 8.1 million) includes cash collateral at National Bank of Kuwait for financing liability as disclosed in Note 24 (a) in these consolidated financial statements.
- (ii) During the year, the Bank has recorded an impairment loss of US\$ 200 thousand (2015: US\$ 150 thousand) on certain fee and commission income receivable from third parties.

#### **12 OTHER ASSETS** (continued)

#### (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.

			2016			2015	
		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	125	48	11,827	156	_	34,296
		125	48	11,827	156	_	34,296
b)	Held as hedge of net investment in foreign operations						
	Forward foreign exchange contracts	10,989	53	198,825	1,790	1,067	198,159
c)	Derivatives used as						
	cash flow hedges						
	Cross currency swaps	739	-	45,278	14,771	3,911	112,596
	Forward foreign exchange contracts	345	-	9,284	161	_	24,628
		1,084	_	54,562	14,932	3,911	137,224
d)	Derivatives not designated as hedging instruments						
	Forward foreign exchange contracts	27	6	2,598	-	_	_
		12,225	107	267,812	16,878	4,978	369,679
ANG	CING LIABILITIES						
						2016	2015

# 13 FINA

	US\$'000	US\$'000
Financial institutions	523,863	432,918
Others	-	10,277
	523,863	443,195

# Notes:

- (i) Financing liabilities consist of Murabaha financing which carry effective profit rates. The financing liabilities are presented in the consolidated financial statements at amortised cost using effective profit rate. Please refer to Note 30 for maturity analysis.
- (ii) Financing liabilities include financing arrangement for an amount of US\$ 34 million (2015: US\$35 million) availed by Group's subsidiaries against which investment in real estate held by such subsidiaries disclosed in Note 8 were pledged as collateral.

# Notes to the Consolidated FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2016



# 14 OTHER LIABILITIES

14	OTHER LIABILITIES		
		2016 US\$'000	2015 US\$'000
	Accrued expenses	3,587	2,219
	Staff related accruals	6,017	8,400
	Employees' end of service benefits (i)	4,444	4,132
	Accrued profit on financing liabilities	4,223	2,229
	Dividend payable	3,935	1,810
	Negative fair value of derivative instruments (Note 12)	107	4,978
	Legal provisions	1,205	2,835
	Others	5,862	5,880
		29,380	32,483
	Note: (i) Employees' end of service benefits  Movement in employees' end of service benefits is as follows:		
		2016 US\$'000	2015 US\$'000
	Balance at 1 January	4,132	2,931
	Charge for the year (Note 21)	1,128	1,485
	Payments during the year	(816)	(284)
		4,444	4,132
15	SHARE CAPITAL AND SHARE PREMIUM		
15.1	1 Share capital		
		2016 US\$'000	2015 US\$'000
	Authorized capital		
	1,000 million shares of US\$ 1 each	1,000,000	1,000,000
	Issued and fully paid-up capital		
	750 million shares of US\$ 1 each	750,000	750,000

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

The shareholding structure of the Bank is as follows:

	<b>31 December 2016</b> 31 December 2015			per 2015
	% holding	Number of shares	% holding	Number of shares
Qatar Islamic Bank S.A.Q	47.15%	353,625,000	47.15%	353,625,000
QINVEST held in treasury (Note: 16)	5.95%	44,642,858	5.95%	44,642,858
Khaleeji Commercial Bank	4.46%	33,482,657	4.46%	33,482,657
Qatar Armed Forces	2.00%	15,000,000	2.00%	15,000,000
Others	40.44%	303,249,485	40.44%	303,249,485
	100.00%	750,000,000	100.00%	750,000,000

At 31 December 2016



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

#### 15.2 Share premium

On 4 June 2009, the Bank announced a rights issue of shares at US\$ 1.03 per share. The total number of new shares that were issued under the rights issue was 250 million. Accordingly the share premium account was credited with US\$ 7.5 million (At 3 US cents per share).

#### 16 TREASURY SHARES

In 2014, the Board of Directors of the Bank resolved to acquire, by way of a tender offer to the Bank's shareholders (the Tender Offer), up to 44,642,858 shares in the Bank (the Buyback Shares) at a price of US\$ 1.12 per share (the Purchase Price).

The Extraordinary General Assembly held on 24 February 2014, approved pursuant to article 32 of the QFC Companies Regulation 2005 (amended) and clause 28 of the Company's article of association to purchase 44,642,857 of the Bank own shares at a price of US\$ 1.12 per share.

Announcement of the outcome of the Tender Offer was made in March 2014 and subsequently wire transfer orders were placed in respect of share purchased by end of March 2014. The Bank decided to hold the purchased shares in treasury and it will not be entitled to any dividends, distribution, voting or other equity related rights declared by the Bank.

#### 17 OTHER RESERVES

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 Effective portion of changes in net investment	(23,536)					(23,536)
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

At 31 December 2016



#### 17 OTHER RESERVES (continued)

	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 2015	(34,832)	30,817	1,573	13,523		11,081
Foreign operations – foreign currency						
translation differences	(1,025)	-	-	-	-	(1,025)
Effective portion of changes in net						
investment in foreign operation hedges	-	360	-	-	-	360
Net unrealised gains on cash flow hedges	-	-	5,327	_	-	5,327
Net gains on cash flow hedges reclassified						
to the income statement	-	-	(5,524)	-	-	(5,524)
Net movement in fair value reserve	-	-	-	8,836	-	8,836
Share of reserves of equity						
accounted associates	-	-	-	7,984	-	7,984
Share-based payments	-		-	-	3,407	3,407
At 31 December 2015	(35,857)	31,177	1,376	30,343	3,407	30,446

#### 17.1 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.

#### 17.2 Fair value reserve

The investments fair value reserve includes the cumulative net change in the fair value of fair value through equity investments, excluding impairment losses, until the investment is derecognized. This also includes the Bank's share of the fair value changes on fair value through equity investments of associate.

### **17.3 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.

### 17.4 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 33 for further details of these plans.

#### 18 FEE AND COMMISSION INCOME

2 US\$1	016 000	2015 US\$'000
Advisory and other fee income 18,2	.98	10,480
Asset management fees 3,0	26	3,573
21,3	24	14,053

At 31 December 2016



19	INCOME FROM FINANCING ASSETS		
		2016 US\$'000	2015 US\$'000
	Income from Murabaha/Wakala	47,875	38,183
		47,875	38,183
20	NET GAIN FROM INVESTMENTS		
20	NET GAIN TROW INVESTIGENTS	2016	2015
	Notes	US\$'000	US\$'000
	Net income from financial investments 20.1	28,455	44,591
	Net income from investments in real estate 20.2	6,065	5,130
	Net income from investment in property lease	3,576	726
		38,096	50,447
20.1	Net income from financial investments		
		2016	2015
		US\$'000	US\$'000
	Income from 'fair value through equity' investments		
	Fair value gain transferred to income statement	8,281	-
	Dividend income	549	575
		8,830	575
	In case of the state of the sta		
	Income from 'held for trading' investments, net  Gain on sale	253	(57)
	Profit from Sukuk	414	1,723
	Fair value changes	(979)	(320)
	Tall Value Changes	(312)	1,346
			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
	Income from financial assets designated at fair value through income statement		
	Fair value changes	6,886	21,317
	Realized gain and dividend income	4,500	16,413
		11,386	37,730
	Income from investments at amortized cost		2.542
	Profit from Sukuk and other debt instrument	6,049	3,543
	Income from derivative financial instrument		
	Income from derivatives	2,502	1,397
		28,455	44,591
20.2	2 Net income from investment in real estate		
		2016	2015
		US\$'000	US\$'000
	Rental and other income derived from investments in real estate	6,868	5,130
	Net loss from fair value adjustment (Note 8)	(803)	_
		6,065	5,130

At 31 December 2016



# 21 STAFF COSTS

21	STAFF COSTS		
		2016 US\$'000	2015 US\$'000
	Salaries	16,658	14,522
	Other staff costs	20,110	19,820
	End of service benefits (Note14)	1,128	1,485
	End of service benefits (Note 14)	37,896	35,827
			33,027
22	GENERAL AND ADMINISTRATIVE EXPENSES		
		2016 US\$'000	2015 US\$'000
	Legal, professional and Sharia expenses	5,871	3,958
	Premises cost	3,473	3,122
	IT and communication expenses	1,908	2,111
	Travel related expenses	1,671	1,680
	Advertisement and marketing expenses	366	375
	Other expenses	1,494	1,183
		14,783	12,429
23	INCOME TAX		
23.	I Income tax expense		
	The major components of the tax expense are:		
		2016 US\$'000	2015 US\$'000
		03\$ 000	03\$ 000
	Current income tax:		
	Current income tax expense	682	495
	Deferred income tax:		
	Relating to origination and reversal of temporary differences	(77)	365
	Income tax expense	605	860
	<u> </u>		
23.	2 Provision for taxation		
		2016 US\$'000	2015 US\$'000
	Closing balance as at 31 December	1,032	792
	Transport of the processing of		, , , ,

At 31 December 2016



#### 23 **INCOME TAX** (continued)

#### 23.3 Deferred tax

Deferred tax relates to the following:

	2016	2015
	US\$'000	US\$'000
Deferred tax liabilities	1,190	1,267
Reconciliation of deferred tax:		
	2016	2015
	US\$'000	US\$'000
As of 1 January	1,267	902
Tax expense / (credits) during the period	(77)	365
As of 31 December	1,190	1,267

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.

### 24 CONTINGENT LIABILITIES, COMMITMENTS AND PROVISIONS

	US\$'000	US\$'000
Investment commitments	69,896	52,741
Forward foreign exchange contracts	222,534	257,083
Cross currency profit rate swaps	45,278	112,596
Other contingent liabilities (a)	12,541	13,150
Operating lease commitments (b)	5,231	8,466
Unutilised financing commitment	18,192	60,196

#### Notes:

(a) During 2014, a 100% owned subsidiary of the Group, entered into a financing arrangement with a bank for an amount of Euro 35 million. As part of the security package under the Financing Agreement, the Group has provided a cash collateral of Euro 7.4 million against its pending litigation with its tenants, and the Parent company has made a drawdown facility in maximum amount of Euro 4.6 million to cover certain contingencies arising from any disputes with the tenants.

### (b) Future minimum lease payments:

	2016 US\$'000	2015 US\$'000
Not later than one year	3,236	2,420
Later than one year and not later than five years	1,995	6,046
	5,231	8,466

At 31 December 2016



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

#### (c) Provision for legal claims

The provision charge is recognized in consolidated income statement within 'Provision for legal claims'. The amount represents pending legal claims against one of the subsidiary. During the year, the Group had paid a net settlement amount of US\$ 0.7 million as per court judgment.

In management opinion, after taking appropriate legal advice, the outcome of the legal claims that was bought against the subsidiary will not give rise to any significant loss beyond the amounts provided for at 31 December 2016.

#### 25 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.

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

	2016 US\$'000	2015 US\$'000
Balance sheet items:		
Assets:		
Placements and bank balances	104,397	44,996
Financing assets	3,701	-
Income statement items:		
Financing income	96	_
Fee and commission income	212	1,036
Placement income	207	148
Off balance sheet items:		
Forward foreign exchange contracts outstanding	76,736	42,691
Restricted investment accounts	83,361	72,359

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.

### Transactions with key management personnel:

2016 US\$'000	2015 US\$'000
Salaries and other benefits 3,531	3,191
Incentives 4,807	5,841
Employee Share Option Plan 1,958	2,082
End of service benefits 236	351

At 31 December 2016



#### 26 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 2016 would be US\$ 0.02 (2015: US\$ 0.02) for every share held.

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.

#### 27 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.

### 28 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 periods.

#### **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:

#### 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.

#### Classification of subsidiary held for sale

The Group classifies non-current assets or a disposal group as 'held for sale' if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. In addition, the sale should be expected to be completed within one year from the date of classification. The expected time of completion of sale and management's plan to sell is based on management assumptions in relation to the condition of the asset and its current performance and requires judgment. There is no certainty on the execution and completion of the sale transaction and any changes in the plan to sell may cause the classification of the disposal group to be changed and consequently the basis of measurement, presentation and disclosure in the consolidated financial statements.

#### 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.

At 31 December 2016



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

### 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.

#### Revaluation of investment in real estate

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

#### 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.

#### 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.

At 31 December 2016



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

#### Valuation of investments designated at fair value through income statement

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.

#### 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.

#### 29 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.

# Notes to the Consolidated FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2016



29 SEGMENT INFORMATION (continued)
The following tables summarize the industry and geographical concentration of Group assets, liabilities and related performance:

# (a) By industry segment

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

At 31 December 2016



# 29 **SEGMENT INFORMATION** (continued)

# (a) By industry segment (continued)

31 December 2015	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	69,050	_	_	-	-	_	69,050
Placements with banks	62,473	_	_	-	-	_	62,473
Financing assets	35,587	140,101	123,935	50,209	42,585	107,009	499,426
Investment securities	170,913	139,367	_	27,634	-	17,449	355,363
Investment in real estate	-	58,406	_	-	-	_	58,406
Investment in property lease	-	50,297	_	-	-	_	50,297
Investment in associates	54,059	_	_	-	-	23,460	77,519
Assets of a subsidiary held for sale	-	-	-	1,225	-	-	1,225
Other assets	29,394	1,318	3,592	738	3,302	17,918	56,262
TOTAL ASSETS	421,476	389,489	127,527	79,806	45,887	165,836	1,230,021
LIABILITIES							
Financing liabilities	432,918	-	-	10,277	-	-	443,195
Liabilities of a subsidiary							
held for sale	-	-	-	934	-	-	934
Other liabilities	7,135	7,376	18	299	18	17,637	32,483
TOTAL LIABILITIES	440,053	7,376	18	11,510	18	17,637	476,612
Consolidated income							
statement items							
Revenue	18,339	44,328	4,334	20,946	4,300	15,851	108,098
Expenses, impairment and tax	(6,510)	(1,335)		(465)		(57,384)	(65,694)
PROFIT/(LOSS)	11,829	42,993	4,334	20,481	4,300	(41,533)	42,404

At 31 December 2016



### **29 SEGMENT INFORMATION** (continued)

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

# (b) By geography

	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	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

At 31 December 2016



### **29 SEGMENT INFORMATION** (continued)

The geographical concentration of the Group's assets, liabilities and income statement items as at and for the year ended 31 December 2015 is as follows:

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

						Total
	GCC	_	North		Other	carrying
	countries US\$'000	Europe US\$'000	America US\$'000	South Asia US\$'000	regions US\$'000	value US\$'000
	03\$ 000	03\$ 000	03\$ 000	03\$ 000	03\$ 000	03\$ 000
ASSETS						
Cash and bank balances	11,142	4,252	53,037	-	619	69,050
Placements with banks	57,473	5,000	-	-	-	62,473
Financing assets	31,116	209,452	108,614	-	150,244	499,426
Investment securities	67,530	50,764	87,595	-	149,474	355,363
Investment in real estate	-	58,406	-	-	-	58,406
Investment in property lease		50,297	_	_	_	50,297
Investment in associates		20,716	_	33,344	23,459	77,519
Assets of a subsidiary held for sale		1,225	_	_	-	1,225
Other assets	30,204	17,203	543	_	8,312	56,262
TOTAL ASSETS	197,465	417,315	249,789	33,344	332,108	1,230,021
LIABILITIES						
Financing liabilities	329,818	34,593	_	_	78,784	443,195
Liabilities of a subsidiary held for sale		934	_	_	_	934
Other liabilities	23,333	7,352	48	_	1,750	32,483
TOTAL LIABILITIES	353,151	42,879	48		80,534	476,612
Consolidated income statement items						
Revenue	11,378	60,457	12,440	835	22,988	108,098
Expenses, impairment and tax	(59,912)	(3,692)			(2,090)	(65,694)
PROFIT/(LOSS)	(48,534)	56,765	12,440	835	20,898	42,404

At 31 December 2016



### **30 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 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

At 31 December 2016



### 30 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 2015 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
ACCETC						
ASSETS						
Cash and bank balances	69,050					69,050
Placements with banks	62,473	<u>-</u> .				62,473
Financing assets	83,439	10,125	30,951	118,716	256,195	499,426
Investment securities	-	-	6,254	7,701	341,408	355,363
Investment in real estate	-	-	-	-	58,406	58,406
Investment in property lease		-	-	-	50,297	50,297
Investment in associates		-	-	-	77,519	77,519
Assets of a subsidiary held for sale		1,225	_	_	_	1,225
Other assets	6,977	11,445	1,564	17,553	18,723	56,262
Total Assets	221,939	22,795	38,769	143,970	802,548	1,230,021
LIABILITIES						
Financing liabilities	53,051	87,277	_	155,049	147,818	443,195
Liabilities of a subsidiary held for sale		934	_	_	_	934
Other liabilities	9,957	8,291	4,965	1,690	7,580	32,483
Total Liabilities	63,008	96,502	4,965	156,739	155,398	476,612
MATURITY GAP	158,931	(73,707)	33,804	(12,769)	647,150	753,409
Forward Foreign Exchange Contracts						
and Cross currency profit rate swaps	137,928	95,718		11,644	124,389	369,679

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\$ 95 million (2015: US\$ 144 million) and over 12 months is US\$ 482 million (2015: US\$ 368 million).

At 31 December 2016



#### 31 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, certain assets of a subsidiary held for sale and certain other assets of the Group. Financial liabilities include certain liabilities of a subsidiary held for sale, due to banks, 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 ("AML"), with the purpose of mitigating these risks.

At 31 December 2016



#### 31 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 the BRACC that allow to provide its impartial view on the business activities taken by 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.).

### 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.

At 31 December 2016



#### 31 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 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

The gross maximum exposure of financial assets to credit risk as at 31 December 2015 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	69,050	62,473	506,557	57,025	77,180	772,285
Individually impaired			_	_	150	150
Gross carrying amount	69,050	62,473	506,557	57,025	77,330	772,435
Allowance for impairment						
Specific	_	_	_	_	(150)	(150)
Collective		_	(7,131)	_	_	(7,131)
Total allowance for impairment		_	(7,131)	_	(150)	(7,281)
Net carrying amount	69,050	62,473	499,426	57,025	77,180	765,154

There were no "past due but not impaired" financial assets as at 31 December 2016 (2015: Nil)

At 31 December 2016



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

#### Credit risk (continued)

#### 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 originated 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.

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

	Carrying	Carrying	
	value as at 31 December	value as at 31 December	
	2016	2015	
Rating	US\$'000	US\$'000	
A	130,736	135,334	
A-	108,070	22,764	
A+	8,529	2,590	
BB	20,173	32,453	
BB-	-	3,804	
BBB	14,272	4,436	
BBB+	-	26	
BBB-	-	5,484	
CCC+	-	21,612	
Not rated	482,338	536,651	
Total	764,118	765,154	

### 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.

At 31 December 2016



#### 31 FINANCIAL RISK MANAGEMENT (continued)

#### Credit risk (continued)

#### 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 2016	14%	100,696
As at 31 December 2015		

The only significant counterparty exposure as at 31 December 2016 was placements with a Qatari listed bank. Significant exposure is identified as aggregate exposure to a counterparty equal or exceeding 10% of capital resources.

#### 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 stress 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.

At 31 December 2016



#### 31 FINANCIAL RISK MANAGEMENT (continued)

#### **Liquidity risk** (continued)

#### **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	2016	2015
Liquid assets/ total equity	29%	21%
Illiquid + long term investments / total assets	83%	87%

The maturity profile of the Group's assets and liabilities is shown in Note 30.

#### 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
- Equity price risk;

#### **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.

At 31 December 2016



#### 31 FINANCIAL RISK MANAGEMENT (continued)

#### Market risk (continued)

# 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 2016	1,748
	100 bps parallel increase / (decrease) US\$'000
At 31 December 2015	1,757

### 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 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	238,437	99,258	90,740	13,133	_
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	2,554	3,770	2,019	1,708	43,886
Total	1,288,235	419,927	103,028	109,105	76,645	579,530
LIABILITIES						
Financing liabilities	523,863	451,469	38,718	33,676	_	
Other liabilities	29,380	3,696	527	_		25,157
Total	553,243	455,165	39,245	33,676		25,157
Profit rate sensitivity gap	734,992	(35,238)	63,783	75,429	76,645	554,373
Cumulative profit rate sensitivity gap	734,992	(35,238)	28,545	103,974	180,619	734,992

#### 31 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 2015:

	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	69,050	_	-	-	-	69,050
Placements with banks	62,473	62,473	-	-	-	-
Financing assets	499,426	351,030	143,317	443	4,636	-
Investment securities	355,363	30,134	943	1,400	54,682	268,204
Investment in real estate	58,406	_	_	_	_	58,406
Investment in property lease	50,297	_	_	_	_	50,297
Investment in associates	77,519	_	_	_	_	77,519
Assets of a subsidiary held for sale	1,225	_	_	_	_	1,225
Other assets	56,262	11,386	2,311	31	889	41,645
Total	1,230,021	455,023	146,571	1,874	60,207	566,346
LIABILITIES						
Financing liabilities	443,195	361,290	42,313	39,592		
Liabilities of a subsidiary held for sale	934					934
Other liabilities	32,483	1,554	640	23	_	30,266
Total	476,612	362,844	42,953	39,615		31,200
Profit rate sensitivity gap	753,409	92,179	103,618	(37,741)	60,207	535,146
Cumulative profit rate sensitivity gap	753,409	92,179	195,797	158,056	218,263	753,409

### 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.

At 31 December 2016



#### 31 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\$:

	2016	2015
	US\$'000	US\$'000
Euro	3,300	(1,226)
Pound Sterling	(1,812)	(5,674)
Indian Rupee	34,851	33,344
Others	10,349	(5)

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 a subsidiary held for sale, investment in associate, financial assets designated at fair value through income statement and fair value through equity investments. The Group 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:

	2016 US\$'000	2015 US\$'000
5% change in currency exchange rate		
Euro	165	(61)
Pound Sterling	(91)	(284)
Indian Rupee	1,743	1,667
Others	517	-

### **Equity price risk**

The Group is exposed to equity securities price risk. 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.

#### 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.

QINVEST has also developed a Disaster Recovery (DR) site within Qatar and 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. The Bank likewise transfers data outside Qatar into a cloud-based system managed by a reputable international service provider. This would enable the Bank to re-build data from outside Qatar in the event of an "in-country" disaster.

At 31 December 2016



#### 31 FINANCIAL RISK MANAGEMENT (continued)

#### 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. The Compliance department has several specific areas of core focus which include addressing Anti Money Laundering requirements, building a sustainable framework to ensure compliance with FATCA legislation, conflicts management and ensuring a heightened sensitivity to conflicts management, the identification and assessment of Sanctions exposures in relation to international sanctions programmes and the management of information flows in the entity, with a particular focus on the receipt of Material Non Public Information ("MNPI") in relation to listed companies.

#### **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.

At 31 December 2016



#### **31 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:

2016	2015
US\$'000	US\$'000
Risk weighted exposure 1,954,183	2,155,812
Total qualifying tier 1 capital and reserve funds 694,113	705,463
Qualifying Tier 2 capital and reserve funds 2,093	7,131
Total qualifying capital and reserve funds 696,206	712,594
Capital adequacy ratio including unappropriated profits 36%	33%

#### 32 FAIR VALUE MEASUREMENT

#### 32.1 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 2016

	Fair value through income statement US\$'000	Fair value through equity US\$'000	Amortized cost investment securities US\$'000	Financing assets and receivables 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
Financial liabilities						
Financing liabilities		-	-	523,863	523,863	523,863
Other liabilities		-	_	22,014	22,014	22,014
Total		-	-	545,877	545,877	545,877

At 31 December 2016



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

#### **32.1 Fair values** (continued)

Fair value and classification of financial instruments at 31 December 2015

	Fair value through income statement US\$'000	Fair value through equity US\$'000	Amortized cost investment securities US\$'000	Financing assets and receivables US\$'000	Total carrying value US\$′000	Fair value US\$'000
Financial assets						
Cash and bank balances	<u>-</u>	_	_	69,050	69,050	69,050
Placements with banks	<u>-</u>	_	_	62,473	62,473	62,473
Financing assets		-	-	499,426	499,426	499,426
Investment securities	241,969	56,369	57,025	_	355,363	348,783
Assets of a subsidiary held for sale		1,009	_	216	1,225	1,225
Other assets		-	_	47,046	47,046	47,046
Total	241,969	57,378	57,025	678,211	1,034,583	1,028,003
Financial liabilities						
Financing liabilities		_	_	443,195	443,195	443,195
Liabilities of a subsidiary held for sale		_	_	934	934	934
Other liabilities		_	_	28,322	28,322	28,322
Total		-	_	472,451	472,451	472,451

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/financing liabilities 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 2016, 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 and liabilities as Level 2.
- Fair value of the guoted sukuk is based on price guotations 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 guoted financial assets is derived from guoted 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.

At 31 December 2016



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

#### **32.1 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 profit rate swaps, foreign exchange forward contracts and commodity forward contracts. The Group use observable inputs or the counterparty banks valuations to measure the fair value of the derivative financial instruments.
- 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.

### 32.2 Determination of fair value and fair value hierarchy

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

	Fair value measurement using			
Assets measured at fair value:	Fair Value US\$'000	Quoted prices in active markets (Level 1) US\$'000	Significant observable u inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000
Designated at fair value through income statement				
investments (Note 7.1/7.3):				
Funds	140,036	-	61,188	78,848
Private equity	127,221	-		127,221
Sukuk and debt instrument	12,777	10,735		2,042
	280,034	10,735	61,188	208,111
Fair value through equity financial investments (Note 7.2):				
Private equity	9,900	-		9,900
Funds	25,627	-		25,627
	35,527	-	-	35,527
Investment in real estates (Note 8):				
Investment in real estates	94,586	-		94,586
Derivative financial assets (Note 12.1):				
Positive fair value of derivative instruments	12,225	-	12,225	-
Total	422,372	10,735	73,413	338,224
Liabilities measured at fair value				
Derivative financial liabilities (Note 12.1):				
Negative fair value of derivative instruments	107	-	107	

At 31 December 2016



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

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

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2015:

	Fair value measurement using			
Assets measured at fair value:	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
Designated at fair value through income statement				
investments (Note 7.1/7.3):				
Private equity	73,163	-		73,163
Sukuk and debt instrument	30,134	30,134		
Funds	138,672	_	67,037	71,635
	241,969	30,134	67,037	144,798
Fair value through equity financial investments (Note 7.2):				
Private equity	22,300	_	_	22,300
Funds	34,069	_	-	34,069
	56,369	_	-	56,369
Investment in real estate (Note 8):				
Investment in real estate	58,406	_		58,406
Derivative financial assets (Note 12.1):				
Postive fair value of derivative instruments	16,878	_	16,878	_
Total	373,622	30,134	83,915	259,573
Liabilities measured at fair value		·		
Derivative financial liabilities (Note 12.1):				
Negative fair value of derivative instruments	4,978	_	4,978	

#### Notes:

(i) During 2015, 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 2015, 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.

At 31 December 2016



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

### **32.2 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	Fair value through equity investments US\$'000	Investment in real estate US\$'000	Total US\$'000
144,798	56,369	58,406	259,573
7,182	-	(803)	6,379
	(3,463)	-	(3,463)
44,279	1,201	39,640	85,120
(9,124)	-	-	(9,124)
25,531	(18,184)	-	7,347
(4,555)	(396)	(2,657)	(7,608)
208,111	35,527	94,586	338,224
Fair value through income statements investments US\$'000	Fair value through equity investments US\$'000	Investment in real estate US\$'000	Total US\$'000
73,861	19,520	64,493	157,874
29,112	-	-	29,112
-	10,913	-	10,913
83,779	29,347	-	113,126
(39,584)	(3,235)	-	(42,819)
(2,370)	(176)	(6,087)	(8,633)
144,798	56,369	58,406	259,573
	through income statements investments US\$'000  144,798 7,182	through income statements investments (4,755) (396)  Fair value through equity investments (3,463) (4,279) (1,201) (25,531) (18,184) (4,555) (396) (208,111) (18,784) (18,785) (18,184) (18,555) (396) (18,785) (1	through income statements investments US\$'000         Fair value through equity investments US\$'000         Investment in real estate US\$'000           144,798         56,369         58,406           7,182         -         (803)           -         (3,463)         -           44,279         1,201         39,640           (9,124)         -         -           25,531         (18,184)         -           (4,555)         (396)         (2,657)           208,111         35,527         94,586           Fair value through equity investments investments US\$'000         Investment in real estate US\$'000           73,861         19,520         64,493           29,112         -         -           -         10,913         -           83,779         29,347         -           (39,584)         (3,235)         -           (2,370)         (176)         (6,087)

#### 33 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 OINVEST.

At 31 December 2016



#### 33 SHARE-BASED PAYMENTS (continued)

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 2016 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 2016, the Group has recognized US\$ 2.2 million of share-based payment expense in the income statement (31 December 2015: US\$ 3.4 million).

#### 34 CASH DIVIDENDS TO THE EOUITY HOLDERS OF THE PARENT

The Board of Directors have not proposed a cash dividend for the year ended 31 December 2016 (2015: US\$ 4 cents per share).

#### 35 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\$ 749 million (31 December 2015: US\$ 368 million). These included DPM of US\$ 245 million (2015: US\$ 158 million) and Funds under Management of US\$ 504 million (2015: US\$ 210 million). DPM are reported as part of Restricted Investment Accounts appearing in the Balance Sheet. 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.

#### **36 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.

### QINVEST LLC

Doha, Qatar
Tornado Tower, 39th Floor
West Bay, Doha
P.O. Box: 26222
State of Qatar
Tel: +974 4405 6666
Fax: +974 4444 8446
Email: info@qinvest.com

### **QINVEST Istanbul Office**

Email: info@qinvest.com

